



# ***DCU BULLETIN***

***Division of Credit Unions***

***Washington State Department of Financial Institutions***

***Phone: (360) 902-8701***

***FAX: (877) 330-6870***

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## **Examination Focus for 2019**

This Bulletin establishes the examination focus areas for the Division of Credit Unions (Division) for 2019 and will help credit unions better prepare for their 2019 examinations.

### **1. Cybersecurity**

Cybersecurity risks continue to represent a significant area of concern for all financial institutions. DCU will continue to perform onsite IT security exams during most safety and soundness exams. During 2019, IT examiners will:

- Continue to encourage credit unions to complete the FFIEC Cybersecurity self-assessment tool<sup>1</sup>, the NCUA Automated Cybersecurity Assessment Tool (ACET)<sup>2</sup> or to use a similar type of tool to help the credit union assess its cybersecurity preparedness;
- Review the cybersecurity self-assessment work completed by each credit union; and
- Provide guidance to help address potential cybersecurity vulnerability gaps.

It is important that credit union management, including the board of directors, continue to evaluate all cybersecurity risk management practices.

### **2. Internal Controls & Fraud Prevention**

A significant part of a credit union's safety and soundness practices includes establishing a strong system of internal controls and a comprehensive fraud protection program, especially at credit unions with limited staff that might be more vulnerable to fraud. Examiners will focus on:

- Evaluating the effectiveness of a credit union's internal control reviews; and
- Practices to prevent and detect fraud.

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<sup>1</sup> For a copy of the FFIEC Cybersecurity Assessment Tool, see <https://www.ffiec.gov/cyberassessmenttool.htm>.

<sup>2</sup> NCUA ACET tool is available upon request from your examiner.

### **3. Consumer Protection Law Compliance**

The Division continues to schedule separate compliance examinations at credit unions with total assets over \$500 million. For credit unions with total assets less than \$500 million, compliance examination work will be performed during regularly scheduled safety and soundness examinations. Our compliance examination objectives are to ensure compliance with the consumer protection laws, and to assist credit unions in identifying compliance problem areas and corrective actions. Compliance areas that examiners will focus on during their regular and separate compliance exams are:

- Home Mortgage Disclosure Act (HMDA) to ensure procedures are updated and followed and that training is provided to staff;
- Commercial Lending Compliance as it Pertains to HMDA - Staff should be trained on HMDA compliance for commercial loans and performing quarterly scrubs of HMDA data;
- Regulation E (Electronic Funds Transfer Act) - Ensure that card disputes (errors and fraud) are processed in accordance with the Reg E requirements, the credit union's policy and procedures are met, and that timely, good faith investigations are performed.
- Fair Credit Report Act (FCRA) – Ensure that the requirements of the FCRA are made as it pertains to the credit union's reporting of credit that it reports.

### **4. Interest Rate Risk (IRR)**

Interest Rate Risk (IRR) continues to be a significant regulatory focus. Examiners will closely evaluate and review each credit union's overall IRR management program and balance sheet composition to determine whether IRR levels are too high and to analyze compliance with 12 C.F.R. 741.3(b)(5)<sup>3</sup>. NCUA has provided IRR resources for credit unions<sup>4</sup> and guidance for examiners<sup>5</sup>.

Credit unions that have high long-term asset concentrations that are funded primarily by short-term deposits will be exposed to low margins and decreased profitability as interest rates rise.

The examiners' scope of review on IRR will be more in depth for credit unions with higher levels of long-term fixed rate assets and higher levels of IRR. Credit unions with higher levels of IRR and balance sheet complexity should have more developed IRR policies and procedures, modeling systems, reporting, and control systems in place. Credit unions with limited IRR exposure will not be expected to have an extensive IRR management program.

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<sup>3</sup> For more detailed information, see: <https://www.govinfo.gov/content/pkg/CFR-2008-title12-vol6/pdf/CFR-2008-title12-vol6-sec741-3.pdf>

<sup>4</sup> See NCUA's IRR resource center; a copy is available at <https://www.ncua.gov/regulation-supervision/Pages/policy-compliance/resource-centers/interest-rate-risk.aspx> and NCUA Letter to CUs 16-CU-08 titled "Revised IRR Supervision" at <https://www.ncua.gov/regulation-supervision/Pages/policy-compliance/communications/letters-to-credit-unions/2016/08.aspx>.

<sup>5</sup> The Examiner's Guide contains a Chapter on IRR; a copy is available at [https://publishedguides.ncua.gov/examiner/Pages/default.htm#ExaminersGuide/IRR/\\_IRR\\_Overview.htm%3FTocPath%3DInterest%2520Rate%2520Risk%7C\\_\\_\\_\\_\\_0](https://publishedguides.ncua.gov/examiner/Pages/default.htm#ExaminersGuide/IRR/_IRR_Overview.htm%3FTocPath%3DInterest%2520Rate%2520Risk%7C_____0).

## **5. Liquidity**

Over the last 18 months, many Washington State chartered credit unions have shown a downward trend in their cash plus short-term investments to total assets ratio. Examiners will expand their liquidity analysis for credit unions with low liquidity levels to ensure these credit unions have well run liquidity management programs and other sources of contingency liquidity to safely manage liquidity pressures when they arise. Generally, credit unions should maintain an adequate balance sheet cushion of liquid assets as a basic element of liquidity risk management. Credit unions of all sizes must hold an adequate safeguard of cash and cash equivalents on the balance sheet continuously. Additionally, examiners will analyze the credit unions compliance with the requirements outlined in 12 CFR 741.12.<sup>6</sup>

### **Conclusion**

The Division is committed to using its examiner resources in an effective manner, and ensuring a financially healthy and competitive state chartered credit union system in Washington State.

Examiners continue to risk focus each individual examination to effectively and efficiently use our limited exam resources. This helps the Division of Credit Unions (Division) better address the safety and soundness and regulatory concerns of the 54 state chartered credit unions under its regulatory purview. As such, the actual examination focus for an individual credit union may vary from the Division's 2019 exam focus in this Bulletin, depending on the credit union's financial condition, its risk profile, and its organizational/management structure.

If you have any questions about this Bulletin, please contact Tammie Nuber at [Tammie.Nuber@dfi.wa.gov](mailto:Tammie.Nuber@dfi.wa.gov) or (360) 902-8717.

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<sup>6</sup> For additional details, see: <https://www.govinfo.gov/app/details/CFR-2016-title12-vol7/CFR-2016-title12-vol7-sec741-12>