



**NCUA**  
National Credit Union Administration

# National Supervisory --- Policy Manual

## Introduction

The National Supervision Policy Manual (NSPM) establishes national policies, procedures, and guidelines for effective district management, supervision of credit unions, and quality assurance. Promoting the consistent application of the examination procedures outlined in the NSPM, and vetting and coordinating across the agency the need for any additional examination policies and procedures furthers its purpose.

While supervisors have the right and responsibility to assign work and manage staff, they should not institute new or additional standard operating procedures, a practice often referred to as "layering." Implementing additional procedures that apply to all examiners in an SE group or field office, or establishing general policy that is narrower than national guidance, is not appropriate. On a case-by-case basis, supervisors can and should implement procedures to manage risk in specific credit unions and/or address the development needs of individual employees.

Adoption by field offices or supervisors of any alternative or additional examination policies, procedures, or directives beyond what is addressed in the NSPM and other national guidance must be cleared through the Exam Steering Group and the Office of Examination and Insurance (E&I). The Exam Steering Group will review and evaluate field office and/or SE level specific practices to determine if they require E&I approval.

## Feedback?

Send feedback on the NSPM to [NSPM@NCUA.gov](mailto:NSPM@NCUA.gov).

# Table of Contents

---

<b>Introduction .....</b>	i
Feedback? .....	i
<b>Table of Contents .....</b>	i
<b>Chapter 1. Administrative Remedies .....</b>	1
1. General Responsibilities Regarding Administrative Remedies .....	2
2. Types of Administrative Remedies .....	3
3. Document of Resolution (DOR) .....	4
4. Regional Director Letter .....	16
5. Letter of Understanding and Agreement .....	18
6. Preliminary Warning Letter .....	26
7. Civil Money Penalty .....	30
8. Status Update .....	32
9. Initiating a Formal Administrative Action .....	33
10. Special Assistance Cases .....	33
11. Control Reports .....	33
12. Templates .....	34
RDL Sample .....	36
Notify FISCU of Troubled Condition .....	38
Upgrade FISCU from Troubled Condition Status .....	40
Acknowledge LUA and CAMEL Downgrade .....	41
LUA Addendum .....	43
LUA Cover Letter .....	44
Non-published LUA .....	45
Remove LUA .....	50

---

PWL Sample .....	51
BSA-Specific PWL .....	53
PWL Removal Samples .....	55
<b>Chapter 2. Audits and Recordkeeping .....</b>	<b>57</b>
1. Field Staff Responsibilities .....	57
2. Audit Firms Located Outside the Geographic Area .....	57
3. Audit Report Review .....	58
4. Unacceptable Audits and Member Account Verifications .....	59
5. Audits by Licensed Independent Accountants .....	61
6. Significant Recordkeeping Concerns .....	61
7. Addressing Bond Claims .....	64
8. Determine Bondability Status .....	65
<b>Chapter 3. BSA Enforcement .....</b>	<b>66</b>
1. BSA References .....	66
2. Suspicious Activity Report (SARs) .....	66
3. Requesting a Currency Transaction Report, Suspicious Activity Report, or Designation of Exempt Persons History .....	68
4. BSA Enforcement .....	68
5. BSA Violations .....	70
6. AIRES FinCEN.doc .....	80
7. Resolution of Significant BSA Violations .....	81
8. Reporting the Resolution of a BSA Violation .....	83
9. BSA Control Reports .....	84
<b>Chapter 4. Change of Officials for Troubled and Newly Chartered Credit Unions .....</b>	<b>86</b>
1. DOS Responsibilities .....	86

---

2. Field Staff Responsibilities .....	88
3. Affected Credit Unions .....	88
4. Required Information .....	88
5. Approval Process .....	88
6. Waiver of 30 Day Notification Requirement .....	89
7. Grounds for Denial .....	90
8. Request for Reconsideration and/or Appeal .....	91
9. Application Withdrawal .....	92
10. Templates .....	92
Respond to Incomplete Application .....	93
Acknowledge Complete Application .....	94
Waive 30-Day Notification Requirement .....	95
Approve Change of Officials .....	96
Deny Change of Officials Due In Part to Adverse Credit .....	97
Deny Change of Officials Due In Part to Adverse Credit - Applicant Letter .....	99
Deny Change of Officials Not Due to Adverse Credit .....	101
Deny Change of Officials Not Due to Adverse Credit - Applicant Letter .....	103
Pre-Adverse Action Disclosure Letter .....	105
Acknowledge Request to Withdraw Application .....	106
<b>Chapter 5. Corporate Credit Union Program and Procedures .....</b>	<b>107</b>
1. ONES Mission .....	107
2. ONES Policies and Procedures .....	107
3. Corporate Regulatory Waivers .....	108
4. Processing Corporate Requests for Expanded Authority .....	110
5. Investment Action Plans (IAP) .....	113

---

6. Capital Restoration Plans .....	115
7. Corporate Credit Union Service Organizations .....	120
8. Prompt Corrective Action .....	123
<b>Chapter 6. CUSO Registry .....</b>	<b>127</b>
1. Field Staff and Regional Office Responsibilities .....	128
2. Additional Regional Office Responsibilities .....	129
3. Templates .....	129
CUSO Registry Reporting Concern .....	130
CUSO Registry Examination Follow-Up .....	131
CUSO Registry RDL to CU Owners or Lenders .....	133
<b>Chapter 7. CUSO Reviews .....</b>	<b>135</b>
1. General Responsibilities Regarding CUSOs .....	136
2. Selecting, Scheduling, and Resourcing CUSO Reviews .....	137
3. Scope of Review .....	138
4. CUSO Review Report and Workpapers .....	139
5. Distributing a Draft Review Report .....	140
6. Distributing a Final Review Report .....	141
7. Management Conference .....	142
8. CUSO Follow-Up Reviews .....	143
9. CUSO Review Report Maintenance .....	144
10. State Supervisory Authorities & CUSO Reviews .....	145
11. Templates .....	145
CUSO Pre-Review Letter .....	147
CUSO_Review_Scope_Workbook .....	151
CUSO Financial Template .....	203

---

CUSO Review Report Template .....	206
Draft Report Cover Letter to CUSO .....	216
Draft Report Cover Letter to SSA .....	218
Final Report Cover Letter to CUSO .....	219
Final Report Cover Letter to Investors and Lenders .....	221
Final Report Cover Letter to SSA .....	222
<b>Chapter 8. Derivatives Authority .....</b>	<b>223</b>
1. Roles and Responsibilities .....	223
2. Derivative Application Review Procedures (applies only to federal credit unions) .....	226
3. Derivatives Application Appeal Process .....	232
4. Derivative Notification Procedures (applies only to FISCUs) .....	233
5. Derivatives Monitoring and Controls .....	234
6. Templates .....	234
Derivatives Information Administration Log (DIAL) .....	236
Derivatives Authority Qualitative Review Checklist .....	239
Respond to Incomplete Application for Derivatives Authority .....	252
Acknowledge Interim Application for Derivatives Authority .....	253
Approve Derivatives Authority (Interim) .....	254
Acknowledge Notification of Readiness (Final Application for Derivatives Authority) .....	255
Approve Derivatives Authority (Final) .....	256
Deny Application for Derivatives Authority .....	257
NCUA Notification of FISCU Derivatives Activity (FISCUs only) .....	259
Acknowledge Appeal .....	260
Deny Appeal .....	261

---

<b>Chapter 9. Dishonesty, Fraud, and Insider Dealings .....</b>	<b>262</b>
1. When Fraud is Confirmed or Highly Suspected .....	262
2. Fraud Indicator Report .....	268
3. Fraud Hotline Investigations .....	271
4. Templates .....	271
CU-BOD-FraudDiscoveryChecklist .....	272
ExaminerFraudDiscoveryChecklist .....	277
DatabaseSearchRequestForm .....	281
FraudChronology .....	282
FraudReport .....	283
<b>Chapter 10. District Management .....</b>	<b>291</b>
1. General Supervision Responsibilities .....	291
2. Budgeting and Scheduling Examination Work .....	295
3. Administrative Record .....	302
4. Supervision Chronology Report .....	302
5. Administrative Actions for Troubled Credit Unions .....	303
6. Notice of Troubled Condition .....	303
7. Call Report, Trending Analysis, and RATE .....	306
8. Administrative Items .....	308
9. Confidential Section .....	319
10. Joint Conferences and Exit Meetings .....	321
11. Communicating Directly with a Credit Union .....	322
12. Communicating with Law Enforcement, Outside Audit Firms, or Other Federal Agencies .....	324
13. Supervising a New Credit Union .....	324
14. Critical Case Credit Unions .....	325

---

15. Control Reports .....	327
16. Develop and Issue Guidance .....	328
17. Templates .....	331
Supervision Chronology Report .....	332
Team Memo .....	334
<b>Chapter 11. Examination Complaints .....</b>	<b>337</b>
1. Material Supervisory Determination Exclusions .....	338
2. Examination Complaint Investigation Goals .....	338
3. Roles and Responsibilities .....	339
4. Templates .....	341
Acknowledge Examination Complaint .....	342
Regional Summary – Exam Appeals and Complaints .....	343
Respond to Examination Complaint (sample) .....	345
<b>Chapter 12. Examination Reports .....</b>	<b>346</b>
<b>Chapter 13. Fair Lending Examination Program and Procedures .....</b>	<b>348</b>
1. Roles and Responsibilities .....	348
2. Federal Credit Union Selection for Review .....	351
3. Requested Participation for SCU Selected for Review by SSA .....	352
4. On-Site Fair Lending Exams (WCC 03) .....	352
5. Off-Site Fair Lending Exams (WCC 33) .....	353
6. Contact Documentation .....	353
7. Contact Follow-Up .....	355
8. Administrative Remedies .....	355
9. Administrative Items .....	358
10. Quality Assurance .....	359

---

<b>Chapter 14. Federal Credit Union Program and Procedures .....</b>	<b>360</b>
1. Examination Planning .....	360
2. Membership Data Information .....	366
3. Federal Credit Union Examinations (WCC 10) .....	366
4. Federal Credit Union Supervision Contacts .....	367
5. OCFP/Regional Office Fair Lending Examinations and Supervision Contact Coordination .....	374
<b>Chapter 15. Federally Insured, State-Chartered Credit Union Program and Procedures .....</b>	<b>378</b>
1. Examination Planning .....	379
2. Communication with a State Supervisory Authority .....	380
3. NCUA Federally Insured, State-Chartered Program .....	381
4. Types of Federally Insured, State-Chartered Credit Union Examinations .....	389
5. Supervision Contacts .....	393
6. Completing a Review of a State Examination (WCC 26) .....	403
7. Requesting Additional Information from an SSA .....	407
8. Joint Conferences for Federally Insured, State-Chartered Credit Unions .....	407
9. Issuing a Report to a Federally Insured, State-Chartered Credit Union .....	408
10. AIRES Uploads for a Federally Insured, State-Chartered Credit Union .....	409
11. Credit Union Enforcement Action .....	409
12. Federally Insured, State-Chartered Credit Union Consumer Compliance Program .....	410
13. NCUA Responsibilities Regarding Compliance Regulations in Federally Insured, State-Chartered Credit Unions .....	411

---

<b>Chapter 16. Prompt Corrective Action .....</b>	<b>412</b>
1. Prompt Corrective Action Classification .....	412
2. Earnings and Reserve Transfer Requirements for “Adequately Capitalized” or Lower Federally Insured Credit Unions .....	415
3. Net Worth Restoration Plans and Revised Business Plans .....	417
4. Invoking Discretionary Supervisory Actions and Other Corrective Actions for a Critically Undercapitalized Credit Union .....	421
5. Applications for Prompt Corrective Action Risk Mitigation Credit .....	422
6. Monitoring and Controls .....	423
7. Templates .....	424
Quarterly PCA Tracking Report .....	425
Regional Summary of DSA Board Approval (EI format) .....	427
Regional Summary of DSA RD Approval .....	428
Regional Summary of OCA RD Approval .....	430
Net Worth Category Reclassification Samples .....	432
Sample pro forma financials and ratios .....	435
NWRP RBP and Assumptions Workbook Sample .....	436
Regional Summary of NWRP RBP Review .....	439
NWRP RBP Review Checklist .....	441
Approve NWRP RBP .....	442
Deny NWRP RBP .....	443
Notify CU of Need to Revise or Replace NWRP .....	445
Notify CU of Need to Submit NWRP RBP .....	447
Notify CU that NWRP RBP Is No Longer Required .....	449
<b>Chapter 17. Quality Assurance Program .....</b>	<b>452</b>
1. Key Terms and Concepts .....	452

---

2. Quality Assurance Goals .....	453
3. Quality Assurance Roles and Responsibilities .....	454
4. Quality Control Process .....	458
5. Examination and Supervision QCR Minimum Selection Criteria .....	459
6. Examination and Supervision Program Review Process .....	461
<b>Chapter 18. Regulatory Waivers and other Regulatory Actions ...</b>	<b>463</b>
1. General Procedures and Requirements for Waivers .....	463
2. Occupancy Waiver .....	474
Respond to Incomplete Request for Occupancy Waiver .....	476
Acknowledge Request for Occupancy Waiver .....	477
Regional Summary of Occupancy Waiver Request .....	478
Approve Request for Occupancy Waiver .....	480
Deny Request for Occupancy Waiver .....	481
3. Non-Member Deposits Limitation Waiver .....	482
Respond to Incomplete Request for Non-Member Deposit Exemption .....	484
Acknowledge Request for Non-Member Deposit Exemption .....	486
Regional Summary of Non-Member Deposit Exemption .....	487
Approve Request for Non-Member Deposit Exemption .....	490
Deny Request for Non-Member Deposit Exemption .....	491
Respond to Violation of Non-Member Deposit Exemption .....	492
4. Earnings Transfer Waiver .....	494
Respond to Incomplete Request to Decrease Earnings Transfer Requirements .....	497
Regional Summary of Decrease in Earnings Transfer Requirement .....	498
Approve Request to Reduce Earnings Transfer Requirement .....	499

---

Deny Request to Reduce Earnings Transfer Requirement .....	501
5. Loan Participation Waiver .....	502
Respond to Incomplete Request for Loan Participation Limit Waiver	504
Acknowledge Request for Loan Participation Limit Waiver .....	505
Regional Summary of Loan Participation Limit Waiver .....	506
Approve Request for Loan Participation Limit Waiver .....	509
Deny Request for Loan Participation Limit Waiver .....	510
6. Secondary Capital .....	511
Respond to Incomplete Proposed Secondary Capital Plan .....	520
Acknowledge Submission of Secondary Capital Plan .....	521
Regional Summary of Secondary Capital Plan Application .....	522
Approve Secondary Capital Plan with Contingency .....	524
Approve Secondary Capital Plan .....	525
Deny Secondary Capital Plan .....	526
Acknowledge Request to Redeem Secondary Capital .....	527
Regional Summary of Request to Redeem Secondary Capital .....	528
Approve Request to Redeem Secondary Capital .....	530
7. Templates .....	531
<b>Chapter 19. Unauthorized Access to Member Information .....</b>	<b>532</b>
1. Roles and Responsibilities .....	533
2. Process Notifications .....	535
3. Assess Response Plan Effectiveness .....	535
4. Ensure Supervision Plans are Commensurate with Risk .....	536
5. Templates .....	538
Acknowledge Notification of Unauthorized Access .....	540

---

Regional Summary – Unauthorized Access .....	541
Respond to Unauthorized Access Notification (sample) .....	543
IT Incident Checklist .....	544
Acknowledge Deferred Follow-up .....	546
Acknowledge 60 day Follow-up .....	547
Work Assignment Memo .....	548
Closing Letter .....	550
<b>Chapter 20. Work Classification Codes .....</b>	<b>552</b>
1. Reporting Bank Secrecy Act Review Time .....	552
2. Reporting Specialist Time .....	552
3. General Work Classification Codes .....	553
4. Administrative Work Classification Codes .....	565
5. Subject Matter Examiner Time Codes .....	571
6. Economic Development Specialist Work Classification Codes .....	572
7. Office of Consumer Financial Protection Work Classification Codes .....	573
<b>Enforcement Authorities for Credit Unions .....</b>	<b>574</b>
<b>Regional Office Map .....</b>	<b>576</b>
<b>Glossary .....</b>	<b>i</b>
<b>Index .....</b>	<b>xii</b>

# Chapter 1. Administrative Remedies

“Administrative remedies” refers to a broad range of actions that, while including formal actions such as published Letters of Understanding and Agreement and cease and desist orders, also includes informal actions such as Documents of Resolution, Regional Director letters, unpublished Letters of Understanding and Agreement, and Preliminary Warning Letters. These actions are available to prevent or eliminate serious operational and financial problems in credit unions. Administrative remedies provide protection to credit unions, credit union members, creditors, the share insurance fund, and the credit union industry. Administrative remedies are tools available to NCUA to affect problem resolution.

