

NCUA establishes 2021 supervisory priorities

ALLL, BSA/AML, and CARES Act compliance top the annual list.

NCUA issued a letter to credit unions (21-CU-02) detailing the agency's supervisory priorities for 2021, many which are related to the impact or potential impact of the coronavirus (COVID-19) pandemic.

The agency says it will maintain its commitment to the extended examination cycle, and qualifying credit unions will be scheduled accordingly in 2021.

The targeted Small Credit Union Exam Program exam procedures remain in place for most federal credit unions with assets under \$50 million.

For all other credit unions, NCUA examiners will conduct risk-focused examinations, which concentrate on areas of highest risk, new products and services, and compliance with applicable laws and regulations.

NCUA's primary areas of supervisory focus are:

► **Allowance for Loan and Lease Losses (ALLL)**
NCUA examiners will not assess credit unions' efforts to transition to the current expected credit loss (CECL) standard until further notice, but the agency encourages credit unions to continue to assess their needs and evaluate methodologies for the eventual implementation. NCUA examiners will evaluate the adequacy of credit unions' ALLL accounts by reviewing four areas:

1. **ALLL** policies and procedures.

2. **Documentation** of an ALLL reserving methodology, including modeling assumptions and qualitative factor adjustments.

3. **Adherence** to generally accepted accounting principles.

4. **Independent** reviews of credit union reserving methodology and documentation practices by the supervisory committee or by an internal or external auditor.

► **Bank Secrecy Act/Anti-Money Laundering compliance**

NCUA will continue to conduct Bank Secrecy Act/Anti-Money Laundering (BSA/AML) reviews during examinations, and will continue to focus on implementing appropriate customer due diligence and beneficial ownership procedures, proper filing of Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs), and reviews of bi-weekly 314(a) information requests from the Financial Crimes Enforcement Network.

NCUA will **CONTINUE** to incorporate efficiencies into its examination and supervision program to **ADDRESS** the effects of the COVID-19 pandemic.

► **CARES Act**

NCUA examiners will continue to review credit unions' compliance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Consolidated Appropriations (CAA) Act, as well as modifications, credit reporting, forbearances, and foreclosures conducted in 2020 under CARES Act provisions.

QUICK TAKE for your next board meeting

Changes in consumer behavior pave way for complex fraud

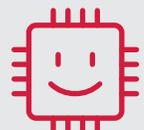
Digital transactions have increased 42%, leading to new types of fraud, according to the LexisNexis Risk Solutions True Cost of Fraud Report. Identity proofing is the top challenge for organizations as fraudsters leverage digital channels to launch more sophisticated and complex fraud.



86%-95%
Applications identified as potential synthetic identities but not flagged



46%
Increase in fraud attacks on mobile devices



38%
Growth in bot volume targeting financial services organizations

Source: LexisNexis Risk Solutions True Cost of Fraud Report

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► **Consumer financial protection**

Examiners will assess a credit union's fair lending compliance management system. Reviews will include areas such as board and management oversight, policies and procedures, training, monitoring and corrective action, and member complaint response.

► **Credit risk management**

NCUA continues to encourage credit unions to work with members who were affected by the COVID-19 pandemic. Examiners will not criticize credit unions' efforts to provide prudent relief for borrowers when such efforts are conducted in a reasonable manner with proper controls and management oversight.

NCUA examiners will need to continue emphasize the review of credit unions' loan underwriting standards and credit risk management procedures.

► **Information systems and assurance**

The agency has shifted from performing facilitated Automated Cybersecurity Evaluation Toolbox (ACET) cybersecurity maturity assessments to piloting the Information Technology Risk Examination for Credit Unions (InTREx-CU).

InTREx-CU will continue to be deployed in 2021, allowing examiners and credit unions to identify and remediate potential high-risk areas. ACET will become a self-assessment resource for credit unions supported by the NCUA.

► **LIBOR transition**

Examiners will educate credit unions on the transition in 2021, particularly those with significant London Interbank Offer Rate (LIBOR) exposure or less-developed transition processes.

LIBOR is the global benchmark short-term interest rate which has governed global financial transac-

tions since the 1970s. It will be discontinued by the end of 2021.

