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Guidance for Washington State Chartered Credit Unions Responding to COVID-19

The Washington State Department of Financial Institutions, Division of Credit Unions (DCU), recognizes the potential impact the Coronavirus Disease (COVID-19) will likely have on credit unions and their members. This memo is to provide additional guidance regarding DCU's expectations for credit unions responding to COVID-19.

DCU recognizes affected borrowers will likely experience cash flow pressures and reduced ability to pay their debt obligations during this crisis. DCU emphasizes that credit unions should help members through this difficult time through responsible credit administration consistent with safe and sound practices, fair lending treatment and compliance with statutes and regulations. These efforts may include, but are not limited to:

- Waiving and/or reducing certain fees (i.e. overdraft fees, late payment fees, early withdrawal penalties for certificates of deposit);
- Considering increasing credit card limits, especially for creditworthy borrowers and businesses;
- Working closely with impacted commercial borrowers to understand their business models, situations and needs, and if need be, restructure or modify their loan terms based on their reduced cash flow and other repayment factors;
- Ensuring that mortgagors do not experience a disruption of service, if the credit union's mortgage servicer closes its office, including making available other avenues for mortgagors to continue to manage their accounts and to make inquiries;
- Offering payment and loan modifications, such as a skip-a-pay arrangement or extending payment due dates;
- Refraining from reporting late payments to credit bureau reporting agencies; and
- Proactively reaching out to members via website postings, app announcements, texts, email or otherwise to explain the assistance being offered.

DCU understands and expects that credit unions will experience negative financial impacts from the COVID-19 crisis, especially to their earnings, asset quality, capital, and liquidity. DCU will support credit unions and not criticize their efforts to accommodate members in a safe and sound manner. DCU further understands that credit unions may incur significant costs and may choose to expend some level of capital in connection with efforts to assist members and their communities. DCU believes that such measures should be undertaken after consideration of all relevant factors, including maintenance of appropriate levels of capital consistent with the credit union's risk profile. Some categories DCU will expect credit unions to give close attention to and certain areas DCU examiners will be looking at in future exams include, but are not limited to:

- The potential adverse impacts to asset quality because credit unions may experience higher levels of delinquent and non-performing loans. Management should implement internal procedures and controls to monitor, document and manage loans affected negatively by COVID-19. DCU examiners' expectations include, but are not limited to, that the credit union:

    - Has consistent practices that are implemented for affected borrowers;
    - Takes a proactive approach in reaching out to members in advance of their loans becoming delinquent or in troubled condition;
    - Ensures that restructured or modified loans are beneficial for both the member and the credit union;
    - Closely monitors commercial loans to assess the downward pressures put on a business' ability to continue to generate adequate cash flows.

- Credit unions should consider the factors discussed in the March 22, 2020, Interagency Statement on Loan Modifications and Reporting for Financial Institutions working with Customers Affected by the Coronavirus. DCU's review and evaluation will incorporate this guidance. DCU will expect credit unions to properly document and track loan modifications and problem loans not considered troubled debt restructures.

- Credit unions should evaluate and consider adjustments to their Allowance for Loan and Lease Losses methodologies. One area a credit union might consider is changing the look back period; for example, the look back period could be adjusted to a shorter period (12 months instead of 24 months). DCU examiners will evaluate the credit union's supporting documentation for the techniques used to develop its loss rates for the current COVID-19 pandemic.

- Credit unions should continue to actively monitor and manage their liquidity positions. DCU recognizes that credit unions' liquidity positions may tighten as credit unions help support their members' liquidity needs. DCU expects credit unions to continue to monitor their cash flow levels and forecast their cash flow requirements in the short-term (immediate needs) and for a longer period depending on how long the COVID-19 pandemic is expected to last. DCU recommends credit unions review their unfunded commitments for potential cash outflows and pledged collateral for liquidity inflows.

- Credit unions should closely monitor the financial performance of existing commercial loan borrowers and perform periodic financial reviews of commercial credits to ensure that the business borrower's financial condition has not deteriorated. This process becomes even more important during economic downturns, because of the downward pressure put on a business' ability to continue to generate adequate cash flow. Essential to this process is receiving timely updated financial information from the borrower.

- Earnings will likely be affected as fee income falls, net interest margins tighten, credit losses increase and operational expenses increase. DCU expects credit unions to understand the impact COVID-19 may have on its financial condition, and to stress test different scenarios, and to closely monitor the effect COVID-19 will have on the current and future financial condition of the credit union.

- With more credit union staff working remotely, DCU expects credit unions to follow policies and procedures regarding remote access. Management needs to ensure remote access points are secure and the credit union is using the principle of least privilege. Credit unions should limit a user's access rights to the minimum required to do their work.

- Any changes to policies, procedures, and/or guidance should be discussed and where appropriate, approved by the Board of Directors.

DCU understand credit unions will likely face operational and financial condition challenges through this crisis. DCU will work with affected credit unions in scheduling examinations to minimize disruptions and burden. Reasonable efforts consistent with safe and sound practices will be taken into consideration during future regulatory examinations.

Agencies are issuing many, many guidance materials. Below are some resources that you might find helpful. It is certainly not an exhaustive list.

Useful Resources

- FFIEC: Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus

- NCUA: Urgent Needs Grants Available to Help Credit Unions Affected by COVID-19

- NCUA Actions Related to COVID-19 (Letter No.: 20-CU-02)
- NCUA Responsible Small-Dollar Lending in Response to COVID-19
- Financial Regulators Highlight Coordination and Collaboration of Efforts to Address COVID-19
- CFPB: Protect Yourself Financially from the Impact of the Coronavirus
- FFIEC: Interagency Statement on Pandemic Planning
- FFIEC: Business Continuity Management Booklet