The NSPM provides an overview of administrative actions and establishes expectations, procedures, and controls for developing and processing specific informal and formal actions. This guidance, and the provided correspondence templates, are intended to improve efficiency and consistency in preparing administrative actions. The templates must be modified to make them suitable for the particular facts and circumstances of a given case. The details of the particular problems, as well as the expected timeframes and specific corrective action, should be clearly spelled out in the body of the agreement. The Office of General Counsel is available to assist in preparing, reviewing, and negotiating any formal administrative action should such assistance be desired and requested by the regional office.

Formal administrative action processes and guidance are referenced in NCUA Instruction 4820, [Enforcement Manual](#), and chapters 29 and 30 of the [Examiner's Guide](#).

For more information about administrative remedies, see Supervisory Letter 10-04, [Administrative Remedies](#), NCUA Instruction 4820, [Enforcement Manual](#); NCUA Instruction 4810, [Special Assistance Manual](#); and Chapters 29 and 30 of the [Examiner's Guide](#).

[NSPM content](#) last updated July 29, 2015

# **1. General Responsibilities Regarding Administrative Remedies**

## **A. E&I and the Office of General Counsel**

- Review administrative actions for concurrence when required under delegated authority
- Routinely request reports from the regions and may periodically request a sampling of issued administrative actions for quality control purposes as part of an ongoing quality assurance process
- Review regional activity as a means of tracking regional and national trends for resource, consistency, and policy formation purposes and will issue a semi-annual national summary of administrative actions
- Provide advice and guidance on the use and issuance of administrative actions

## **B. Regional Directors**

- Ensure any recommended administrative action is warranted and supported
- Confirm proper monitoring of administrative actions and sufficient progress of problem resolution
- Provide a process to track administrative actions and provide Control Reports as discussed in [BSA Control Reports](#)

## **C. Supervisors**

- Confirm examiners adequately recognize and address risk(s) and use the appropriate level of administrative action
- Follow the administrative action processes in this section of the NSPM, while ensuring proper analysis and documentation supports all administrative actions
- Monitor examiners' supervision plans and activities for compliance with appropriate resolution and national requirements
- Confirm compliance with agreed-upon corrective action and timeframes and review examiners' recommended alternative actions based upon the level of resolution

- Ensure documents drafted by examiners are professional and results oriented

## D. Field Staff

- Detect and formulate action plans to resolve credit union problems before they become insurmountable
- Address issues during examinations and supervision contacts and recommend elevated actions when appropriate
  - Certain administrative actions are expected on all CAMEL 4 and 5 credit unions. See Supervisory Letter 10-04, [Administrative Remedies](#), and the [Administrative Actions for Troubled Credit Unions](#) section of the NSPM for more information.
- Adhere to administrative action processes in this section and draft necessary documents
- Work with their supervisor to provide analysis and documentation that supports any recommended action
- Provide correspondence to credit unions that is accurate, easily understood, and results oriented with clearly established expectations and goals
- Monitor credit union compliance with agreed-upon corrective action and timeframes and recommend necessary alternative actions based upon the level of resolution

---

[NSPM content](#) last updated July 29, 2015

## 2. Types of Administrative Remedies

Administrative remedies fall into two different categories: [informal actions](#) and [formal actions](#) (enforcement actions).

---

[NSPM content](#) last updated July 29, 2015

### A. Informal Actions

The Regional Director must approve all informal actions with the exception of a Document of Resolution. Informal actions include the following:

- Document of Resolution (DOR)
- Regional director Letter (RDL)

- Letter of Understanding and Agreement (LUA) (non-published)
- Preliminary Warning Letter (PWL)

---

[NSPM content](#) last updated March 24, 2017

## B. Formal Actions

Formal actions, also known as enforcement actions, are taken when an event triggers a level of concern requiring immediate attention and/or informal actions have not resolved the core concerns to NCUA's satisfaction.

Unlike most informal actions, formal actions are authorized by statute (mandated in some cases), are generally more severe, and may be disclosed to the public. The Office of General Counsel must be consulted on all formal actions and they must be approved as outlined in the Delegations of Authority. When considering a formal action, consult OGC as early in the process as possible.

Formal actions include:

- Published LUA
- Immediate and/or permanent cease and desist order
- Civil money penalty
- Involuntary liquidation
- Conservatorship
- Removal and/or prohibition
- Termination of insurance and/or revocation of charter
- Some PCA-related actions, such as ordering a new election or dismissing a director or senior officer (see [the Prompt Corrective Action section of this manual](#) for more information about PCA)

---

[NSPM content](#) last updated July 29, 2015

## 3. Document of Resolution (DOR)

The AIRES DOR module enhances the administrative record as it improves the tracking and reporting of unresolved DOR items. Reports generated from this data summarize and track problem areas to highlight the resolution of outstanding problems. The [AIRES 2005 User's Manual](#) addresses the proper use of the DOR module. Examiners will make full use of the DOR module.

NCUA requires (by the lease agreements) State Supervisory Authorities (SSAs) who use NCUA issued laptops to use the AIRES program, and specifically the DOR module. During the course of WCC 26 reviews, NCUA examiners will add any problem codes (and associated corrective action) needed beyond those input by the SSA as directed in [in this manual](#).

---

[NSPM content](#) last updated July 29, 2015

## A. Field Staff Responsibilities

In order to ensure a full administrative record of problem areas, examiners will:

- Create DOR items and assign problem codes using the DOR module in AIRES
- Ensure DOR items are consistent between the DOR module and the DOR
- Require credit union management to submit a written action plan, within 30 days of receipt of the official examination report, if they do not agree to the DOR or adopt the DOR at the joint conference
  - If communication and negotiation efforts are unsuccessful and the DOR is not adopted, examiners will require management to provide an alternative resolution plan and note management's failure to adopt the DOR in the Confidential Section. Elevated administrative action will be used if management's action plan is insufficient to address the problem(s) and the problem(s) remain unresolved.

If the SSA did not enter problem codes in the DOR module but provided a DOR to the credit union, NCUA examiners are required to do so for items that meet NCUA's definition of a DOR.

---

[NSPM content](#) last updated July 29, 2015

## B. Extreme NEV Supervisory Test Results

The appropriate corrective action for extreme NEV Supervisory Test results depends on the source of the IRR exposure. (See NCUA Letter to Credit Unions 16-CU-08, [Revised Interest Rate Risk Supervision](#).) Elevated levels of IRR raise the degree of potential urgency that a credit union may need to act. Consequently, examiners should request, through their field supervisor, assistance from specialized resources such as the Regional Capital Market Specialists for credit unions with extreme NEV Supervisory Test results.

When using credit union-generated NEV information (verified by the examiner) for FCUs greater than \$100 million in assets<sup>1</sup> and the NEV Supervisory Test results are extreme, examiners must issue a [DOR](#) or other supervisory action to reduce the IRR exposure unless extenuating circumstances exist. The DOR will require credit union management to develop a plan to reduce the credit union's IRR exposure to a less than an extreme risk level as measured by the NEV Supervisory Test and submit the plan to the Regional Director within 45 days of the DOR issuance, as seen below.

- Exam process (60 days)
  - When NEV supervisory results are extreme, issue DOR for management to develop a plan to de-risk within 45 days
- Credit union develops de-risk plan (within 45 days)
  - Credit union management submits plan to de-risk within 45 days of DOR delivery.
- NCUA reviews de-risk plan (within 30 days of receipt)
  - If revisions are necessary, credit union resubmits updated plan within 30 days and NCUA responds to revisions within 30 days.
- Credit union de-risks in accordance with de-risk plan
  - On- or off-site supervision to evaluate DOR progress until management fully achieves DOR and reduces IRR exposure to plan levels.

Examiners will inform management during the DOR development process that an extreme IRR level represents undue risk ([§741.3\(d\)](#)). NCUA will provide credit unions the opportunity to reduce the IRR level. However, in the rare circumstances a credit union is unable or unwilling to de-risk, regions must follow a process that involves providing a recommendation to the NCUA Board to reclassify the credit union's net worth classification down a category based upon safety and soundness ([§702.102\(b\)](#)). In this rare situation, examiners will follow the [process for unresolved extreme IRR](#).

## ***1. Extenuating Circumstances***

Extenuating circumstances may exist that suggest a DOR may not be necessary when the IRR level is extreme. Typically, a low book equity position or material positions in long duration asset portfolios that have significant price sensitivity cause extreme NEV Supervisory Test results. In a situation that involves a credit union building its low net worth through an existing [NWRP](#) and not holding long duration assets, the post shock NEV ratio would likely be

extreme and the post shock NEV sensitivity likely low or moderate. A DOR would not be effective in this situation because the credit union is addressing its low net worth issue through the NWRP and the balance sheet's IRR exposure is limited at low or moderate sensitivity. For further information on IRR related DORs, see Tab F – Overall IRR Rating – Section III: Supervisory Actions in the [Guidance to IRR Workbook](#).

The timeframe to reduce IRR exposure depends upon the facts and circumstances of the credit union and the de-risking strategy, typically either active or passive strategies. (For more information, see [Mitigation Strategies](#) in the [Examiner's Guide](#).)

## C. Unresolved Extreme IRR

Extreme IRR is classified as unresolved if 45 days have elapsed since the DOR was issued and the credit union has not provided a plan to reduce the extreme IRR, or if credit union management refuses to accept the de-risking DOR (and a final report has been issued documenting the refusal).

NCUA regions are required to respond to a credit union's unwillingness or inability to de-risk. First, the NCUA region will inform the credit union of either:

- Inadequate progress towards developing a de-risking plan, or
- Inability or unwillingness to de-risk

The region will also recommend to the NCUA Board, through E&I, the reclassification of the credit union's net worth classification, based on safety and soundness concerns associated with the extreme IRR level ([§702.102](#)).

Next, there is a timing-based open notice and opportunity for hearing, as described in [§747.2003](#) of NCUA rules and regulations. If the NCUA Board determines, after the notice and opportunity for hearing, that the credit union is an unsafe or unsound condition or has not corrected a materially unsafe or unsound practice, it may reclassify the net worth classification of a "well capitalized" credit union down to "adequately capitalized," and require an "adequately capitalized" or "undercapitalized" credit union to comply with certain mandatory or discretionary supervisory actions as if it were in the next lower net worth category, based upon safety and soundness ([§702.102\(b\)](#)).

A credit union may request the NCUA Board rescind a reclassification. This is likely to occur when the credit union is no longer in an unsafe or unsound condition, or has corrected a materially unsafe or unsound practice.

For more information about [interest rate risk](#), see the NCUA [Examiner's Guide](#).

*NSPM content last updated July 31, 2018*

<sup>1</sup>The IRR examination scope prescribes the number of exam steps using total assets. Credit unions with total assets of \$100 million or less do not require the IRR Workbook, including the NEV Supervisory Test.

## D. Reviewing Outstanding DOR Items

Recurring or unresolved problems are continually identified as leading to credit union failures and losses to the share insurance fund. Examiners must ensure that items significant enough to be included in a DOR are resolved in a timely manner. The following conditions apply to all credit unions with recurring or unresolved DOR items, regardless of CAMEL rating:

- Ensure all prior examination DOR items are properly noted as resolved, unresolved, or no longer applicable, and appropriately documented within the DOR module.
- Ensure repeat problem areas are properly noted with accurate comments and accurate dates of identification. When the original identification date is used for repeat DOR items, examiners will ensure the corrective action is the same as the previous DOR (not necessarily the wording – but the type of corrective action).
- Examiners will document credit union officials' failure to adequately resolve problems by placing an asterisk beside the repeat DOR item and footnote it with the following statement: "This is either a repeat or carry-over DOR. Please see the DOR Status Update document for specific information on individual DOR items."
- When credit unions have recurring or unresolved DOR items, examiners must consider the quality of management and weigh management's failure to resolve problems in the management CAMEL component and overall composite ratings.
- If a credit union fails to take corrective action within the timeframe stated in the DOR, the credit union will be required to submit a written response to the examiner. This applies to all credit unions regardless of CAMEL rating. If the credit union fails to take the corrective action agreed to at the

last examination/supervision contact, examiners will document why management failed to take corrective action in the DOR module of AIRES (enter information in the "DOR Status and Comment" section). If additional documentation is needed beyond what is provided to the credit union in the DOR Status Report or other open sections of the report, the Confidential Section may be used.

- If the credit union fails to address outstanding DOR items, the examiner will recommend additional enforcement action, such as a Regional Director letter (RDL), Letter of Understanding and Agreement (LUA), or Preliminary Warning Letter (PWL). If the supervisor does not concur with additional enforcement action, examiners will document the rationale in the Confidential Section. Examiners will include the nature of the problem, agreements to correct the problem, their supervision plans, and the reason no additional enforcement action was pursued.

---

[NSPM content](#) last updated July 29, 2015

## E. DORs Not Adopted

Examiners will work with credit union management to develop corrective action plans. However, if officials do not adopt the DOR or a specific corrective action plan at the exit meeting or joint conference, examiners will document the officials' disagreement or inaction using the following footnote:

"These plans for action, although not approved by the credit union officials, are recommended to correct the area of concern. The officials have agreed to review the plans and to notify the Regional Director, National Credit Union Administration, (enter appropriate address), by (enter date), of the actions to be taken."

---

[NSPM content](#) last updated July 29, 2015

## F. Reporting Identification Date for Problem Codes

Examiners will input all problems meeting the criteria for a DOR item into the AIRES DOR module for problem code tracking purposes. The AIRES DOR module and corresponding problem codes are to track repeat problems and DOR corrective action items, not necessarily continued areas of concern.

Examiners will complete the problem code area in the AIRES DOR module, including the date the problem was first identified. The problem code and associated date will be specific to the problem and not just the problem area or risk factor. When completing the problem code areas in the AIRES DOR module,

examiners will list the effective date the specific problem was originally identified.

When a problem was identified in the past, but was resolved and remained resolved for a period of time (at least one to two contacts) examiners should not use the original date identified, but code it as a new problem. Examiners should ensure they are recording the corrective actions taken to resolve specific problems and not combine similar problems as an ongoing problem.

For example, a small credit union may have had internal control problems for ten years. NCUA needs to track whether the credit union is complying with the specific DOR corrective action plans issued at each exam. At the June 30 examination, the examiner issued a DOR corrective action plan to cross train employees and increase segregation of duties. When the examiner performs a follow-up examination effective 12/31, the examiner finds the credit union is in compliance with this corrective action plan and the examiner should show this DOR item as resolved. During the December 31 follow-up examination, the examiner issues a DOR corrective action plan for the supervisory committee to expand their review area. The date identified for this DOR item is December 31 since it is a new problem with a new corrective action plan. However, this does not mean that internal controls are not an ongoing problem in this case. Examiners should acknowledge this and expand the scope as necessary, draft the DOR to address the root cause of the problem, or reflect the ongoing risk in the risk and CAMEL ratings.