For these credit unions, examiners will assess exposures to LIBOR and the safety and soundness of the credit unions' preparations to transition to an alternative reference rate.

► **Liquidity risk**

NCUA examiners will evaluate the suitability and scope of a credit union's scenario analysis for liquidity risk management.

A robust analysis will address six scenarios that include:

1. Sudden and significant share outflows.

2. A broad range of possible interest rate paths to identify the potential variability in loan and securities cash flows.

3. Changes in cash flow projections for relevant factors, such as a change in prepayment speeds, decay rates, share compositions, and volumes.

4. The effects of loan payment forbearance, loan delinquencies, projected credit losses, and loan modifications on liquidity and cash flow forecasting.

5. The decline in credit quality and resulting market value of assets as it relates to external borrowing capacity.

6. Stress scenarios that include the reduction of available credit lines to ensure an adequate mix of diversified funding sources.

► **Serving hemp-related businesses**

Credit unions that serve hemp-related businesses need to understand the related complexities and risks, and secure the necessary expertise and resources to conduct this activity safely and soundly and in compliance with all applicable laws and regulations.

From strategic plan to execution

How to bring your big ideas to life.

Strategic planning can seem daunting, especially as credit unions contend with the constantly changing environment of the pandemic.

Catie Shannon, CUNA's senior director of strategic enablement, explains how to make planning more manageable.

Q: How can credit unions organize their approach to strategic planning?

A: Start by figuring out the scope of your planning. Are you starting fresh or updating an existing plan? Then, review the current state. This is important, especially as conditions change quickly. Next, define your strategy and how to address it. Finally, ask how you will connect the strategy to the plan's execution.

Q: How can credit unions hold effective virtual planning conversations?

A: Virtual planning is forcing us to think about what's important and where we need to spend our time.

Make sure everyone understands your strengths, weaknesses, opportunities, and threats. Allow time for questions and debate your strategy and next steps. Make sure everyone is heard virtually.

Q: How can credit unions plan in a constantly changing situation and build in room to adjust?

A: Review your plan constantly—at a minimum once a year, but ideally once a quarter or more. The days of three- or five-year plans that you hang up and never touch are over. Constantly evaluate your plan. Make changes in the present while keeping an eye on your long-term vision.

Q: How can credit unions move from strategy to execution?

A: Take the strategic plan and work with your team to figure out the "how."

What will it take to bring your great ideas to life? It's not always money. It's often working together to find the right resources, prioritize the right work, and focus on the right area. We can do that and not spend a dime, and still achieve our strategy.

APR 6-8, 2021



Concise updates for experienced board members

CUNA
**Credit Union
Board Accelerator**
VIRTUAL CONFERENCE

It's challenging to keep up with numerous and complex factors that influence the industry. With the continuously changing credit union landscape, experienced board members need a place to get updates quickly.

The new CUNA Credit Union Board Accelerator Virtual Conference is the event to be at to dive deeper into the economic impact of current events in the credit union industry.

 cuna.org/bavc

Embrace historical knowledge

Emeritus programs tap into experience and expertise to mentor new board members.

When long-serving directors decide to step away from the board, credit unions can still benefit from the knowledge they've accumulated over the years.

Some credit unions have developed board emeritus programs, which rely on retiring directors' knowledge and experience to introduce new board members to the position.

"The emeritus program provides an outlet for directors to step back and not feel like he or she must continue to serve out of obligation," says Dion Williams, president/CEO at \$391 million asset Piedmont Advantage Credit Union in Winston-Salem, N.C. "Rather, the incumbent is uniquely positioned to mentor new volunteers and remain involved in the organization in the capacity of coach or mentor.

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The emeritus directors are a tremendous resource for new volunteers.

Dion Williams

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"The historical knowledge, the understanding of the organization's culture and its members, and the working relationship the director has with the management team are a lot to lose overnight," Williams continues. "The emeritus directors are a tremendous resource for new volunteers and they can reduce their involvement gradually as the new volunteers become more established and comfortable in their roles."

