



## ***DCU BULLETIN***

***Division of Credit Unions***

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

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### **2025 Exam Focus**

This bulletin details some of the areas of review the Division will focus on during examinations in 2025. These areas align with the NCUA's [Supervisory Priorities for 2025](#).

#### **Succession Planning**

During examinations in 2024, examiners identified more staffing shortages in key management positions. Examiners noted that key management positions, not just the Chief Executive Officer (CEO), are vacant, or would be vacated soon due to planned and unplanned retirements. Key positions are defined as Chief Information Officer, Chief Financial Officer, Chief Information Security Officer, among others. Many times, examiners reviewed succession plans that only discussed the CEO position and were lacking in detail other than stating a national search would be conducted when the CEO retired.

In April 2024, the Division issued Bulletin B-24-02 on Succession Planning. This bulletin stressed the importance of succession planning for all key staff at credit unions. The credit union industry began experiencing mergers caused by Chief Executive Officers' (CEOs) retirements and the lack of a plan or qualified successor. During examinations in 2025, examiners will review credit union succession plans, and the activities surrounding succession planning.

For more information on succession planning please see [Bulletin No. B-24-02](#). Additionally, NCUA issued a final rule on Succession Planning in December 2024. For more information on the NCUA rule, here is a short [summary](#). The amendments to 12 C.F.R Parts 701 and 741 can be found at the end of the federal register [posting](#).

#### **Balance Sheet Management and Liquidity, Interest, and Credit Risks**

Managing a balance sheet in the current financial environment is going to provide challenges for credit unions in 2025. In 2024, interest rates increased at a pace not seen in over a decade leaving many credit unions with a mismatch on income earning assets (loans and investments) versus the cost of funds. Examiners will focus on overall balance sheet

management, and credit union strategies to manage the risks associated with the balance sheet.

### **Liquidity Risk**

In 2025, 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, the examiners will review Asset and Liability Committee Management (ALCO) activities.

### **Interest Rate Risk**

Examiners will also assess controls around interest rate risk. The economy in 2025, shows signs of volatility due to unknowns such as federal rate pricing. Credit unions will need to model more extreme changes to net economic value of their investment and loan portfolios. Examiners will continue to review the outcomes of interest rate shock tests conducted by credit unions.

### **Credit Risk**

Many credit unions experienced higher used vehicle delinquencies in 2024, causing higher Provision for Loan Loss expenses and higher charge-offs. This trend will continue in 2025, and examiners will review credit risk management processes at credit unions during the exam year.

### **Cannabis Reviews**

Credit unions that have cannabis deposits and/or loans should expect to see a more in-depth review of their policies, procedures, and monitoring processes for these types of accounts in 2025. Washington state credit unions continue to be leaders in the cannabis financial industry and the Division recognizes the compliance burden cannabis related business places on the credit unions.

### **Consumer Compliance**

The Division will continue to conduct stand-alone consumer compliance exams for state-chartered credit unions with \$500 million or more 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

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), Regulation CC, Truth in Savings, and other consumer compliance areas as needed. The Division will begin a more

in-depth analysis of complaint trends before exams, to identify any areas that warrant more attention.

### **Information Security & Technology (IS&T)**

The financial services sector continues to experience cyber threats, making safeguarding credit unions and members' data critical. Credit unions must not only implement an adequate IS&T program, but continuously adjust the program based on the current and evolving risks.

A 2023 report from two U.S. cybersecurity companies revealed that 98% of organizations have a relationship with a third-party vendor that experienced a data breach in the previous two years, highlighting the importance of completing third-party due diligence<sup>1</sup>. Examiners will be focusing on credit unions' risk management and oversight practices for third-party service providers. Examiners expect credit unions to have an effective risk management program to identify, measure, monitor, and control risks associated with third-party relationships. Credit unions are expected to review vendor contracts thoroughly, ensuring terms address compliance, security, and performance standards. **Credit unions should ensure that their contracts with third vendors include verbiage on the timeframe for notification of any data breach in a timely manner. The contracts should clearly require timely notification to the credit union of any security incidents.** Risk assessments should be performed to ensure that vendors meet the credit union's operational and regulatory requirements throughout the relationship.

Credit unions must conduct comprehensive initial and ongoing due diligence, including a review of vendors' financial statements to evaluate their financial stability and (if sensitive data shared) System and Organization Controls (SOC) 2 reports to evaluate information security controls. At least annually, 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.

Microsoft has announced that its Windows 10 operating system will reach end of support on October 14, 2025. After this day, Microsoft will no longer provide security updates, bug fixes, or technical support for Windows 10. Credit unions are encouraged to begin planning for this transition by evaluating their existing systems and preparing to upgrade to Windows 11, which has stricter hardware requirements. It is important to note that some devices currently running Windows 10 may not meet the minimum specifications for Windows 11 and will require replacement.

Microsoft will offer an Extended Security Updates (ESU) program to allow critical security updates for Windows 10 systems beyond the end of support date. Credit unions must ensure that any Windows 10 systems in use on their networks after October 14, 2025, are enrolled in the ESU program to maintain security compliance. Credit unions should prioritize proactive planning to ensure continuity of operations and adherence to cyber security best practices.

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<sup>1</sup> <https://securityscorecard.com/wp-content/uploads/2024/01/Research-Close-Encounters-Of-The-Third-And-Fourth-Party-Kind.pdf>

As NCUA recently underlined in the Letter to Credit Unions 24-CU-02<sup>2</sup>, the Board of Directors must prioritize cybersecurity as a top oversight and governance responsibility. The board must be provided cybersecurity training, approve the Information Security Program, oversee operational management, and ensure that resilience plans exist to allow the institution to operate effectively during and after a cyber-attack.

Finally, starting January 6, 2025, the Division of Credit Union's (DCU) will resume issuing a separate IS&T composite rating with the CAMELS ratings. For more information on issuing a separate IS&T composite rating please see [Bulletin No. B-25-01](#).

### **Conclusion**

The Division is committed to working with our state-chartered credit unions in 2025. We understand the important 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, or Lael Byington, Chief of Specialty Exams (IS&T and compliance exams), at [dcu@dfi.wa.gov](mailto:dcu@dfi.wa.gov).

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<sup>2</sup> <https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/board-director-engagement-cybersecurity-oversight>