Credit unions that have a history of similar or the same problems, even if there are long gaps between them, may warrant expanded review of that area or a DOR to address the root cause of the problem. Recurring problems are an indication that the root problem needs to be addressed. For example, if an examiner writes a DOR to fund the Allowance for Loan and Lease Loss (ALLL) account and determines at a follow-up contact, the officials properly funded the ALLL account, this DOR should be marked as "resolved". If the examiner notes at the next examination or contact that the ALLL is again underfunded, the examiner should develop a new DOR, with a new identification date, that addresses the root cause of the underfunded ALLL (for example, inadequate methodology, no internal controls to ensure the expense is recorded, etc.).

When a credit union has partially complied with a DOR item, the examiner must determine if the remaining corrective actions should still be included in the DOR. If an examiner determines it does not need to remain in the DOR, the examiner will mark the DOR as resolved; otherwise, the examiner will mark the DOR item as unresolved and carry forward with the same date identified. If

the examiner wishes to re-write the DOR corrective action plan, they should mark it as resolved, noting in the comment section of the DOR module that only part of the DOR corrective action plan has been resolved, and then create a new DOR corrective action plan to address the remaining problems with the original date identified.

---

*[NSPM content](#)* last updated July 29, 2015

## G. Requiring a Credit Union to Cease an Activity

Examiners will use the following process when issuing a DOR that requires a credit union to cease or suspend an activity.

<b>Step</b>	<b>Notes</b>
1. Obtain and document SE approval or disapproval in the Confidential Section when issuing a DOR that requires the credit union to cease an activity.	Depending on the severity of the situation, escalated administrative action (Regional Director letter, LUA, C&D, etc.) may be necessary. <sup>1</sup>  Clearly outline the steps the credit union must take to resume the activity in the DOR.
2. Identify when you will perform a follow-up contact (on or off-site) to determine if the credit union has complied with the DOR item based on the timeframe for completion provided to the credit union.	Include this time in the "Plans and Budget" tab of the Scope module of AIRES.
3. Instruct the credit union to contact the Regional Director in writing when it has taken the steps outlined in the DOR item and wants to resume the activity (this is done through the exam-	The regional office will then notify the examiner and SE.

---

<sup>1</sup>For example, if a credit union has placed a large percentage of its assets in member business loans in a two-month period without adequate controls, policies, or procedures, a Cease and Desist order may be warranted in addition to a DOR.

Step	Notes
ination report).	
4. Perform a contact (on or off-site) within 120 days of being notified by the credit union that it is in compliance with the DOR to assess the credit union's compliance and determine whether the DOR can or should be lifted.	The ARD may approve exceptions to the 120-day follow-up requirement.
5. Complete an AIRES upload and issue a report to officials notifying them of whether they have met the requirements to resume the activity.	If the credit union has not adequately corrected the problem(s), outline the remaining steps the credit union must take to resume the activity.

This process does not prohibit the examiner from issuing DOR corrective action items to address the residual risk of the activity with timeframes for completion that correspond with the examiner's supervision plan.

---

[NSPM content](#) last updated July 29, 2015

## H. Marking DOR items as No Longer Applicable (NLA) in the DOR Module

There may be instances when an examiner will need to mark a DOR item as NLA rather than "Resolved" or "Unresolved". Examiners will not use NLA if the credit union has resolved the problem. Examiners must provide a comment when marking an item as "NLA".

An example of when it may be appropriate to use NLA: The DOR required the credit union to perform due diligence on a new indirect lending program. When the examiner returns, the credit union has discontinued the indirect lending program.

---

[NSPM content](#) last updated July 29, 2015

## I. Problem Resolution

If a problem has been ongoing for many years, examiners must use judgment to determine whether it meets the definition for a DOR. Examiners should take the appropriate action, which may include marking the DOR as no longer

applicable (NLA) because it has not caused harm to the financial or operational condition of the credit union, issuing a new corrective action plan that better addresses the root cause of the problem, moving the problem to the Examiner's Findings, or recommending escalated enforcement action.

If an examiner determines that a problem is particularly severe, he or she will notify their supervisor and consider drafting a Regional Director letter urging the credit union officials to accept the resolution offered in the DOR or to formulate an acceptable alternate plan that recognizes and resolves the problem(s). However, it may be necessary to recommend escalated administrative action if agreement cannot be reached and the overall risk to the credit union warrants such action.

Examiners should notify the Supervisory Examiner of suspected fraud or ethical concerns in order to develop an appropriate supervisory strategy.

## ***2. Documenting Disagreements***

Examiners should document all cases of disagreement and the intended steps to ensure proper resolution and follow-up of the problems identified in the Confidential Section of the examination report.

## ***3. Requesting a Response to a DOR***

Under certain circumstances, examiners are required to obtain written responses to a DOR from credit union officials. To fulfill this obligation, examiners may include an action item in the DOR requiring the credit union to provide a written response to the examination report by a specific date. Examiners may also address this request in any open section of the examination report as necessary. When including this action item in the DOR, examiners will utilize the Non-Risk (Housekeeping) option under the risk areas in the DOR module.

## ***4. Following up on DOR Items***

Generally, examiners should follow-up on DOR items within 120 days after the timeframe for completion has passed. In the case of CAMEL 3, 4, and 5 credit unions, the current follow-up supervision requirements outlined in the [District Management](#) section of the NSPM will allow for adequate follow-up on DORs.

In CAMEL 1 and 2 credit unions with a DOR, examiners should evaluate whether a CAMEL 1 or 2 rating is warranted. If it is, examiners can set the

timeframe for completion to coincide with the next scheduled contact or examination. If the DOR is so time-sensitive that it needs to be completed sooner than before the next scheduled contact or examination, examiners will follow-up within 120 days of the timeframe for completion.

Examiners need to follow-up on outstanding DOR items through both on and off-site supervision. Examiners must follow national policy outlined in this manual (see the [FCU Program and Procedures](#) and [FISCU Program and Procedures](#) sections of the NSPM) for completing on and off-site supervision.

Examiners should track DOR timeframes for completion and follow-up with credit union management via phone call or e-mail to discuss the status of DOR items as part of off-site supervision. For DORs that can be confirmed off-site, examiners should mark them as "resolved" or "unresolved" in the DOR module accordingly and upload the AIRES file.

For other items that need to be reviewed on-site, examiners should determine their status and update the DOR module at the next scheduled on-site contact. For simplicity, examiners may consider using the next scheduled contact date to determine the time-frame for completion.

When on-site for a follow-up contact or at the following examination, examiners should include review of the prior DOR in the examination scope. If unresolved DOR items are identified, examiners should first identify why the item is unresolved to properly address and resolve the recurring problem. The reason a DOR item remains unresolved will determine the subsequent steps necessary.

The first step is to identify why credit union management did not resolve the problem. Consider the following:

- Did management make a good faith effort and comply with a majority of the corrective action plan?
- Did the corrective action plan prove to be unachievable or unreasonable?
- Did management resolve the root problem in a different manner than was agreed upon in the DOR?
- Did management comply with the corrective action plan, but the action did not resolve the problem?
- Did management ignore the corrective action plan?

There may be additional reasons the credit union did not comply with a corrective action plan. Examiners should consider these reasons when determining the best way to address unresolved problems. For example, if management willfully neglects to address the problem the examiner should consider how management's inaction affects the credit union's CAMEL and risk ratings and whether escalated administrative action is necessary.

In instances where management completed a majority of the corrective action plan, the original DOR item was unachievable, or management complied with the corrective action plan but it did not solve the problem, examiners should develop a new corrective action plan to resolve the problem. Examiners should use judgment to determine whether it is a repeat DOR item or if the original DOR item is "NLA".

In instances where management made a good faith effort or has completed a majority of the elements of a corrective action plan, a repeat DOR may not be warranted if the remaining items can be corrected in the normal course of business. Examiners should use the DOR definition outlined above to determine whether a problem should remain a DOR. Examiners must mark DOR items resolved when a credit union has implemented the corrective action, even if the financial trends do not yet reflect the improvements the actions were intended to correct.

For example, a credit union has a high operating expense to average asset ratio and negative earnings. The DOR corrective action plan requires the credit union to reduce operating expenses. When the examiner follows-up, they note the credit union has made adequate expense cuts; however, the operating expense to average asset ratio remains high and will not reflect the full impact of the expense cuts for two more quarters. In this case, the examiner should mark the DOR as resolved. The examiner has multiple options to address the ongoing risk including, but not limited to:

- Documenting the credit union's compliance with the DOR in the DOR Status Report and note management should continue to monitor the operating expense to average asset ratio until the financial ratios reach the agreed upon goal.
- Documenting the credit union's compliance with the DOR in the Examination Overview and noting management should continue to monitor the operating expense to average asset ratio until the financial ratios reach the agreed upon goal. Create a new DOR for the credit union to achieve the agreed upon ratio goal (e.g., "achieve an operating expense to aver-

age asset ratio of X.XX%") with timeframe for resolution in two quarters to provide the financial ratios time to reflect the operating expense cuts.

For DOR corrective action items that will take more than one year to reflect full compliance, examiners should consider issuing individual DORs to achieve quarterly goals, with the applicable timeframe for completion. Examiners should work with credit union management to develop reasonable goals to include in the DOR.

---

[NSPM content](#) last updated January 22, 2018

## J. Quality Control

E&I will periodically review reports and sample examinations to ensure compliance. E&I will notify the regions of any long-standing problems and DOR items. Regions are responsible for following up with field staff.

---

[NSPM content](#) last updated July 29, 2015

## 4. Regional Director Letter

A Regional Director letter is used when a credit union has serious and/or persistent problem areas that are not being resolved through field supervision alone. Examiners will ensure they fully address the issues through the examination process first, but a letter from the Regional Director is an option to further emphasize the areas of concern.

- [Sample Regional Director letter](#)

---

[NSPM content](#) last updated July 29, 2015

## A. Field Staff Responsibilities

- Discuss the recommendation for a Regional Director letter with the supervisor
- Document the need for the Regional Director letter in the Confidential Section
- Address the primary areas of concern, corrective actions, expectations, and required response(s)
- Be direct, concise, and clear; as a general guideline, Regional Director letters should not be longer than two pages

- Write from the perspective of the Regional Director and with the appropriate official audience in mind
- Direct the credit union's board of directors to respond in writing to the Regional Director, with a copy to the examiner. Examiners are responsible for all follow up to ensure the credit union's response is timely and appropriate.
- Indicate the recommendation of a Regional Director letter in the Examiner's Comments section on the Completion Information tab of the Examination Management Console (EMC) in AIRES
- Email the draft Regional Director letter to the supervisor for review and approval within three business days of the contact completion date. The supervisor will review the report to ensure the letter is appropriate and fully supported. The supervisor will then forward it to their region's DOS mailbox within seven business days from the contact completion date.
- If the examiner does not include the required notification for downgrades/upgrades to a CAMEL 3, 4, or 5 in an exam report (as discussed [in the NSPM](#)), the examiner will process a Regional Director letter through the supervisor (and then follow normal processing through the regional office) to provide the credit union with the notification. This would only occur under a rare circumstance with justification documented in the Confidential Section.
  - Use the [Acknowledge LUA and CAMEL Downgrade](#) template
  - If NCUA did not participate and the SSA has upgraded to a CAMEL 3 or better, but notice of removal of troubled condition cannot be verified, use the [Upgrade FISCU from Troubled Condition Status](#) template.
  - If NCUA did not participate but cannot confirm notice was given to a FISCU, use the [Notify FISCU of Troubled Condition](#) template; this letter is used on an exception basis.

---

[NSPM content](#) last updated July 29, 2015

## B. Division of Supervision Review

- Division of Supervision will review all draft Regional Director letters and prepare them for the Regional Director's signature.

- DOS may make minor modifications to these letters, but if it becomes necessary to make major changes to the content (for example, deleting whole paragraphs, adding new or relevant information, changing the original intended message), DOS will contact the supervisor for concurrence with the changes or will return the draft directly to the supervisor for revision.
- DOS will mail (via expedited mail delivery service) the Regional Director letter to the board chairperson using the credit union's address or board chairperson's home address (and copy the CEO as appropriate).
  - In special cases, DOS may mail the Regional Director letter to each board member's home or the supervisor may determine if delivering the letter in person is appropriate.
- If the Regional Director or DOS decides not to issue a Regional Director letter, DOS will discuss the decision with the field supervisor, who will then discuss it with the examiner.

---

*[NSPM content](#) last updated July 29, 2015*

## 5. Letter of Understanding and Agreement

A letter of understanding and agreement (LUA) lists a credit union's specific material problems and the corrective actions necessary to resolve them. It demonstrates to the officials the problems are a major concern to NCUA and formally requests that officials agree to the listed actions in lieu of NCUA taking formal administrative action (assuming it is an [unpublished LUA](#); a published LUA is a formal administrative action). The LUA will identify the areas of concern and the necessary corrective actions. Examiners will ensure LUA directives and timeframes are clear, specific, measurable, and easily understandable. No LUA will have a specific termination date unless the LUA is drafted in conjunction with a newly chartered credit union and not as a result of significant problems.

An examiner's recommendation to issue an LUA typically needs to be based on an examination, follow-up examination, or onsite supervision contact supported by an AIRES upload. Examiners will meet with key staff, officials of the credit union, and the SSA (in the case of joint contacts) during the examination or follow-up examination to develop an LUA.

The examination or supervision report must support all problems or conditions listed in the LUA. Supervisory Letter 10-04, [Administrative Remedies](#), is a

resource for examiners to refer to when preparing LUAs and other administrative actions. A [template for unpublished LUAs](#) is provided as a resource to this section of the NSPM. For a published LUA template, refer to NCUA Instruction 4820, [Enforcement Manual](#). OGC is available to assist in preparing, reviewing, and negotiating any LUA should such assistance be desired and requested by the regional office.

## A. Published LUA

A published LUA is an enforceable document and a formal administrative action. The Regional Director will determine which LUAs will be published based on the supervisor and examiner's recommendation. OGC and E&I concurrence is required for all published LUAs. A published LUA must clearly state that the LUA will be published.

Refer to NCUA Instruction 4820, [Enforcement Manual](#), for more information on published LUAs. [Recently published LUAs](#) can be found on NCUA's website.

## B. Non-Published LUA

A non-published LUA is more difficult to enforce than a published LUA. NCUA would have to show that any violations of the unresolved items in the LUA were themselves unsafe or unsound practices or violations of statute or regulation. A non-published LUA must clearly state that the LUA will not be published.

---

[NSPM content](#) last updated July 29, 2015

## C. Field Staff Responsibilities

- Examiners will provide adequate supervision to the credit union before recommending issuance of an LUA. The LUA will not contain new information management has not received in the examination or supervision report.
- Examiners will draft an LUA for all CAMEL 4 credit unions unless they have proposed or issued another type of administrative action, or they obtain ARD concurrence for not developing an LUA. Examiners will document their recommendation for not issuing an LUA in the Confidential Section.
- Examiners will draft an LUA for a single condition or emergence of a severe condition in a CAMEL 3 credit union if it can prevent the credit union from becoming a CAMEL 4 or 5.

- Examiners will document supervisor approval with the LUA in the Confidential Section as required in [the NSPM](#).

---

[NSPM content](#) last updated July 29, 2015

## D. Additional Considerations for FISCUs

In the case of a FISCU insurance review, examiners will invite the SSA to help draft the LUA, participate in meeting with key officials, and attend the joint conference. Likewise, examiners will allow the SSA five business days to review and approve the final draft before submitting the LUA to the officials.

LUAs initiated and issued by the SSA often include a Regional Director signature line. If an SSA is issuing an LUA and requesting a Regional Director signature, field staff will still be involved in the development of the LUA and a DOS quality control review will still occur. The NCUA examiner-in-charge will work with the SSA examiner-in-charge to develop the content, and the supervisor and DOS will review as expediently as possible. The SSA director signs the document first and then sends the three copies to the Regional Director for signature and two are returned to the SSA for issuance and their file.

