



DCU BULLETIN
Division of Credit Unions
Washington State Department of Financial Institutions
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Initiatives and Exam Focus for 2024

This Bulletin includes two initiatives that the Division will be working on in 2024 and what our examination focus will be during exams in 2024.

Initiatives

Staffing Update and Examiner Development

The Division has filled all its examiner and supervisor positions and begins 2024 fully staffed. We have hired a team of qualified staff for both the Safety and Soundness and Specialty Examination programs. While several of our examination staff are new to the Division, many come from industry and bring experience and strong financial analytical skills that will strengthen our examination program.

In 2024, the new examiners will receive a combination of formal training via the National Credit Union Administration, and on-the-job training including working on examinations at credit unions. Additionally, in 2024, some of our existing examiners will expand their skills by attending certification programs.

The Division is incorporating a subject matter specialist (SME) program to further focus training on areas such as Member Business Lending, Bank Secrecy Act, Interest Rate Risk, Small Credit Union examinations, and others.

Exam Focus Areas

Liquidity Risk

Liquidity Risk will continue to be a major area of focus on exams in 2024. Consumers moved from saving money during the COVID-19 pandemic to spending money due to pent up demand. Many state-chartered credit unions are seeing funds on deposit migrate from savings and share draft accounts, to higher earning money market and share certificate accounts. And more credit unions are also borrowing due to liquidity policy limits being reached or exceeded.

In 2024, examiners will assess the adequacy of credit union risk management activities regarding liquidity management. They will assess credit union liquidity levels, policies, procedures, and liquidity monitoring practices.

Additionally, examiners will review the Asset and Liability Committee (ALCO) and board minutes to assess how closely liquidity levels are monitored and what actions credit unions take when they approach their liquidity limits. Credit unions are encouraged to review the National Credit Union Administration (NCUA) Guidance on Liquidity and Contingency Funding Plans for further information on liquidity plans and funding. i

Earnings Risk

Earnings is another area examiners will focus on in 2024. Credit unions are experiencing earnings compression due to slower loan production. In 2024, examiners will review credit unions' annual budget projections and final budgets to determine if they include reasonable assumptions and goals. Net interest margins continue to be tight and credit unions will need to have strong practices and strategies to build income and net worth in 2024.

Interest Rate Risk

Interest Rate Risk is increasing across the state due to the fluctuating market conditions and interest rates. Changes in the market rates credit unions earn and charge can adversely affect a credit union's net economic value and earning. In 2024, examiners will continue to review the Asset and Liability Committee (ALCO) activities to understand the discussion and decision-making processes around managing interest rate risk.

Examiners will also review the outcomes of interest rate shock tests conducted by the credit union to ensure a larger percentage of shock used for the test.

Consumer Compliance

The Division will continue to conduct stand-alone consumer compliance exams for state-chartered credit unions with \$500 million or over in assets. These exams may be concurrent with the safety and soundness exams. Compliance exams will focus on compliance management systems, consumer complaint response, residential mortgage lending compliance (Fair Lending, Home Mortgage Disclosure Act, TILA/RESPA), Servicemembers Civil Relief Act, and other consumer compliance areas as needed. The compliance reviews conducted as part of the safety and soundness exams will focus on Bank Secrecy Act/Anti-Money Laundering, OFAC, Fair Lending/Regulation B, Fair Credit Reporting Act/Regulation V, Regulation E (card disputes, overdrafts), Truth in Savings, and other consumer compliance areas as needed.

Information Security & Technology (IS&T)

In an era of rapidly evolving cyber threats and technological advancements, safeguarding credit unions and members' data remains critical. It is essential that all stakeholders within an organization contribute proactively to ensure the strength and adaptability of the IS&T program.

Following recent ransomware attacks, resulting in disruptive outages across the credit union sector, examiners are particularly focused on emphasizing the Business Continuity Plans (BCP). Examiners expect state-chartered credit unions not only to have detailed business continuity, disaster recovery, and incident response plans, but to also test these plans regularly to ensure members have access to their funds and financial information in a timely manner during an unforeseen event. Such testing ensures that restoration processes align with policy-defined time frames, validating the efficiency of procedures, and addressing potential gaps, thus safeguarding operational continuity. Ultimately, thorough testing of BCPs stands as a pivotal measure, assuring rapid recovery and adherence to compliance standards in the face of disruptive cyber incidents or other catastrophic events.

Additionally, examiners will emphasize the importance of ensuring credit unions' understanding of NCUA's new cyber incident reporting rules, 12 CFR 748.1(c), from last September. Credit unions are required to report significant cyber incidents no later than 72 hours after the credit union reasonably believes it has experienced a cyber incident or is informed by a third party regarding a cyber incident. This new rule does not change the requirements of 12 CFR Appendix-B-to-Part-748 II.ii.1.b., which requires state-chartered credit unions to notify the NCUA Western Regional Director and DFI as soon as possible after the credit union becomes aware of an incident involving unauthorized access to or use of sensitive member information.

Finally, IS&T examiners will keep evaluating credit unions' third-party service providers risk management framework. Examiners expect state-chartered credit unions to perform due diligence and monitor third party relationships. State-chartered credit unions should provide the summary of the third-party management program to the Board of Directors, including a list of critical vendors and any identified concerns.

Conclusion

The Division is committed to working with our state-chartered credit unions in 2024. We understand the role that our credit unions play in providing financial services to the residents of Washington.

If you have any questions, please contact Myriam Powers, Chief of Safety and Soundness Examinations, at myriam.powers@dfi.wa.gov, or Lael Byington, Chief of Specialty Exams (IS&T and compliance exams), at lael.byington@dfi.wa.gov.

ⁱ <https://www.ecfr.gov/current/title-12/chapter-VII/subchapter-A/part-741/subpart-A/section-741.12>
NCUA Liquidity and Contingency Funding Plans