Piedmont Advantage formed its emeritus directors program in 2012. The program allows the credit union to retain the organizational knowl-

edge and experience of directors who step down from the board. Those who have served for at least 20 years are eligible for the lifetime appointment, Williams says. The board must approve the appointment.

"The emeritus program at Piedmont Advantage serves the dual purpose of honoring an individual for distinguished service while positioning the director to be a mentor to new board members," Williams says.

At Cobalt Credit Union in Papillion, Neb., the goal of the emeritus directors program is to "maintain and capitalize on the expertise and experience" of a retiring director, says Julia Cronin-Gilmore, board chair at the \$1.1 billion asset credit union.

Four directors—with more than 100 combined years of service to the credit union—currently participate in the program. Board members who have served for at least 15 years are eligible.

These directors can still attend regular or special board meetings and take part in deliberations, but can't vote. They can also serve as a member of a standing or ad hoc committee with voting rights, and can attend credit union functions and receive regular board communications.

Cobalt also has an associate director program to supplement the expertise and experience of existing board members. This program creates a pool of talent and a system to groom associate board members for future board opportunities. The associate board program has allowed long-serving board members to move into emeritus roles, Cronin-Gilmore says.

Emeritus directors at Piedmont Advantage have similar roles and responsibilities, Williams says.

"Emeritus directors have remained engaged," he says. "With the appointment being for life, the level of engagement may fade over time. But new directors may realize more of the benefit of coaching and mentoring earlier in their tenure as they get acclimated to the role."

Resources



▶ **CUNA board and committee solutions:**
cuna.org/board



▶ **CUNA Certified Credit Union Supervisory Committee Member eSchool:**
cuna.org/learn



▶ **Credit Union Board of Directors Community:**
community.cuna.org



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

Begin to 'think like a fraudster'

Consider how fraudsters could infiltrate all areas of the credit union.

When evaluating risk and looking for ways fraud can occur within the credit union, supervisory committee members must “think like a fraudster.”

“We have to be thinking evil,” says Sue Landauer, a CPA with Forensic Accounting Services Group who specializes in fraud investigations, prevention, and training. “We need to think how can it happen to us, both from internal and external perspectives, what controls are in place to prevent it from happening or to detect it quicker, and what we can do in the future to prevent fraud.”

The board and management are responsible for establishing the policies and procedures that ensure the credit union’s safety and soundness. But the supervisory committee is responsible for testing the internal controls, including policies and procedures, to ensure they are adequate and functioning, says Landauer, who spoke at the CUNA Certified Credit Union Supervisory Committee Member eSchool.

“We always have to think about what could go wrong,” she says.

Supervisory committee members must consider fraud in every audit. Landauer suggests they “think

like a fraudster” and ask these questions:

► **How** could fraud occur within various departments?

► **What** controls are in place to prevent or detect fraud?

► **Has** management tested these controls?

► **How** can auditors test the adequacy of these controls?

► **Has** management considered fraud from both internal and external perspectives?

Landauer says three conditions must exist for fraud to occur: pressure, rationalization, and perceived opportunity.

Opportunities for fraud exist both internally and externally. These include a lack of segregation of duties, insufficient internal controls, the attitude of management and/or other employees, a lax atmosphere, an extreme customer service focus, and deviations from policy, Landauer says.

These are areas to focus on when reviewing policies and procedures to prevent or detect fraud.

“We can’t control people’s private lives or pressures, or alleviate their rationalizations, but we certainly can do something about the opportunities,” Landauer says. “Focus on the opportunities and put controls in place to prevent fraud from occurring.”

Audit vs. Investigation

The goals and objectives of a fraud audit are different than a fraud investigation, says Sue Landauer, a CPA with Forensic Accounting Services Group.

An audit:

► **Takes** a proactive approach by designing procedures to detect fraud in business transactions.

► **Performs** procedures to assess management’s internal control over fraud prevention and detection.

► **Aims** to “think evil” and identify what could go wrong.

An investigation:

► **Takes** a reactive approach to an allegation.

► **Performs** procedures that are designed to gather information regarding a specific allegation.

► **Performs** procedures with the purpose of bringing forth legal actions.

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