---

[NSPM content](#) last updated July 29, 2015

## E. Adding to or Modifying an Existing LUA

Examiners will develop an [LUA addendum](#) in select cases due to unforeseen circumstances requiring a modification to the original LUA. Unforeseen circumstances may include strikes, natural disasters, etc.

- Examiners will follow normal LUA processing procedures when developing addendums.
- DOS will consult the OGC when examiners prepare an addendum to a published LUA.

Examiners will prepare a revised LUA, versus an addendum, in situations when new problems emerge or the original LUA or timeframes are no longer appropriate. There will be a supervision contact report that supports the need for the revised LUA. Revised LUAs will incorporate, in the first paragraph, language indicating the current LUA replaces and cancels the previously issued LUA.

---

[NSPM content](#) last updated July 29, 2015

## F. Issuing an LUA

Examiners will ensure all significant concerns and corrective actions outlined in an LUA are documented in the DOR module. The LUA will address the most significant concerns identified in the DOR; it will not necessarily be an exact duplicate. However, an item in an LUA [must be recorded in the DOR module and flow through the DOR](#) either at a prior contact or at the same contact during which the LUA is issued.

LUAs may either be issued/signed at the joint conference, or at a subsequent meeting specifically for the LUA signing after the joint conference and close of the examination. If an examiner opts to leave the exam open to issue the LUA at the joint conference, requesting a waiver of the 60-day completion requirement (up to 90 days) for processing an LUA is justifiable.

- Examiners will obtain supervisor concurrence and document agreement in the Confidential Section as required [by the NSPM](#).
- Examiners must discuss the intent and the preliminary content of the LUA during the preliminary meeting with management in advance of signing the LUA. Examiners and their supervisor will notify management the issuance of an LUA is subject to review by the Regional Director.
- Examiners will draft an LUA and email it to their supervisor no later than three business days after completing the contact.
- Supervisors will review the LUA and make a recommendation to either issue the LUA or not. The supervisor will notify the appropriate associate regional director of all LUAs to be issued regardless of asset size of the credit union.
- Supervisors will forward the draft LUA to the region's DOS mailbox for processing and Regional Director approval within seven business days from receiving the draft LUA from the examiner.
- DOS will discuss all material changes to the LUA with the field supervisor. DOS will return the final approved version of the LUA to the supervisor by e-mail, or by other means as appropriate, for delivery to the credit union. DOS will work with the supervisor and examiner to review the draft LUA in a mutually agreeable timeframe.
- Examiners will send an electronic copy of the final approved LUA to the officials, via ZixMail, before the signing meeting. Examiners will allow officials a minimum of two business days to review the LUA before they sign

it. Examiners will print at least two copies of the final approved LUA and present it to the officials in the [manner described in the NSPM](#). If a quorum of directors signs the LUA, it is considered to be accepted by the board.

DOS and the credit union receive the original signed copies of the LUA. The supervisor and the examiner will receive a scanned electronic copy (from DOS) for their records. In the case of a FISCU, the regional office will decide if a third original copy is necessary.

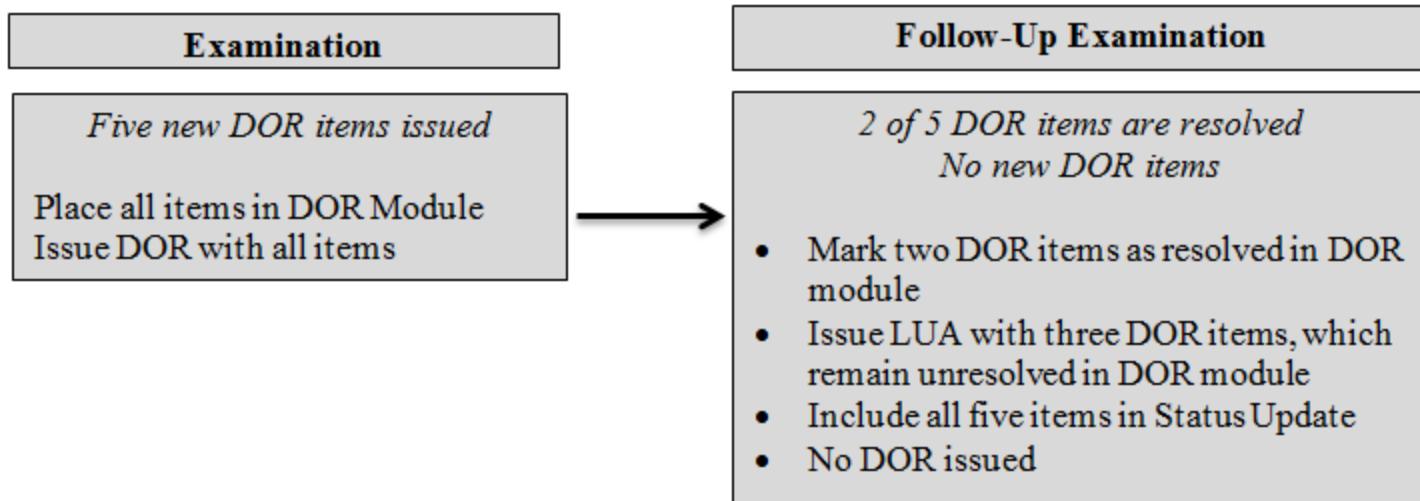
[NSPM content](#) last updated July 29, 2015

## **1. Problem Code Illustration**

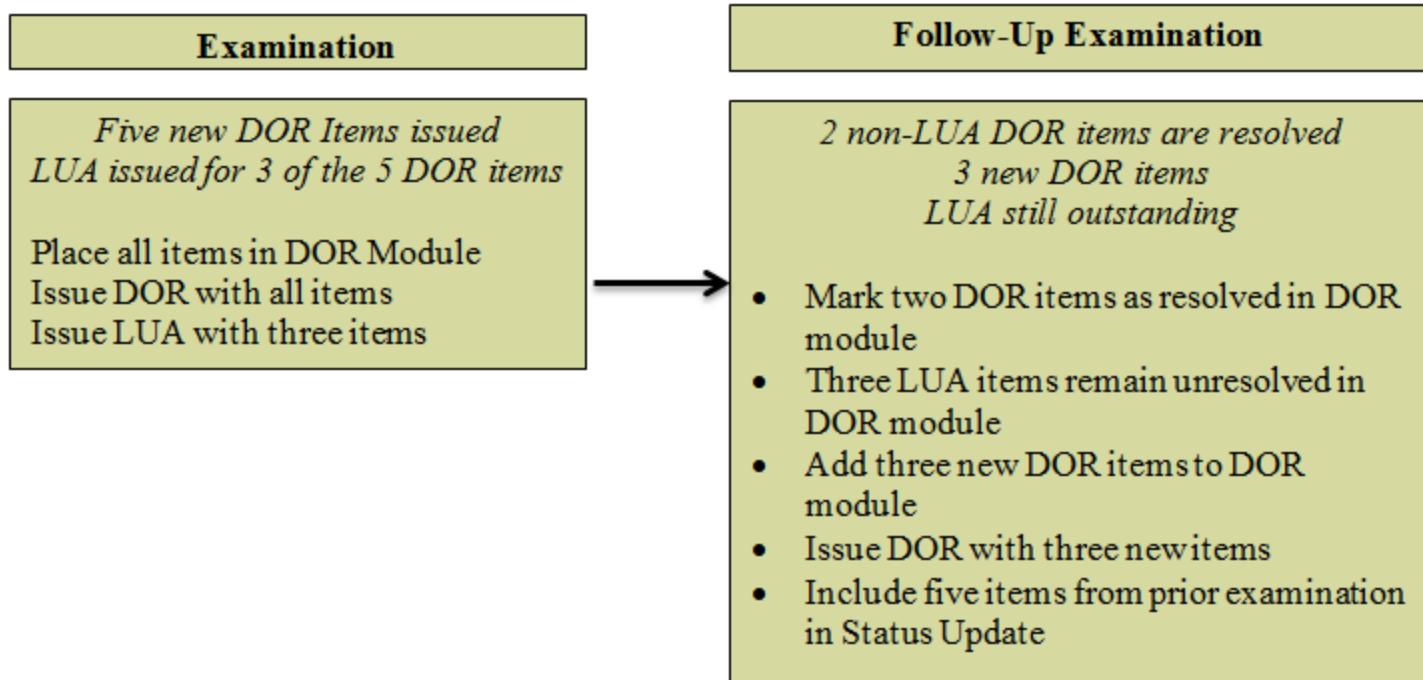
An item in an LUA must be recorded in the DOR module and flow through the DOR either at a prior contact or at the same contact the LUA is issued. The problem code in the DOR module should remain unresolved until the problem is resolved, regardless of whether the problem is outlined in the DOR or LUA.

The scenarios below outline the flow of items through the DOR module, DOR, and LUA.

### **Scenario A**



### **Scenario B**



[NSPM content](#) last updated July 29, 2015

## G. Delivering an LUA

- Examiners and the supervisor will deliver an LUA to the credit union at a meeting of the board of directors. The supervisor will give the associate regional director advance notice of when the LUA will be delivered and the supervisor will attend all joint conferences where the examiner presents an LUA to officials. For federally-chartered credit unions, examiners will document the supervisor's attendance in the Confidential Section of the examination report. For state-chartered credit unions, examiners will document the supervisor's attendance in the WCC 26 Review or memo summarizing the results of the joint examination.
- Examiners will arrange for delivery of an LUA as soon as possible, but within 14 business days after receipt of the final approved version.
- Examiners will conduct the meeting and explain the LUA.
- If the officials refuse to sign an LUA, examiners will prepare a report documenting the refusal and recommend a course of action, such as a [Pre-liminary Warning Letter](#).
- After meeting with officials, examiners will collect all signed LUAs to submit them to the regional office for the Regional Director's signature.

[NSPM content](#) last updated July 29, 2015

## H. Delivering a Final, Signed LUA

- Within three business days following the LUA meeting, examiners, through their supervisor, will send the original signed LUA copies (minimum of two) to DOS for the Regional Director to sign.
- After the Regional Director signs the LUA, DOS will mail one of the original signed LUA copies to the credit union with the [Regional Director cover letter](#). DOS will maintain the other original signed LUA copy in the regional office's charter file and an electronic copy (scanned copy with signature) on the DOS drive.
- DOS will scan and email electronic copies of the signed LUA to the examiner and their supervisor. In the case of a jointly issued LUA, DOS will mail a copy of the signed LUA to the SSA (or an original third signed copy if the regional office preferred the examiner to obtain a third signed copy).
- In the situation where an LUA is issued and the credit union was downgraded to a CAMEL 4 or 5, a [Regional Director letter acknowledging the LUA and downgrade](#) may be appropriate. The Regional Director letter acknowledges the LUA, includes a brief synopsis of the problems, and notes the requirements of [NCUA rules and regulations §701.14](#) regarding the selection of officials and senior management for troubled credit unions.

---

[NSPM content](#) last updated July 29, 2015

## I. Supervision Contacts for a Credit Union with an LUA

Frequency of examinations, follow-up examinations, and onsite supervision contacts is driven by a credit union's CAMEL ratings and overall risk to the share insurance fund. Examiners will consider any outstanding administrative actions when planning supervision and assigning the CAMEL ratings. If examiners encounter a credit union with an outstanding administrative action (and associated risk), and the risk is not reflected in the CAMEL ratings (which drive the frequency of supervision), they will discuss with their supervisor and plan supervision accordingly.

Unless there are extenuating circumstances, and approved by the associate regional director, supervision of credit unions with outstanding administrative actions will be in line with national policy for CAMEL 3, 4, or 5 credit unions.

During the time in which an LUA is in place, examiners will:

- Prepare and distribute the examination or supervision contacts reports in the same manner as other examinations and supervision contacts
- Document compliance with the LUA in the Status Update during each contact. The status of each item will be listed as completed, not completed, or partially completed. Include comments to support completion status
- Document recommendations for future action such as continue, modify, terminate the LUA, or proceed with elevated or formal administrative action
- Recommend removal of the LUA during a follow-up examination or regular examination, if the officials have corrected the problem areas (The examiner will prepare a draft letter for the Regional Director's signature explaining why they recommend removal of the LUA.)
- Recommend elevated administrative action if the officials have not corrected the problem areas within the timeframes outlined in the LUA
  - This could be formal action such as a published LUA, Cease and Desist order, civil money penalty, involuntary liquidation, etc. Refer to NCUA Instruction 4820, [\*Enforcement Manual\*](#), for processing procedures of formal administrative actions.
- Document the existence of an LUA in AIRES in the Exam Management Console ("Administrative Tracking" section of the "Completion Information" tab)

---

[\*NSPM content\*](#) last updated July 29, 2015

## J. Terminating an LUA

When a credit union meets the specific performance standards outlined in an LUA, examiners will recommend to the Regional Director to terminate the LUA. Examiners will not report orally or in writing to the credit union that the LUA is terminated prior to Regional Director approval. Examiners may recommend the termination of an LUA only after an examination or onsite contact supported by adequate work papers showing the credit union has corrected the problems cited in the LUA.

When conditions warrant the termination of an LUA, the examiner will prepare a draft [LUA removal letter](#) to the credit union explaining why the Regional Director is removing the LUA and forward the letter to the supervisor with an explanation in the email supporting their recommendation to terminate the LUA. After review, the supervisor will forward the draft letter to DOS Mail. DOS

will review and process the letter to the credit union for Regional Director signature. NCUA will consult with the SSA for termination of joint LUAs.

---

*[NSPM content](#) last updated July 29, 2015*

## K. Problem Resolution

If a credit union fails to comply with an LUA, examiners should discuss the need for additional enforcement action with the SE. At a minimum, the CAMEL and risk ratings need to reflect management's failure to comply with an LUA.

---

*[NSPM content](#) last updated January 22, 2018*

## 6. Preliminary Warning Letter

Examiners will draft a preliminary warning letter (PWL) when a credit union's problems are serious and/or persistent and a credit union's board is unwilling to sign an LUA. A PWL will support formal administrative action such as a published LUA or C&D order.

A PWL is a warning of potential formal administrative action if corrective action is not taken. If formal administrative action is taken, then the PWL is automatically removed and all action items in it will be incorporated into the formal administrative action. There may be rare instances where both a PWL and a formal administrative action are necessary to address separate supervisory concerns.

Examiners will only recommend to their supervisor to issue a PWL as a result of a regular examination, follow-up examination, or onsite supervision contact supported by an AIRES upload. [Sample PWLs](#) and a [BSA-specific PWL](#) are provided as resources for this section of the NSPM.

---

*[NSPM content](#) last updated July 29, 2015*

## A. Division of Supervision Review

- Review PWLs for appropriateness and process for Regional Director approval
- Discuss all material changes with the supervisor

## B. Field Staff Responsibilities

- Obtain supervisor and ARD concurrence for a PWL before preparing a letter
- Document supervisor concurrence on a PWL in the Confidential Section as required [by the NSPM](#)
- E-mail draft PWL to the supervisor for review and approval within three business days of the examination/supervision completion date
  - The supervisor will review the report to ensure the PWL is appropriate and supported and then forward it to their region's DOS mailbox within seven business days from the examination/supervision completion date.

---

[NSPM content](#) last updated July 29, 2015

## C. Content of a Preliminary Warning Letter

PWL are written from the perspective of the Regional Director, and include:

- A statement of impending administrative action by NCUA
- The following wording where the primary problem area is poor management: "Your credit union is operating in an unsafe and unsound manner for which substantial, immediate, and corrective action must be taken. It is the board of directors' responsibility, as the body providing general direction and control for the credit union, to take necessary corrective actions."
- A list of the serious area(s) of concern and cite of the [Federal Credit Union Act](#) or regulation violated
- The required actions and timeframes for resolving the area(s) of concern
- Direct, concise, and clear language

---

[NSPM content](#) last updated July 29, 2015

## D. Delivering a Preliminary Warning Letter

The supervisor will determine whether to hand deliver or mail a PWL based upon the severity of the issues.

