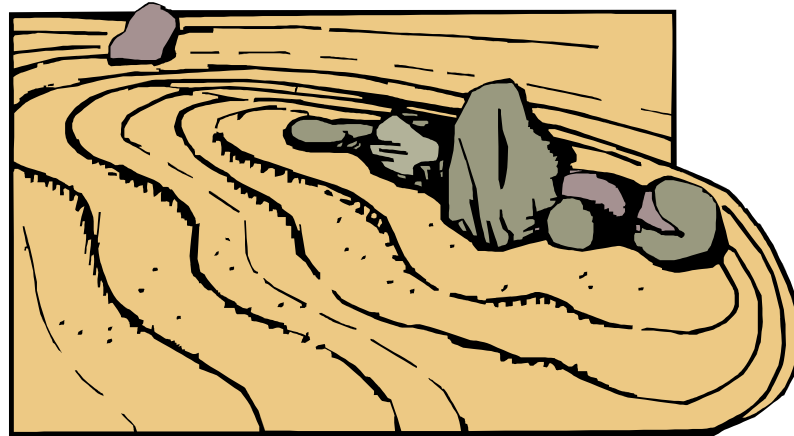

What Every CEO Should Know Before the Regulator Knocks on the Door



CU CEO Mantra



Take a deep breath and remember that:

- NCUA does not exist if credit unions don't exist.
 - Exams are apart of normal business.
 - You have your job, NCUA has theirs, there is no reason to be intimidated!
 - The NCUA Examiner Manual is online – print it!
-

Everyone is human and subject to being treated as a human....

- Examiners also have a tough job, just like you. We all have bad days. But never accept rudeness or hostility. That is not good business for anyone.
 - NCUA is the Regulator (for many) and the insurer. They will always want to be on the side of less risk. That is what insurers do.
 - You can disagree!
-

Remember it is a risk audit

- So that means – what you want to show NCUA is all the stuff to mitigate, control and accept risk. Risk in lending, risk in operations, risk in being a CDCU, risk in the area you live in.
 - If you have a lot of risk in your portfolio, your membership and/or your operations – own up to it and let NCUA know how you are handling it.
 - Credit unions are in the risk business!
-

Hot Topics from CU Letter 12-CU-02

- **Interest rate risk** – #1 issue – NCUA is concerned with a rising interest rate environment. Are you talking about that in your board meetings? Their concern is that if rates rise, CU's will increase their dividend rates much faster than their loan rates can reprice – Do you have ALM reports? Do you have an ALM and a Liquidity Policy? What happens if you don't raise rates and shares start running out the door?



Hot Topics....

- **Cyber security Threats** – TARGET! That was a major incident and has all regulatory agencies narrow focus to look at risk mitigation – NO MATTER THE SIZE! Even small shops can have strong passwords, lock up equipment and afford network monitoring.
- **Money Services Businesses** – do you have accounts for Pawn shops, title loan shops, payday lenders or check cashing places? BSA, BSA, BSA
- **Private Student Lending** – these are loans not backed by the government – if doing thru a third party – Have you done your due diligence?



Hot Topics....

- **CFPB – New Mortgage Rules** – Do you do any type of mortgage lending? Even second mortgage and home equity lines of credit follow some or all of the new Ability to Repay rules, Mortgage Servicing, High Cost and High Interest Rate Rules! If you don't know – YOU ARE IN TROUBLE!
- **New NCUA Loan Participation Rules** – a lot of changes – if you do these – better read up!
- **Indirect Lending** and how you are qualifying them for membership!



Things that make your Examiner smile...

Good internal controls.... How do I show this?

Documented review of internal reports! Are you looking at:

- Accrued interest great than payment reports?
- File maintenance reports? (change of rates, name, codes etc...)
- New loan reports
- Negative balance reports
- Change in address reports
- Over limit reports



Things that make your Examiner smile....

- Reconciliations for every General Ledger account, including the ones with a zero balance.
- Track record of doing cash counts (if applicable) on your Tellers
- A locked area for your IT equipment – (**this needs to be mandatory**)
- Good controls for cash (don't be counting cash in member eyeball range!) Tellers must have their own cash drawers!
- Even in 1 -2 person shops, you can have some controls. Use your Supervisory Committee!



