



DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

Phone: (360) 902-8701

FAX: (877) 330-6870

June 4, 2020

No. B-20-02

Examination Focus Update – COVID-19

The Division of Credit Unions (DCU) issued [Bulletin B-20-01](#) in January 2020, outlining the key areas of examination focus for 2020. Since that time, much has changed with the COVID-19 pandemic. The intent of this Bulletin is not to change the exam focus areas, but to provide more detail regarding the specific items examiners will review pertaining to the four 2020 exam focus areas listed below and to emphasize the importance of making adjustments to the allowance for loan and lease losses funding analysis during an economic downturn.

The Division's 2020 examination focus areas continue to be:

1. Cybersecurity
2. Consumer protection law compliance
3. Liquidity
4. Business Continuity/Disaster Recovery Testing

Cybersecurity:

The pandemic has shifted operations to an unprecedented telework environment. Telework and remote access can pose greater exposure to the credit union's network, systems and data. DCU recommends that credit unions review their network protections and determine if enhancements are needed to align with this new telework environment.

Some specific review areas of network protections will include, but are not limited to, the following:

- Policies and procedures for remote access, including how to process a remote access request and remote access termination.
- Review of network authentication, password limitations, and privacy law safeguards.
- Limiting a user's access rights to what is necessary for them to do their work.

Consumer Protection Law Compliance:

Many credit unions are taking action to assist members during the COVID 19 Pandemic. The focus of our review will include the policies and/or procedures for implementing the relief options offered by the credit union. Specific review areas include, but are not limited to the following:

- The policies and procedures for loss mitigation requests such as forbearance, skip a pay, interest rate reductions and workout loans. Credit unions should be properly documenting and tracking loan modifications and problem loans not considered TDRs.
- The collection practices, both internal and third party, to ensure they do not present a reputation risk to the credit union and they are consistent with the loss mitigation options being offered.
- The mortgage servicing process to ensure the loss mitigation options are being consistently and equitably applied.
- The consumer complaint process for credit unions with assets of \$500 million or over.

Liquidity:

Credit unions have recently experienced an increase in deposits and decreased loan demand leading to increased cash and short-term investments. Examiners will review the credit union's liquidity policy, procedures and practices for compliance with the liquidity and funding plan requirements listed in [12 CFR 741.12](#) and if need be, discuss the credit union's plans for putting to use any excess liquidity.

Business Continuity / Disaster Recovery Testing:

DCU recommends credit unions review and update their business continuity plans (BCPs) accordingly to determine if any additional actions should be taken to minimize the potential adverse effects of the pandemic. Specifically, the following actions should be taken:

- If need be, update the Pandemic plan to ensure the procedures are adequate to handle any pandemic issue.
- We recommend that disaster recovery testing include more than tabletop exercises. Annual testing plans should include failover testing of network traffic, as well as payments systems (ACH, Wires, FedLine access).
- Provide training to all staff on the business continuity and disaster recovery plans. This will ensure staff understand their required actions when a disaster occurs.

Allowance for Loan and Lease Loss Account Funding Considerations

Credit unions should be proactive in evaluating and considering adjustments to their ALLL funding methodology during an economic downturn in order to better predict future loan losses. DCU examiners will discuss with management whether the credit union has adjusted its ALLL account funding analysis due to expected losses because of the COVID-19 pandemic. If so, examiners will want to know what factors were involved in the decision to increase the ALLL account balance. ALLL account funding should take into consideration qualitative and

environmental factors, such as economic, political, geographical and industrial factors. Examiners will consider the credit union's size, its lending program complexity, and the inherent risks in its loan portfolio when evaluating the credit union's ALLL funding analysis.

If you have any questions about this Bulletin, please contact Tammie Nuber, Program Manager of Safety and Soundness Exams, at (360) 902-8717 or Tammie.Nuber@dfi.wa.gov or Doug Lacy-Roberts, Program Manager of Specialty Exams, at (360) 902-8753 or Doug.Lacy-Roberts@dfi.wa.gov