For hand delivered PWLs:

- The supervisor will notify DOS of the planned meeting date so the letter is dated accordingly (approximately two to three weeks from the date field staff submits the draft letter to DOS).
- Once the letter is approved and signed by the Regional Director, DOS will mail one original copy of the letter directly to the supervisor for hand delivery and provide scanned copies to the examiner and supervisor for record-keeping.
- The examiner and the supervisor will deliver the PWL onsite to discuss the contents of the letter (usually at a formal meeting with the credit union's board of directors).
  - Following the meeting, the examiner will distribute the original, signed copy of the PWL to the credit union officials.
- The examiner and supervisor maintain scanned copies of the signed PWL.

For mailed PWLs:

- DOS will mail the letter (via expedited mail delivery service) to the board chairperson using the credit union's address or board chairperson's home address with signature confirmation, and copy the CEO as appropriate. In special cases, DOS may mail the PWL to each board member's home.
- DOS will provide scanned copies to the examiner and supervisor for their records.
- The examiner and supervisor will maintain scanned copies of the signed PWL.

---

[NSPM content](#) last updated July 29, 2015

## E. Supervision Contacts for a Credit Union with a Preliminary Warning Letter

As described in the [LUA section of the NSPM](#), the frequency of examinations, follow-up examinations, and onsite supervision contacts is driven by a credit union's CAMEL ratings and overall risk to the share insurance fund. Examiners will consider any outstanding administrative action when planning supervision assigning the CAMEL ratings. If an examiner encounters a credit union with an outstanding administrative action (and associated risk) and the risk is not reflected in the CAMEL rating (which drives the frequency of supervision), they will discuss with their supervisor and plan their supervision accordingly.

Unless there are extenuating circumstances, and approved by the associate regional director, supervision of credit unions with outstanding administrative actions will be in line with national policy for CAMEL 3, 4, and 5 credit unions (perform a follow-up examination at least every 120 or 180 days (from completion date to completion date)). Examiners will:

- Prepare and distribute the examination or supervision contact reports in the same manner as other examinations and supervision contacts.
- Document compliance with the PWL in the Status Update during each contact. The status of each item will be listed as completed, not completed, or partially completed. Include comments to support completion status.
- Document recommendations for future action such as continue, modify, terminate the PWL, or proceed with elevated or formal administrative action. Refrain from recommending the PWL be reissued, rewritten, or allowed to remain outstanding for long periods (usually no longer than 12 months).
- Recommend removal of the PWL when it is confirmed during a follow-up examination or regular examination the officials have corrected the problem areas. The examiner will prepare a draft letter for the Regional Director's signature explaining why they recommend removal of the PWL.
- Recommend escalated administrative action if the credit union has not corrected the problem areas within the timeframes outlined in the PWL. Escalated administrative action may include a published LUA, Cease and Desist order, civil money penalty, involuntary liquidation, etc. Refer to NCUA Instruction 4820, [Enforcement Manual](#), for processing procedures for civil money penalties, involuntary liquidations, conservatorships, etc.
- Document the existence of a PWL within AIRES under "Other Administrative Action" (within the "Administrative Tracking" section located on the "Completion Information" tab of the Exam Management Console).

---

[NSPM content](#) last updated July 29, 2015

## F. Terminating a Preliminary Warning Letter

When a credit union meets the specific performance standards outlined in a PWL, examiners will recommend termination of the PWL. Examiners will recommend the termination of a PWL only after they complete an examination or onsite contact supported by adequate work papers showing the credit union has corrected the problems cited in the PWL.

When conditions warrant the termination of a PWL, the examiner will prepare a draft [PWL removal letter](#) to the credit union explaining why the Regional Director is removing the PWL. The examiner will forward the draft letter to the supervisor with an explanation in the email supporting their recommendation to terminate the PWL. After review, the supervisor will forward the draft letter to DOS Mail for review and processing for Regional Director signature.

---

[NSPM content](#) last updated July 29, 2015

## 7. Civil Money Penalty

NCUA's authority to impose civil money penalties against federally insured credit unions that do not meet the quarterly Call Report filing deadlines is granted under Section 202 of the [Federal Credit Union Act](#) (12 U.S.C. §1782). NCUA coordinates with state supervisory authorities to assess civil money penalties against federally insured state-chartered credit unions, and, as a matter of courtesy and fairness, takes any late-filing fees assessed by the state into account when assessing a civil money penalty.

NCUA announced that all credit unions must file Call Reports electronically in Letter to Credit Unions 13-CU-11, [Electronic Filing of Call Reports and Extended Filing Dates for 2014](#).

---

[NSPM content](#) last updated January 27, 2016

### A. E&I Responsibilities

- Identify credit unions that miss a Call Report deadline
- Provide a list of credit unions that miss a Call Report filing deadline to regional offices and state supervisory authorities (generally within two weeks of the regulatory deadline) requesting:
  - Comments for information about any known issues related to the late filing
  - Recommendations on assessing a civil money penalty
  - Information about any SSA fines being assessed, including amount (s) (SSA only)
- Notify credit unions that miss a Call Report filing deadline and process correspondence, including signed stipulations and consents for penalties, as well as orders of assessments

- Adjudicate uncontested civil money penalties for Call Report late filers (director only)
- Decide on requests from credit unions for reduced or waived penalties
- With OGC assistance, initiate proceedings before an administrative law judge for cases that cannot be resolved by consent (director only)
- Send received civil money penalty payments to the Department of the Treasury for deposit

Only the E&I director can make a final decision to waive or reduce a Call Report civil money penalty.

## B. Region Division of Supervision Director Responsibilities

- Respond to E&I requests for comments on any known issues related to the late filing of a Call Report in the timeframe provided (generally, two weeks)

## C. Regional Director (can delegate to ARD)

- Authorize field staff to file an estimated Call Report if they determine that a credit union's Call Report will be delayed more than 14 days beyond the regulatory limit established by NCUA
  - The Regional Director must notify E&I when exercising this authority.

## D. Field Staff Responsibilities

- Notify the regional office of any known issues or pertinent history when they receive notification that a credit union has missed the 5300 Call Report deadline
- If authorized in advance by a Regional Director, ARDO, or ARDP, file an estimated 5300 Call Report on behalf of a credit union
  - Staff must follow any directions provided by E&I for filing an estimated Call Report.

Field staff cannot extend the regulatory Call Report filing deadline for any reason.

## E. Civil Money Penalty Waiver

The Director of the Office of Examination and Insurance has the delegated authority to reduce or waive a civil money penalty issued due to late filing of a 5300 Call Report. NCUA may elect not to assess a penalty if a credit union files late due to extenuating circumstances such as those listed below.

- "Acts of God" such as:
  - A natural disaster or weather event that impairs a credit union's operation
  - A power failure, internet failure, or failure of a credit union's core-processing system immediately prior to or at the filing deadline
  - The death or physical/emotional incapacitation of a key employee (only acceptable if a credit union is too small to have back-up personnel)
  - Turnover of a key position just prior to the deadline (only acceptable if a credit union is too small to have back-up personnel)
- Robbery of a credit union that impairs the credit union's ability to file on time
- A [CU Online](#) filing problem unique to a credit union, not including an error or warning that a filer does not know how to clear or answer (must be supported by a help desk ticket time/date stamped near, but prior to, the filing deadline)
- Credit union, SSA, or NCUA accidentally "unsubmit" a Call Report after successfully submitting it prior to the deadline
- Merger with another credit union
- Liquidation or conservatorship

---

[\*NSPM content\*](#) last updated January 27, 2016

## 8. Status Update

Field staff will use the Status Update template to document a credit union's compliance with outstanding administrative actions (LUA, PWL, etc.) and net worth restoration plans. For each document, field staff should provide a separate Status Update. For example, if a credit union has an outstanding LUA and NWRP, field staff will create two Status Update templates, one for each of the outstanding documents.

At a minimum, field staff will include each outstanding corrective action or goal and the most current status of each in the Status Update.

When upgrading a credit union from a CAMEL 4 or 5, or removing an LUA, field staff must complete the status report.

*[NSPM content](#) last updated January 22, 2018*

## 9. Initiating a Formal Administrative Action

Before deciding to take formal administrative action, an examiner and their supervisor must clearly understand the nature of the credit union's problems and why any previous attempts to resolve the problems failed. Examiners are responsible for ensuring the administrative record presents a complete, factual, and fully documented history of the credit union's problems and the examiner's concerns about the credit union. Examiners will recommend formal administrative action after consulting with their supervisor. Prior to proceeding, the supervisor will discuss the action with the associate regional director, who will receive concurrence from the Regional Director. It is critical that the field and region initiate communication early on in cases where formal administrative action is recommended.

Refer to NCUA Instruction 4820, [Enforcement Manual](#), for more information about processing formal administrative actions.

*[NSPM content](#) last updated July 29, 2015*

## 10. Special Assistance Cases

Various types of special assistance are available to help resolve serious credit union problems. Refer to the [Examiner's Guide](#) and to NCUA Instruction 4820, [Enforcement Manual](#), for guidance on special assistance available.

*[NSPM content](#) last updated July 29, 2015*

## 11. Control Reports

Control reports serve as a mechanism to ensure the agency has a robust examination program that is properly resourced and monitored for adherence to national examination and quality standards.

## A. E&I Control Reports

E&I will routinely request reports from the regions and may periodically request a sampling of issued administrative actions for quality control purposes as part of an ongoing quality assurance process.

E&I will review regional activity as a means of tracking regional and national trends for resource, consistency, and policy formation purposes and will issue a semi-annual national summary of administrative actions.

## B. Regional Control Reports

The region is responsible for maintaining record of all informal and formal administrative actions including, but not limited to, Regional Director letters issued, LUAs and PWLs. The report will include administrative actions newly issued, currently outstanding (with the exception of Regional Director letters), and those canceled (when applicable) since the last report. The region will periodically evaluate the trends, appropriateness and effectiveness of administrative actions.<sup>1</sup>

Regions are only responsible for reporting Regional Director letters associated with an examination or supervision contact report and part of the administrative record.

*[NSPM content](#) last updated July 29, 2015*

## 12. Templates

- Regional Director Letter Sample

### A. Troubled Condition Status

- Notify FISCU of Troubled Condition
- Upgrade FISCU from Troubled Condition Status

---

<sup>1</sup>Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions will ensure their current systems capture the requested information.

## **B. Letter of Understanding and Agreement**

- Acknowledge LUA and CAMEL Downgrade
- LUA Addendum
- LUA Cover Letter
- Non-published LUA
- Remove LUA

## **C. Preliminary Warning Letter**

- PWL Sample
- BSA-Specific PWL
- PWL Removal Samples

---

*[NSPM content](#) last updated July 29, 2015*

# Sample: Regional Director Letter

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed the [effective date] [credit union name] examination report prepared by examiner [examiner's name]. The examination disclosed serious weaknesses in your credit union's internal controls, asset liability management, and risk based lending processes. As a result, your credit union received a CAMEL "3" rating. If you fail to take immediate corrective action, your credit union's financial condition may deteriorate. The examination report addresses the following areas, which are of particular concern to us:

## **Internal Control Weaknesses**

Significant internal control deficiencies exist, such as the lack of Supervisory Committee interim internal audit review functions and lack of proper segregation of duties due to vacant key staffing positions. Multi-factor authentication is not in place for the home banking product to sufficiently protect member information and security. The information security policy does not fully comply with NCUA Rules and Regulation, Part 748, Appendixes A and B. Enterprise wide disaster recovery/business continuity impact analysis and testing have not been performed and electronic payment system policies and security procedures are insufficient. The [bank name] reconciliations also contain numerous un-posted reconciling items.

## **Asset Liability Management (ALM) Weaknesses**

Your ALM model generated unreliable shocked NEV and Income Simulation results to effectively manage your credit union, and your model has not been independently validated as to the reasonableness of your assumptions and the ALM reports generated.

ALM training is an area of significant concern as your model operator needs additional training to effectively operate your model.

In reviewing your ALM policy, examiner [examiner's name] found your policy does not state the minimum acceptable base and shocked NEV ratio floors. Your liquidity policy has a minimum 2.5 percent liquidity ratio floor stated. In light of your seasonal cash demands, a more reasonable short-term liquidity ratio would be appropriate to ensure member service is not disrupted.

Persistent issues including insufficient or inaccurate Asset-Liability Management modeling and lack of agreed upon policy revisions were identified in prior contacts going back to [year].

Mr. John Doe  
Date  
Page Two

**Lack of Risk based Lending Risk Management**

Unsecured loans grew from \$8.4 million to \$18 million during the twenty-one months ending [date]. Outstanding D and E paper increased to \$8 million or 44 percent of your unsecured loans outstanding. You have not established lending limits, by credit tier, as a percentage of net worth, and you are not performing a net yield determination to analyze your loan portfolio's performance by grade of paper.

I understand examiner [examiner's name] discussed these and other concerns with you and your fellow board members. The agreements reached are contained in the Document of Resolution. By [date], provide me with a written response to the items in the Document of Resolution and copy examiner [examiner's name]. I encourage you and your fellow officials to take the actions necessary to resolve the concerns.

*[For credit unions that have \$50 million and less in assets, newly chartered (less than three years old) or low income designated consider including the following statement:* In your efforts to resolve these concerns, you may wish to take advantage of programs offered by NCUA's Office of Small Credit Union Initiatives (OSCUI). OSCUI provides guidance and assistance to small, new, and low-income designated credit unions through four primary programs - Training, Grants and Loans, Partnerships and Outreach, and Consulting Services. More information is available from your examiner, or online at <http://www.ncua.gov/Resources/OSCUI>.]

Examiner [examiner's name] will return to your credit union by [date] to review your progress towards correcting the BSA and other operational deficiencies. Please contact him/her at [phone number] if you have questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Notify FISCU of Troubled Condition**

*NOTE: Use when NCUA did not participate, but cannot confirm that notice was given to the FISCU.*

Date

Mr. John Doe  
Chairperson  
ABC Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

The [effective date] examination identified your credit union as being in a “troubled condition” according to Sections 701.14 and 741.205 of the National Credit Union Administration (NCUA) rules and regulations. As a federally insured credit union in a troubled condition, you must follow specific procedures when changing officials and management personnel. You can find this information on NCUA’s website.

Areas contributing to the determination of your troubled condition status are:

- First major problem area – provide short description of the cause and effect of the problem
- Second major problem area – provide short description of the cause and effect of the problem
- [List any additional problem areas]

I urge the officials to take immediate and ongoing action to comply with the Document of Resolution from the [effective date] examination report.

It is imperative that you comply with the two enclosures included with this letter, which provide you with information regarding the requirements of Sections 701.14 and 741.205:

- Notice of Change in Director or Senior Executive Officer
- Individual Application for Approval of Official

If you have any questions, please contact examiner [examiner’s name].

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

Enclosures

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Upgrade a FISCU from Troubled Condition Status**

**NOTE:** Use when NCUA did not participate. NCUA has already upgraded. SSA upgraded to a CAMEL 3 or better, but notice of removal of troubled condition cannot be verified.

Date

Mr. John Doe  
Board Chairperson  
ABC Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

The [effective date] supervision report for your credit union, completed by examiner [examiner's name], outlined the corrective actions you have implemented to improve lending and collection practices. I commend you and the board of directors on the progress you have made.

Previously, your credit union received notification it was subject to requirements under §701.14 of the National Credit Union Administration (NCUA) rules and regulations. As a result of your credit union's upgrade to a CAMEL "3" rating and removal from "troubled" status, you are no longer required to obtain approval for changes in officials or management personnel.

If you have any questions, please contact examiner [examiner's name] through this office.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# Template: Acknowledge LUA and CAMEL Downgrade

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your credit union's recently completed examination report, prepared by examiner (name) with an effective date of (examination effective date). I note the following major areas of concern:

- 1) First major problem area – provide short description
- 2) Second major problem area – provide short description
- 3) [List any additional major problem areas]

I encourage the officials to take immediate and ongoing action to achieve the goals set forth in the examination report [*"and Letter of Understanding and Agreement"* (*if applicable*)].