Things that make your Examiner smile....

- Minutes that actually tell the Examiner what is going on with your credit union.
- It is hard for NCUA to believe you are discussing something if it is not in your minutes.
- Signed minutes
- A business plan – which can be as simple as a three year calendar of events. This show NCUA you are looking toward the future.



Things that make your Examiner smile....

- Communicating with your Examiner and letting them know what you have done to fix any issue noted in the last exam and what is going on with your credit union.



Pre-Exam tips



- Timing of the exam – Most of the time, you should have a say when the exam is. There are times when NCUA may force the issue, that is normally to accommodate their schedule conflicts.
- Review your last exam – If you had a DOR (Document of Resolution), has it been completed. If not, be prepared to explain what has been done so far.

Pre-Exam tips



- Exam request list – ask for this as soon as a date is set. This list is usually compiled for a larger credit union. If you label and have everything ready when they arrive – that makes your life much easier!
- Make sure you have the documentation to back up your last call report! Create a folder, put the back up behind each page of the Call Report.

Pre-Exam tips



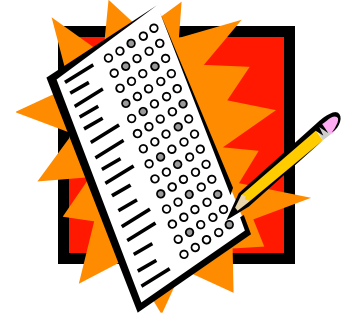
- Let your Board and Supervisory Committee know the dates. Most Examiners will ask when your next board meeting is, some will do the exit meeting then, some will ask to do it during the exam.

Pre-Exam tips



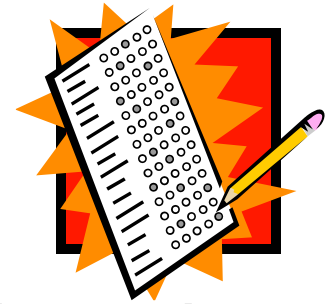
- Communicate with your Examiner. Call them up, talk to them, ask them if there are any new areas of focus. Talk up your shop! Be friendly! If is a new Examiner – prepare a brief outline of who you serve, your mission, your business plans for the year. Do not assume they will know, educate them.

Exam process.....



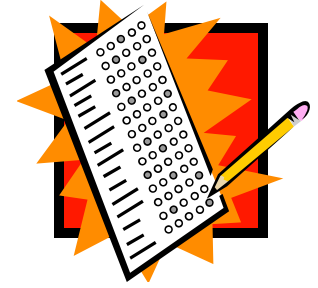
- Be familiar with Chapter 23 of the NCUA Examiners Manual – it deals with low income credit unions. Educate your Examiner if they are not.
- Check in with your Examiner each day, ask them if they need any additional information, ask them for any findings – COMMUNICATE!

Exam Findings



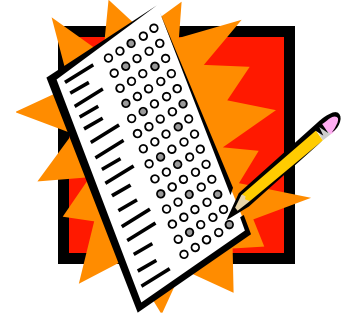
- Industry accepted practice – What does that mean? It means that your Examiner needs to get more specific. Is it a violation of law? Is it a violation of your policy? Or is it something your credit union does that they view as risky? The next question is what are you doing to mitigate your risk?

Exam Findings



- Make sure they are specific. If it is a violation of a Regulation – which one – they should be able to cite it.
- If they want you to consider a change in policy – it should be worded that way and why? You only have to consider it, if it is not a good recommendation for your credit union, be prepared to say why.

Exam Findings.....



- If they are nitpicky findings, then smile. You have done well.

Contact information

- Robin Romano, CEO, MariSol Federal Credit Union – Phoenix – 602-252-6831 ext. 120 – robinr@marisolcu.org

Time to vent.....