As you know, your credit union is coded CAMEL [4 or 5] as a result of your recent examination. Therefore, the (Credit Union Name) Federal Credit Union is now designated in "troubled condition" per §212(f) of the Federal Credit Union Act and §701.14 of the National Credit Union Administration (NCUA) rules and regulations. You must follow specific procedures when changing officials and management personnel. You can find this information on NCUA's website. The procedures remain in effect until the credit union is upgraded to a CAMEL 3 or better.

A Letter of Understanding and Agreement, signed on (date signed by officials), sets forth the significant adverse conditions identified in the examination report and the agreements reached to resolve them. This agreement is closely monitored during subsequent examinations and remains in effect until it is canceled or replaced. Failure to comply with the agreement's terms and conditions is cause [*in the case of a non-published LUA, change "is cause" to "can be grounds"*] for taking more severe administrative actions against the credit union or its officials.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: LUA Addendum**

## **ADDENDUM TO LETTER OF UNDERSTANDING AND AGREEMENT ISSUED BY AND BETWEEN THE NATIONAL CREDIT UNION ADMINISTRATION AND [NAME] FEDERAL CREDIT UNION**

This addendum amends item two and eliminates item three of the Letter of Understanding and Agreement (LUA), signed by the Regional Director on (date). All other items of the LUA remain in effect.

We are amending item number two as follows:

The Board of Directors will assure the credit union's operations will achieve a ratio of net income to average assets of, at least, one percent for the year-ending December 31, XXXX, and each year thereafter until the capital goals of the LUA are satisfied. For purposes of this Agreement, we define net income as all income remaining after accounting for all expenses including dividends on share accounts and the requirements for Full and Fair Disclosure as required by Section 702.3 of the NCUA rules and regulations.

### **For the [Name] Federal Credit Union:**

---

Chairperson

---

Date

---

Treasurer

---

Date

---

Secretary

---

Date

### **For the National Credit Union Administration:**

---

Regional Director

---

Date

---

Supervisory Examiner

---

Date

# Template: LUA Cover Letter

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Enclosed is the fully executed Letter of Understanding and Agreement (LUA) signed by you and your board members on [Date]. I am very concerned about the serious problems and adverse trends facing your credit union. I encourage you to lead your board in taking the actions necessary to carry out the agreements in this LUA.

If you need any assistance or guidance in complying with the LUA, please contact examiner [examiner's name] at [phone number]. Examiner [examiner's name] will continue to visit your credit union and assess your progress.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #  
Enclosure

cc:      SE  
          EX  
          SSA (when applicable)

[separate page]  
bcc:     File XXXXX-XXX  
          Reading File  
          Administrative Action Database File (Add New LUA)  
          SA xxxx

# **Template: Non-published LUA**

## **LETTER OF UNDERSTANDING AND AGREEMENT ISSUED BY AND BETWEEN THE NATIONAL CREDIT UNION ADMINISTRATION AND [NAME] FEDERAL CREDIT UNION**

This Letter of Understanding and Agreement (LUA) is made and entered into on [insert date] by and between [XYZ FCU] (hereinafter XYZFCU) a credit union organized under the laws of the United States of America and doing business at [insert address] and the National Credit Union Administration (NCUA).

[XYZFCU] is an insured credit union within the meaning of §101(7) of the Federal Credit Union Act, 12 U.S.C. §1752(7). As such [XYZFCU] is subject to the jurisdiction of the NCUA and NCUA's authority to initiate administrative enforcement actions against it pursuant to §206 of the Federal Credit Union Act, 12 U.S.C. §1786.

This LUA sets forth significant [describe the problems, e.g., adverse conditions, unsafe and unsound practices, regulatory violations] identified by NCUA as a result of its examination of [XYZFCU] with an effective date of [insert date], and the agreements and timeframes by the credit union's officials to resolve them. If left unresolved, these deficiencies may jeopardize the financial condition and/or operations of [XYZFCU]. By signing this LUA, the board of directors of [XYZFCU] hereby acknowledges that serious areas of concern exist and agrees to take the necessary actions set forth below to restore [XYZFCU] to a safe and sound condition.

In consideration of [XYZFCU] entering into this LUA, NCUA hereby agrees to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA, provided that [XYZFCU] and its officials make a sustained, effective, and good faith effort, as determined by NCUA in its sole discretion, to comply with all terms, actions and corresponding timeframes prescribed in this LUA.

In the event NCUA determines, in its sole discretion, that [XYZFCU] or its officials have failed to make a sustained, effective, and good faith effort to comply with the terms, actions and corresponding timeframes prescribed in this LUA, it is understood and agreed that NCUA may undertake appropriate administrative action as provided by the Federal Credit Union Act, 12 U.S.C. §1786, et. seq., including but not limited to, issuing an order to cease and desist, assessing civil money penalties or placing [XYZFCU] into conservatorship.

During the [date] examination conducted by the National Credit Union Administration (NCUA), Examiner [examiner name] identified adverse conditions and trends in the [XYZFCU]. If left uncorrected, these conditions and trends will continue to undermine the credit union's financial and operational stability. Specifically, the report identifies and addresses the following adverse trends and conditions:

- 1. Recordkeeping:** The report identifies a continuing out-of-balance condition with your cash accounts. The [name of bank] Bank account has been out-of-balance since at least

[date]. In addition, the general ledger account for “cash on hand” has not been reconciled since the [date] computer conversion.

2. **Negative Earnings:** The credit union posted a net loss of \$[AMOUNT] at year-end XXXX. The adjusted net loss is \$[AMOUNT] after NCUA adjusting entries listed in the examination report. The credit union has posted a net loss in four of the last five years. The primary causes for the net losses are high operating expenses, declining loan income, and provision for loan loss expense. Operating expenses, specifically salaries and benefits, are excessive in relation to total assets. The high amount of operating expenses is a primary reason for the lack of adequate net income. After examination adjustments, operating expense represented [NUMBER] percent of gross income.
3. **Business Planning:** The credit union does not have a viable business plan to evaluate the external and internal factors influencing business decision making. This evaluation includes financial planning, regulatory issues, your membership, competitive opportunities, and improved services. Your lack of business planning and strategic goal setting have contributed to your recordkeeping problems, high operating expenses, and declining financial position.

## **AGREEMENTS AND TIME FRAMES**

1. The board of directors will correct all improper account number designations used in transfers of cash between teller cash, cash on hand, and the [name of bank] Bank checking account. This should be corrected no later than [date].
2. The board of directors will engage a qualified accountant to review, reconcile, and recommend any correcting entries to the affected cash accounts. This process will be completed by [date].
3. By [date], the board of directors will correct all recordkeeping deficiencies, as agreed in the Document of Resolution section of the [date] examination report. The board of directors agrees to oversee and maintain the credit union’s records in a current position and in accordance with the [Accounting Manual for Federal Credit Unions](#). Financial statements will be completed by the 20th of each month.
4. The board of directors will ensure the manager receives training to operate the Integra-Sys computer system. This training may come from the vendor or from another credit union with experience and expertise in using the Integra-Sys Cubics Plus system. Training will begin by [date].
5. The board of directors will develop and approve a business plan and budget for the remainder of [year]. This plan and budget will include goals and strategies to increase income and reduce operating expenses. The board of directors must approve the business plan and budget by [year]. Operating results will be monitored on a monthly basis. A similar plan and budget with goals and strategies for [year] will be prepared and approved

no later than [year]. The board of directors will review net income and operating expenses in relation to the budget on a monthly basis.

6. The board of directors will reduce operating expenses as a percentage of gross income per the following schedule:
  - Not more than 93 percent of gross income by [date]
  - Not more than 92 percent of gross income by [date]
  - Not more than 91 percent of gross income by [date]
7. The results of the credit union's operations will generate net operating income equivalent to at least an annualized 0.40 percent return on average assets for the second, third and fourth quarters of calendar year XXXX. Net operating income will be determined after funding of the Allowance for Loan Loss account, operating expenses, and dividend expenses. The following minimum quarterly earnings will be achieved on an annualized basis.

**A. Year XXXX**

June 30, XXXX	0.40 percent
September 30, XXXX	0.40 percent
December 31, XXXX	0.40 percent

**B. Minimum Quarterly Return on Average Assets (annualized)**

**C. Year XXXX**

March 31, XXXX	0.50 percent
June 30, XXXX	0.50 percent
September 30, XXXX	0.60 percent
December 31, XXXX	0.60 percent

For the purpose of this agreement, net operating income is defined as the income remaining after accounting for all operating expenses, including provisions for Full and Fair Disclosure, as outlined in Part 702.402 of the NCUA rules and regulations, dividends on all shares, and is exclusive of non-operating gains.

8. The Treasurer will provide the following to Examiner [examiner name] by the 15th of each month:
  - a. Board minutes
  - b. Monthly financial statements
  - c. Summary of delinquent loans by category of delinquency, including the 1 to 59 days delinquent list and the list of repossessed assets
  - d. ALLL Methodology Worksheet
  - e. Share and Loan Trial Balance Summary

- f. Status report reflecting your compliance with the [date] Document of Resolution
- g. New or revised policies
- h. Any other financial data requested by the NCUA Regional Director

**Publication.** This LUA will not be published.

**Term.** This LUA shall remain in effect until terminated in writing by mutual agreement of [XYZFCU] and the NCUA, or until it is replaced by a subsequent LUA between the parties.

The following individuals, as authorized by the board of directors of the credit union, indicate they understand and agree with the contents of this Agreement by affixing their signatures below. The officials understand by signing this Agreement, they must make a sustained and conscientious effort to resolve the conditions and trends cited.

**AGREED TO AND ACCEPTED by the undersigned on behalf of XYZFCU and the NCUA**

**For the XYZ Federal Credit Union**

---

Chairperson

---

Date

---

Vice-Chairperson

---

Date

---

Treasurer

---

Date

---

Secretary

---

Date

---

Board member

---

Date

---

Board member

---

Date

**For the National Credit Union Administration:**

---

---

Regional Director

Date

---

Supervisory Examiner/DSA

---

Date

---

Examiner/PCO

---

Date

[region]/XXX:xxx  
FCU xxxxx-A10

cc:     SE  
      EX  
      SSA (when applicable)

bcc:   File FCU xxxxx-A10  
        Reading File  
        Administrative Action File  
        SA

## **Template: LUA Removal**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Your [effective date] examination report, completed by Examiner [examiner's name], outlines the corrective actions implemented to rectify the issues and concerns in your Letter of Understanding and Agreement (LUA). I commend you and your board of directors on the progress you have made to correct noted concerns. As a result, I am removing your LUA.

I encourage you and your fellow officials to continue implementing corrective actions to resolve all concerns addressed in your examination report.

My staff will be in contact with you to review your progress on any remaining areas of concern. Please contact examiner [examiner's name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# Sample: Preliminary Warning Letter

Date

Hand Delivered (if applicable)

Board of Directors  
[NAME] Federal Credit Union  
Address  
City, State Zip

Dear Board Members:

## Preliminary Warning Letter

This Preliminary Warning Letter (PWL) provides formal notification to the board of directors prior to the National Credit Union Administration (NCUA) taking administrative enforcement action against the credit union as authorized by Section 206 of the Federal Credit Union Act. This PWL is necessary because of the failure of [credit union name] Credit Union's board of directors to implement action to correct unsafe and unsound conditions noted in the [date] examination report and [date] call report.

I am extremely concerned your credit union has not fully funded the Allowance for Loan and Lease Losses Account (ALLL) for at least the past four quarters. As a result of your failure to properly fund the ALLL, your credit union's financial statements are inaccurate and misleading. Section 202 of the Federal Credit Union Act requires you and your fellow board members to ensure your credit union's financial statements are accurate. It also authorizes NCUA to assess monetary penalties for each day in which misleading financial statements are not corrected.

As noted in the [date] Letter of Understanding and Agreement, you and your fellow board members need to evaluate the adequacy of the ALLL account and charge off non-performing loans in accordance with your credit union's loan charge-off policy. The [date] examination report called for you to fund the ALLL account by \$58,016 (\$10,471 for the loan to XXXX and \$47,545 for the loan to XXXX). You did not adjust the ALLL account on the [date], call report, to provide full and fair disclosure of your credit union's financial condition. Both the XXXX and XXXX loans were more than 12 months delinquent and have not demonstrated a payment history that would justify any other accounting treatment aside from fully reserving for losses in the ALLL account or charge off.

It is your fiduciary responsibility to evaluate and adequately fund your credit union's ALLL account. Therefore, I expect you to file an accurate [date], call report by [date]. With the ALLL properly funded, your credit union's net worth ratio will likely fall below seven percent and your credit union will be subject to prompt corrective action under Part 702 of NCUA's rules and regulations. At that point, you will be required to submit a net worth restoration plan to my office by [date].

I expect management to implement corrective action to address the above concerns no later than the dates detailed in the [date] examination report. Failure to address the problems discussed in

this letter will cast doubt on your willingness and ability to carry out your fiduciary responsibilities. If the board does not demonstrate sufficient progress towards correcting the credit union's serious problems, I will have no choice but to take administrative action against the credit union, which could include assessing civil money penalties against each of the officials.

Please provide examiner [examiner's name] with written monthly updates on the specific corrective actions you have taken to achieve full compliance with all these requirements. Please contact examiner [examiner's name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: Board Chairperson, [NAME] Federal Credit Union  
CEO, [NAME] Federal Credit Union  
SE  
EX  
SSA (when applicable)

[separate page]  
bcc: File FCU xxxxx-Group/District  
Reading File  
Administrative Action Database File

# Sample: BSA-Specific Preliminary Warning Letter

Date

Hand Delivered (if applicable)

Board of Directors  
[NAME] Federal Credit Union  
Address  
City, State Zip

Dear Board Members:

## Preliminary Warning Letter

This Preliminary Warning Letter (PWL) provides formal notification to the board of directors prior to the National Credit Union Administration (NCUA) taking administrative enforcement action against the credit union as authorized by Section 206 of the Federal Credit Union Act. This PWL is necessary because of the failure of [credit union name] Federal Credit Union's board of directors to implement action to correct significant Bank Secrecy Act (BSA) violations noted in the [date] and the [date] examination reports.

Specifically, the board of directors has not complied with BSA requirements by failing to:

- Implement an adequate anti-money laundering program designed to identify and report transactions indicative of money laundering and other suspicious activity
- Complete an adequately comprehensive enterprise-wide BSA risk assessment
- Establish and implement adequate internal controls with respect to the BSA. This includes developing and maintaining a list of high-risk and moderate-risk members, and ensuring account activities of high-risk and moderate-risk members are reviewed and analyzed periodically
- Develop and implement due diligence and account monitoring processes for business accounts based on your risk assessment of account activities
- Perform independent testing of the BSA/anti-money laundering program, including suspicious activity reporting

The regulations enacted by the Financial Crimes Enforcement Network (FinCEN) and the National Credit Union Administration to implement the BSA can be found in the Code of Federal Regulations at 31 CFR Part 1020 and 12 CFR Part 748. Under the authority of the U.S. Congress and FinCEN, NCUA is required to enforce compliance with the Bank Secrecy Act. It is imperative you become familiar with and fully comply with these regulations.

I expect management to implement corrective action to address the above violations no later than the dates detailed in the [date] examination report. Failure to comply could result in administrative enforcement against your credit union and/or its officials.

Please provide examiner [NAME] with monthly written updates on the specific corrective actions you have taken to achieve full compliance with all BSA requirements. Please contact examiner [NAME] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:     Board Chairperson, [NAME] FCU  
         CEO, [NAME] FCU  
         SE  
         EX  
         SSA (when applicable)

[separate page]

bcc:   File FCU xxxx-Group/District  
         Reading File  
         Administrative Action Database File

## Samples: Preliminary Warning Letter Removal

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

During the recent examination of your credit union, examiner [NAME] noted a satisfactory level of improvement in your credit union's compliance with [GIVE DESCRIPTION]. Specifically, you met all of the requirements of the [PWL DATE] Preliminary Warning Letter (PWL). Therefore, I am releasing you from the terms of the PWL.

Accomplishment of the requirements outlined in the PWL decreases your credit union's [TYPE OF RISK] risk. I urge you and your fellow officials to continue your efforts to improve and maintain the long-term viability of the credit union.

Please contact examiner [examiner's name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Your [date] examination report, completed by examiner [examiner's name], outlines the corrective actions implemented to improve compliance with the Bank Secrecy Act (BSA). I commend you and your board of directors on the progress you have made to correct noted concerns. As a result, I am removing your Preliminary Warning Letter (PWL).

Previously, you received notification you were subject to requirements under Section 748.2(c)(4) of the NCUA rules and regulations. You received a PWL, dated [date], 2010, indicating you had not obtained adequate BSA training of credit union staff and officials as required.

I encourage you and your fellow officials to continue implementing corrective actions to resolve all concerns addressed in your examination report, including mitigating loan losses and developing a formal written strategic plan.

My staff will be in contact with you to review your progress. Please contact examiner [examiner's name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

## Chapter 2. Audits and Recordkeeping

Supervisory committee audits are required under [Part 715](#) or [Part 741](#) of [NCUA rules and regulations](#). They are a critical tool used to evaluate the integrity and fairness of the financial statements. They provide assurance of the reliability of the financial statements used by credit union management, members, creditors, insurers, and the NCUA. These financial reports are the basis for risk identification and offsite monitoring of the credit union system. Chapter 5 of the [Examiner's Guide](#) provides detailed discussion of Supervisory Committee Audits, instructions for reviewing the audit and engagement letter, and information on the review of member account verifications.

Recordkeeping is the process of recording and maintaining sufficient information to trace all transactions to a point of origin. An effective recordkeeping program is bolstered by strong internal controls and facilitates the audit process. Audits rely on financial records to validate data integrity, identify inaccuracies, and decrease the risk of fraud.

---

[NSPM content](#) last updated January 13, 2017

### 1. Field Staff Responsibilities

The most recent NCUA Instruction 5000.20, [Examination Scope](#), outlines expectations for reviewing audit workpapers.

---

[NSPM content](#) last updated July 29, 2015

### 2. Audit Firms Located Outside the Geographic Area

Per [§715.10](#) of the [NCUA rules and regulations](#), the SC is responsible for preparing and maintaining, or making available, a complete set of original working papers supporting each supervisory committee audit. The SC will, upon request, provide NCUA staff unconditional access to such working papers, either at the offices of the credit union or at a mutually agreeable location, for purposes of inspecting such working papers.

In the event the audit firm is located outside the geographic area of the credit union and the examiner determines it would be advantageous for another region and/or group to review the audit work papers at the firm's office, examiners will request assistance from another group or region through the supervisor. Examiners from the requested supervisor group will be responsible for

reviewing the independent state-licensed accountant's audit work papers and providing a report summarizing the review to the EIC.

---

*[NSPM content](#) last updated July 29, 2015*

## 3. Audit Report Review

Field staff are responsible for reviewing a credit union's Profile each quarter during the [Call Report or RATE review](#) to determine whether the credit union has received a new audit which fulfills the requirements of [Part 715](#) or [Part 741](#) of NCUA's rules and regulations. If the Profile indicates a new audit has been completed, field staff will request a copy of the audit within 10 business days of reviewing the Profile.

### A. Obtaining an Audit Report

For audits performed by the **supervisory committee**, examiners will obtain the audit report directly from the supervisory committee.

For audits conducted by **external auditors**, examiners need to obtain a copy of the audit report directly from the external auditor. Unless there is an existing arrangement between the credit union, field staff, and the auditor, or an existing working relationship field staff has with the auditor, field staff should first contact the supervisory committee to determine the supervisory committee's preference for making the request of the external auditor - that is, would the supervisory committee prefer to make the request, or needs to because the audit firm will not release the audit report otherwise, or is it okay for field staff to contact the auditor directly to make the request.

In either case, the external auditor needs to send the audit report directly to the examiner. If an auditor refuses to provide an audit report directly to the examiner, even at the request of the supervisory committee, or wants to charge a fee to provide a copy, examiners should consult with their supervisor regarding a course of action (such as ensuring the credit union is okay with the fee or scheduling a meeting with the auditor to review the audit).

### B. Reviewing the Audit Report

Upon receiving the report, field staff will read the audit report to determine if there are any problems with the credit union. Field staff should adjust supervision plans and exam scoping as applicable, and follow up on any material problems identified by discussing them with the supervisory committee or

credit union management and/or scheduling a supervision contact as warranted.

**A review of the audit workpapers is not required as part of the review of the audit report required under this policy.** As part of offsite supervision or pre-exam planning, NCUA has the discretion to request and review the audit workpapers at any time – however, the external auditor may require them to be reviewed onsite.

The time associated with requesting and reviewing an audit report under this policy can be charged to offsite supervision or pre-exam planning.

## C. Documenting the Audit Report

Field staff will document that they have reviewed the audit report in the credit union's RATE during the scheduled RATE review cycle. If field staff receive a requested audit report after the RATE review cycle closes, they should document their review in the next scheduled RATE review cycle. If an audit report relays material concerns that require an immediate onsite contact, examiners should note the concerns in the RATE review and contact their supervisor to schedule an onsite contact.

Examiners may also upload an offsite supervision contact in AIRES to document any concerns noted in the audit report that cannot be fully documented in RATE, provided such issues do not require an immediate onsite contact.

---

*[NSPM content](#) last updated September 15, 2017*

## 4. Unacceptable Audits and Member Account Verifications

Examiners will consider an audit or verification unacceptable and develop plans of action when they determine:

- Material parts of the audit or verification were not done
- Material parts of the audit or verification are not supported by work papers
- Material areas of credit union operations were not audited
- The auditor lacks independence from the credit union

## A. Examiners

Examiners who discover material supervisory committee audit/Member Account Verifications deficiencies conducted by the SC or an external auditor that is not a licensed independent auditor or certified public accountant will:

- Contact their supervisor
- Determine if the audit can be cured timely (if not, discuss alternatives with their supervisor)
- Rate transaction risk as “high” or document the rationale for a different risk rating
- Denote this a major area of concern in the Examination Overview
- Prepare a DOR which provides a reasonable time period for the SC to correct the deficiencies, not longer than 120 days from the completion date of the exam, not longer than 120 days from the completion date of the exam
- Require the SC to provide a monthly status report of their progress to the examiner
- Document deficiencies in the audit or Member Account Verification as a problem code using the DOR module
- Complete a follow-up supervision contact within 60 days of the DOR due date
  - The supervisor must approve any extension beyond 60 days with notification to the ARDP.
  - The examiner must document any extensions in the Confidential Section during the next contact.

If the audit or Member Account Verifications remains unacceptable, examiners will proceed in accordance with [§715.11](#) of the [NCUA rules and regulations](#) to obtain an acceptable audit or Member Account Verifications following the guidelines in chapter 5 of the [Examiner's Guide](#).

Recurring deficiencies for audit and Member Account Verifications are grounds to proceed to administrative actions. Examiners can consult with their supervisor to develop a more stringent supervision plan if needed. Additionally, the

CAMEL Management component and overall rating should reflect management's recurring non-compliance with this critical internal control area.

*[NSPM content](#) last updated January 22, 2018*

## 5. Audits by Licensed Independent Accountants

Examiners cannot take independent action in the event a financial statement audit by a state licensed independent accountant is unacceptable. NCUA Instruction 4016.01, [\*Obtaining Concurrence and Advancing an Assertion That an Opinion Audit or Agreed-Upon Procedures are Unacceptable in Meeting NCUA Audit Regulations\*](#), sets out procedures required to rate a state licensed independent accountant audit unacceptable and requires Regional Director approval and E&I concurrence. The supervisor will evaluate the seriousness of the deficiency and if it is sufficient to warrant a rejection of the audit, the supervisor will contact the regional office and proceed in accordance with NCUA Instruction 4016.01.

An examiner can take exception with the Supervisory Committee if the state licensed independent accountant performed agreed upon procedures rather than a financial statement audit, in the circumstance that the scope of work for which the Supervisory Committee contracted does not meet the requirements of [Part 715 of NCUA rules and regulations](#) or the Supervisory Committee Guide minimum procedures.

If the licensed independent accountant denies access to the work papers, examiners will contact the SC chairman to report the situation and ask for assistance in resolving the problem. If unsuccessful, examiners will contact the supervisor for guidance. Examiners should never sign any document or release to gain access to the work papers unless OGC has reviewed the release and advises signature. E&I can assist examiners and supervisors in obtaining OGC review in a timely fashion.

*[NSPM content](#) last updated July 29, 2015*

## 6. Significant Recordkeeping Concerns

Significant recordkeeping concerns include any other issue that presents an unacceptable degree of risk including:

- Incomplete bank reconcilements or over 60 days in arrears
- Records materially in arrears or significant unreconciled differences (including AIRES share and loan download not tying back to member trial balance)

When an examination or supervision contact reveals significant recordkeeping concerns, examiners will:

- Notify their supervisor
- Review material general ledger accounts including, but not limited to, loans, member deposits, cash, investments, subsidiary ledgers, and the Call Report
- Rate transaction risk as "high," or document the rationale for a different risk rating
- Denote this as a major concern in the Examination Overview
- Prepare a detailed DOR, using the DOR module, with a resolution date of 180 days or less (for FISCUs, also provide the DOR to the SSA prior to completion of the contact)
- Require the SC/designated person to provide monthly status reports electronically or by phone
  - Reports should note the progress made to remedy the record-keeping problems
  - Examiners will maintain a [Supervision Chronology Report](#) of these contacts to be included in subsequent AIRES uploads (and for submission to their supervisor, if requested)
- Conduct an onsite follow-up supervision contact within 90 days of the NCUA's last contact completion date and an onsite supervision contact every 90 days thereafter, until all problems are resolved
  - The supervisor must approve any extension beyond 90 days in writing and notify the ARDP and DOS
  - The examiner must document any extensions in the Confidential Section

## A. Incomplete Bank Reconcilements or Over 60 Days in Arrears

If the bank or corporate reconcilements are incomplete (unreconciled) or in arrears greater than 60 calendar days, in addition to the steps outlined in the previous section, examiners will:

- Determine the cause and evaluate the scope of the potential problem
- Reach agreements with management to bring the reconcilements current, usually within 30 calendar days, and involve the SC in this process
- Consider requiring an outside independent accountant to bring reconcilements current, especially if the SC is not active or does not possess the skills to adequately review the bank reconciliation process

## B. Records Materially In Arrears or Significant Unreconciled Differences

Examiners must use judgment in assessing material recordkeeping problems. In some cases, the size of the unreconciled differences may not reflect the scope of the problem, particularly if the control environment lacks integrity. If records are materially in arrears or there are significant unreconciled differences, examiners will discuss with their supervisor whether to:

- Extend the examination/supervision contact up to 30 calendar days if the records cannot be brought current during the examination. If this option is taken, examiners will note the reasons why the examination was extended and the supervisor's concurrence in the Confidential Section; or
- Complete the examination using the most current data available. If this option is taken, examiners will note in the Confidential Section whether officials agreed to the correct recordkeeping concerns.

This discussion is in addition to the [steps examiners should take for a credit union that has significant recordkeeping concerns](#) listed above.

If the recordkeeping problems are serious and persistent as defined in [§715.12 \(c\)](#) of [NCUA rules and regulations](#), the EIC may compel a federal credit union to obtain a financial statement audit performed in accordance with GAAS by an independent person who is licensed by the State or jurisdiction in which the credit union is principally located. If the supervisor and EIC determine that an opinion financial statement audit is necessary, the supervisor will notify the ARDP.

If offsite monitoring and/or supervision contacts reveal major areas of concern with ongoing recordkeeping, audits, or verification of members' accounts that have not been properly resolved within 180 days, the EIC will consult their supervisor and determine what administrative action is to be taken.

Examiners will document offsite/onsite contacts by using the appropriate methods (AIRES, Confidential Section, etc.) and indicate the progress and actions taken.

---

*[NSPM content](#) last updated July 31, 2018*

## 7. Addressing Bond Claims

If the credit union has a bondable loss and has not provided the appropriate notice to the surety company or refuses to do so, examiners will notify their supervisor. The supervisor will discuss the issue with the ARDP or ARDO as appropriate and a decision will be made regarding NCUA notifying the surety company of a potential bond claim. During contacts, examiners should:

- Determine whether a bond claim is outstanding, established as a disclosure item (footnote to the financial statements) or a receivable, remains on the books as a loan, other account, or a disclosure, or has been written off
- Determine whether the surety company has committed to paying the claim; and, if so, the amount of the commitment
- Direct the credit union to write off any claims, or portions of claims, considered losses even if this will cause a deficit or insolvency. In evaluating the collectability of claims, examiners will consider:
  - Surety companies do not pay for lost interest or lost opportunity income
  - The credit union must have incurred a loss for a valid claim to exist
  - An examiner's adjusting journal entries in AIRES must properly reflect the bond claim as an accounts receivable, or loss, after the surety bond company has confirmed the outcome of the claim in writing

Examiners should contact their supervisor when they identify material bond claims or when adjusting entries will cause a deficit in undivided earnings or insolvency. At a minimum, examiners should document shortages in the scope and other sections as appropriate.

---

[NSPM content](#) last updated July 29, 2015

## 8. Determine Bondability Status

In some instances, it may be necessary to determine the bondability status of a credit union employee or official. This procedure is usually reserved for fraud, insider dealings, or when we have completed a prohibition and want to check if the individual's bond has been revoked (open claims typically will not yet have a determination, especially if no criminal charges are involved).

Examiners will work with the appropriate credit union staff to determine the bondability status of a credit union employee or official. Examiners may also evaluate the credit union's process for verifying bondability of all employees. Credit unions should be evaluating each employee during the hiring process to ensure they are bondable and maintain a record of this verification to provide to NCUA examiners (and other outside auditors) when requested. If a credit union has not completed this process and/or cannot provide documentation, the examiner should address the issue in the examination report, as appropriate.

---

[NSPM content](#) last updated July 29, 2015

## Chapter 3. BSA Enforcement

This section of the NSPM is designed to equip examiners with information regarding their role in enforcing the Bank Secrecy Act (BSA) in credit unions. It sets forth a framework for a high quality BSA examination program in an effort to mitigate credit unions' compliance risk and ensure federally-insured credit unions comply with all applicable regulations.

### 1. BSA References

- Federal Financial Institutions Examination Council's [\*BSA Anti-Money Laundering Examination Manual\*](#)
- [Financial Crimes Enforcement Network](#) (FinCEN)
- FinCEN Ruling 2005-6, [\*Suspicious Activity Reporting \(Structuring\)\*](#)
- FinCEN [Memorandum Of Understanding](#)
- NCUA Instruction 5001.06, [\*Bank Secrecy Act Compliance\*](#) (May 10, 2005)
- NCUA Instruction 12400.05, [\*Processing Complaints Against Credit Unions and Documenting Compliance Violations\*](#) (Apr. 23, 2004)
- [NCUA website regarding BSA](#)
- Chapter 18 and Appendix 18A of the [\*Examiner's Guide\*](#)
- [Interagency Statement on Enforcement](#)

---

[NSPM content](#) last updated July 29, 2015

### 2. Suspicious Activity Report (SARs)

#### A. When to File an SAR

Credit unions are required by federal regulations to file a SAR with respect to:

- Criminal violations involving insider abuse in any amount
- Criminal violations aggregating \$5,000 or more when a suspect can be identified
- Criminal violations aggregating \$25,000 or more regardless of potential suspect

- Transactions conducted or attempted by, at, or through the credit union and aggregating \$5,000 or more, if the credit union knows, suspects, or has reason to suspect that the transaction:
  - May involve potential money laundering or other illegal activity (for example, terrorism financing)
  - Is designed to evade the BSA or its implementing regulations
  - Has no business or apparent lawful purpose or it not the type of transaction that the particular member would normally be expected to engage in, and the credit union knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction

## B. SAR Filing Information

Credit unions must file all SARs electronically through the Financial Crimes Enforcement Network (FinCEN) [BSA E-Filing website](#).

The SAR rules require that a SAR be filed no later than 30 calendar days from the date of the initial detection of facts that may constitute a basis for filing a SAR. For situations requiring immediate attention, the credit union should immediately notify the appropriate law enforcement authority in addition to filing a timely SAR. If the credit union suspects that a transaction may be linked to terrorist activity, the credit union should immediately call the FinCEN Financial Institutions Hotline at (800) 556-3974.

Examiners: will review SAR filing processes during examination/supervision contacts and focus their review on the credit union's' process for detecting suspicious activity. Examiners will also review newly filed SARs for appropriateness and compliance with FinCEN's regulation. Should the officials fail to act, examiners will notify their supervisor. The supervisor will notify the ARDP who will consult with OGC regarding appropriate administrative action.

E&I will periodically review significant SAR filings to identify potential national risk trends.

---

[NSPM content](#) last updated December 30, 2016

### **3. Requesting a Currency Transaction Report, Suspicious Activity Report, or Designation of Exempt Persons History**

Examiners can request a list of the CTRs, SARs, and DOEPs a credit union has filed by sending an e-mail to the regional DOS mailbox with the full name, address, and credit union Employer Identification Number (EIN). When requesting a download from DOS, examiners should include a specific time-frame for the request (for example, Jan. 1, 2011 – Oct. 1, 2011).

Examiners may obtain the list of CTRs, DOEPs, and SARs filed by a credit union before starting an examination as a scoping tool for the BSA review. A change in filings (decrease or increase) could be an indicator of a problem and may require attention during the examination. The information may be sorted in various ways to enable examiners to identify trends of certain customers or accounts, which could warrant further review during the examination.

Examiners should also verify that the credit union has actually filed CTRs or SARs with the appropriate agency, particularly when there is insider activity.

The FinCEN worksheet may not be shared with the credit union due to the confidentiality requirements noted in the regulation.

SARs are confidential. Any credit union, including its officials, employees, and agents are prohibited from disclosing a SAR or the information in a SAR, or providing any information which would disclose that a SAR was prepared or filed, except when such disclosure is requested by FinCEN or an appropriate law enforcement or federal banking agency. Such reports, or the fact they have been filed, may not be disclosed by a government employee to any person involved in the transaction, "other than as necessary to fulfill the official duties of such officer or employee." 31 U.S.C. 5318 (g)(2)(ii). Unauthorized release of information collected under the BSA may result in criminal or civil sanctions.

[NSPM content](#) last updated July 29, 2015

### **4. BSA Enforcement**

When an examiner identifies material BSA program deficiencies and/or compliance violations, targeted enforcement will be implemented to resolve

supervisory concerns timely. In implementing enforcement action, examiners will:

- Attempt to have the credit union resolve deficiencies during the examination process
- Document the review using the AIRES BSA questionnaire, examination scope, and supporting work papers as needed
- Identify, track, and resolve significant BSA violations - this includes issuing a PWL or similar administrative action as necessary
- Complete the Consumer Compliance Violations module in AIRES with the appropriate citation if applicable (report all significant BSA violations as regulation code BSA-S)
- Discuss BSA violations in the open section of the report
- Prepare a DOR, if applicable
- Indicate the appropriate level of compliance and other risks in the Scope module
- Ensure the adequacy of the credit union's BSA program is considered when assessing and rating management
- Follow-up with the credit union to achieve resolution of significant BSA violations within 90 days of the examination completion date (or 150 days for a structured resolution like independent testing)
- Complete the FinCEN.doc form within AIRES when a significant BSA violation involves a data quality violation or a BSA-related administrative action is in place for an FCU
- Document resolution of BSA violations through the Consumer Compliance Violations module in AIRES
- Report discovery of money laundering activities or other high profile BSA violations to DOS through their supervisor

Your primary resource is FFIEC's [Bank Secrecy Act/Anti-Money Laundering Examination Manual](#).

---

[NSPM content](#) last updated July 29, 2015

## 5. BSA Violations

### A. AIRES Consumer Compliance Violations Module

Examiners must complete the Consumer Compliance Violations module in AIRES for BSA violations that have been identified during the examination/supervision contact. In completing the module, examiners should:

1. Combine multiple violations of the same regulation into a single citation within the module.
2. Utilize the CFR citation over the equivalent NCUA regulatory citation wherever possible.
3. Identify all significant BSA violations as "BSA-S" in the Regulation code column.
4. Use the [BSA citation verbiage provided in the NSPM](#). Keep comments brief, and exclude any confidential information like names or account numbers - the information entered in the module is reported outside of NCUA.
5. Identify the management response taken using the drop-down menu within the module. These responses play a critical role in the regional office's tracking of resolved BSA-S violations.

Compliance violations documented during prior examinations (resolved and unresolved) will flow into the current examination on the Consumer Compliance Violations module and will be summarized in the EMC.

Because the Consumer Compliance Violations module is NCUA's primary means of collecting and reporting data to FinCEN, the Government Accountability Office (GAO), Congress, etc., it is critical examiners complete this module accurately.

#### **1. BSA Violations in Corporate Credit Unions**

For examinations of corporate credit unions, ONES examiners will include BSA violations in examination reports as examiner findings or documents of resolution, as appropriate using the general guidelines in this section of the NSPM. ONES will manually report corporate BSA violations to E&I each month using an approved spreadsheet.

---

[NSPM content](#) last updated July 29, 2015

## B. Significant BSA Violations

Significant BSA violations require a:

<b>Element</b>	<b>Explanation</b>
Document of Resolution	If the credit union corrects the significant violation during the examination, the DOR can be marked as corrected
Compliance risk rating of "high"	A risk rating of "high" is required unless the credit union fully corrects all the BSA violations during the course of the examination and the examiner verifies proper controls designed to prevent future violations (reputation or other risk areas may also be affected).

Examiners should use their own judgment in citing the credit union for non-significant BSA violations.

Examiners can also use the provided list of AIRES [BSA citation verbiage provided in the NSPM](#) to identify significant violations that must be labeled as BSA-S, and to identify data quality violations which are subject to additional reporting requirements, including FinCEN.doc examination excerpts.

---

*[NSPM content](#) last updated January 27, 2016*

## C. Data Quality Violations

A data quality violation involves the failure to collect or report information to FinCEN through a SAR or CTR. Not filing any quantity of CTRs remains significant and may qualify as a systemic or pervasive violation. However, unfiled CTRs are only classified as a data quality violation when more than 25 percent are not filed.

To be classified as a data quality violation, one of the following criteria must be met:

- One or more SARs were needed, but not submitted/filed by the credit union

- Un-filed CTRs equal 25 percent or more of the total CTRs filed during the period reviewed by the examiner

A BSA report excerpt must always be completed for a data quality violation (see the [AIRES FinCEN.doc section](#) of the NSPM). If the number of unfiled CTRs is not determined during the examination, the unfiled CTRs must be treated as a significant data quality violation.

---

*[NSPM content](#) last updated July 29, 2015*

## D. BSA Citations

Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

- [Customer Identification Program \(CIP\)](#)
- [Currency Transaction Report, Currency of Monetary Instrument Report, and Foreign Bank and Financial Accounts Report](#) (CTR, CMIR, and FBAR)
- [Information Sharing](#)
- [Monetary Instruments](#)
- [Overall Compliance Program](#)
- [Record Retention Periods](#)
- [Records to be Maintained](#)
- [Suspicious Activity Reports](#)

---

*[NSPM content](#) last updated July 29, 2015*

### 1. Customer Identification Program (CIP)

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1020.220(a)(1)	BSA-S	--	No written Customer Identification Program
1020.220(a)(2)	BSA-S	--	CIP does not include risk-based procedures to form reasonable belief of customer's identity

*[NSPM content](#) last updated December 30, 2016*

## **2. Currency Transaction Report (CTR), Currency of Monetary Instrument Report (CMIR), and Foreign Bank and Financial Accounts Report (FBAR)**

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.311	BSA-S	DQ	CTR not completed for cash transaction
1010.313(b)	EXJ	--	CTR not filed on multiple transactions
1020.315(c)	BSA-S	DQ	Exempt person or bank not properly designated
1020.315(d)	EXJ	--	Annual review of designated party for CTR exemption
1010.340(a)	BSA-S	DQ	CMIR not filed for currency or monetary instruments into or out of U.S. > \$10,000

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.340(b)	BSA-S	DQ	CMIR not filed for currency or monetary instruments received from outside to U.S. > \$10,000
1010.350	BSA-S	--	No report of interest in foreign financial account (FBAR)
1010.370	BSA-S	--	Complete additional reporting required by order of Treasury
1010.306(a)(1)	BSA-S	DQ	CTR not filed within 15 days of transaction
1010.306(a)(2)	EXJ	--	CTR not maintained for five years
1010.306(d)	BSA-S	--	CTR, CMIR, FBAR not completed properly
1010.312	BSA-S	--	Identity of customer was not verified as part of SAR, CTR completion

*[NSPM content](#) last updated December 30, 2016*

### 3. Information Sharing

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.520(b)(3)(i)	BSA-S	--	Search not completed within 14 days

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.520(b)(3) (ii)	BSA-S	--	Matches not reported within 14 days
1010.520(b)(3) (iii)	BSA-S	--	FinCEN point of contact not designated

[NSPM content](#) last updated December 30, 2016

#### 4. Monetary Instruments

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.415(a)	EXJ	--	Required information is not obtained on currency purchases of monetary instruments between \$3,000 and \$10,000
1010.415(b)	BSA-S	--	Multiple currency purchase of monetary instruments totaling over \$3,000 are not aggregated
1010.415(c)	EXJ	--	Required information on currency purchases of monetary instruments between \$3,000 and \$10,000 not maintained for five years.
1010.420	EXJ	--	Retain FBAR records for five years

[NSPM content](#) last updated December 30, 2016

## 5. Overall Compliance Program

Section 748 citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
748.2b1	BSA-S	--	Written and approved BSA policy covering all required areas
748.2c1	BSA-S	--	Provide for an adequate system of internal controls (includes systems to detect suspicious activity)
748.2c2	BSA-S	--	Conduct of independent testing
748.2c3	BSA-S	--	Individual responsible for coordinating and monitoring compliance
748.2c4	BSA-S	--	Training for appropriate personnel

[NSPM content](#) last updated December 30, 2016

## 6. Record Retention Periods

Section 748 citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
1010.430(a)	EXJ	--	Copy or reproduce both front and back of documents
1010.430(d)	EXJ	--	Retain records for five years in such a way as to be reasonably retrievable

[NSPM content](#) last updated December 30, 2016

## 7. Records to be Maintained

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Qual- ity (DQ)	Description
1010.410(a)	BSA-S	--	Required information is not maintained on extensions of credit exceeding \$10,000
1020.410(a)(1)	BSA-S	--	Required member information is not maintained on funds transfers greater than \$3,000
1020.410(a)(2)	BSA-S	--	Required nonmember information is not maintained on funds transfers greater than \$3,000
1020.410(a)(4)	BSA-S	--	Required information on funds transfers is not retrievable by both name and account number
1020.410(c)(1)	BSA-S	--	No record of signature card and

<b>Citation</b>	<b>BSA / BSA-S or EXJ</b>	<b>Data Qual- ity (DQ)</b>	<b>Description</b>
			notation of identifying information
1020.410(c)(2)	EXJ	--	No record of statements or ledger cards showing all transactions to accounts
1020.410(c)(3)	EXJ	--	No record of checks, clean drafts, or money orders drawn on the banks or issued and paid by it (except for those exempted accounts)
1020.410(c)(4)	EXJ	--	No record of debits to accounts exceeding \$100 not otherwise exempted
1020.410(c)(5)	BSA-S	--	No record of items greater than \$10,000 remitted or transferred to any person, account or place outside the U.S.
1020.410(c)(6)	BSA-S	--	No record of remittances or transfers of funds or of currency or monetary instruments greater than \$10,000 to a person, account or place outside the U.S.
1020.410(c)(7)	BSA-S	--	No record of foreign checks or drafts over \$10,000
1020.410(c)(8)	BSA-S	--	No record of items received directly from a foreign bank, broker, or foreign exchange dealer
1020.410(c)(9)	BSA-S	--	No record of currency or monetary instrument, etc. received

Citation	BSA / BSA-S or EXJ	Data Quality (DQ)	Description
			directly from a foreign bank, broker, or dealer in foreign exchange
1020.410(c) (10)	EXJ	--	Unable to reconstruct a demand deposit account and trace a check greater than \$100 deposited therein
1020.410(c) (11)	EXJ	--	No record of name, address, and TIN for all CD purchasers, as well as a description of the CD and method of payment
1020.410(c) (12)	EXJ	--	No record of name, address, and TIN for all persons presenting CDs for redemption, plus description of CD and date of transaction
1020.410(c) (13)	EXJ	--	No record of each deposit slip greater than \$100 showing the amount of currency involved

*[NSPM content](#) last updated December 30, 2016*

## 8. Suspicious Activity Reports

[Section 748](#) citations in this table appear in [12 CFR](#); the remainder of citations are in [31 CFR](#). Depending on the nature of a violation, a citation may be designated as BSA or BSA-S (Bank Secrecy Act – Significant). Refer to the definition of “significant BSA violations” in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) for further clarification.

Citation	BSA / BSA-S or EXJ	Data Qual- ity (DQ)	Description
1020.320	BSA-S	DQ	Must report suspicious activity on SAR
1020.320(a)	BSA-S	DQ	SAR not completed properly
1020.320(b)(3)	BSA-S	DQ	SAR not filed within time period
1020.320(d)	EXJ	--	SAR copy and/or attachments not maintained
1020.320(e)	BSA-S	--	SAR must be kept confidential

*[NSPM content](#) last updated December 30, 2016*

## 6. AIRES FinCEN.doc

Examiners must include an examination excerpt (using the FinCEN.doc template) in the Examination Directory for all federal credit unions whenever:

- A “data quality” violation is identified
- Formal action is taken for BSA non-compliance

The goal of the FinCEN.doc is to compile all BSA-related discussions given to credit union management into one document for FinCEN’s review.

### A. Completing the FinCEN.doc

In the AIRES Examination Directory Explorer:

- Move the FinCEN.doc from the Available Template Files to the Examination Directory
- Copy and paste applicable sections from various Word documents in AIRES wherever BSA is discussed (for example, Examination Overview, DOR, Examiner’s Findings, etc.) into the FinCEN.doc

**Don't** rename the FinCEN.doc or prepare additional FinCEN documents in AIRES.

**Don't** use the AIRES "Minimal Contact" feature, which will strip the

document from the upload.

**Don't** include the AIRES BSA questionnaire or credit union policies in the FinCEN.doc

[NSPM content](#) last updated July 29, 2015

## 7. Resolution of Significant BSA Violations

- [Federal credit union](#)
- [Federally insured, state-chartered credit union](#)

[NSPM content](#) last updated July 29, 2015

### A. Federal Credit Unions

Per NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#), examiners must ensure all significant violations at federal credit unions are resolved within 90 or fewer days from the examination or contact completion date (upload date).

Examiners may allow up to 150 days for final resolution for independent testing if the credit union demonstrates adequate progress within 90 days from the examination or contact completion date. However, examiners should not wait until the end of the maximum resolution timeframe to determine whether a credit union is making adequate progress toward resolution.

DOS provides supervisors a report of outstanding BSA violations each quarter. For significant BSA violations outstanding an unreasonable length of time, supervisors should follow-up with examiners to assess the status of corrective action.

Each credit union with significant violations must have at least one AIRES file uploaded within the 90- or 150-day timeframe to identify corrections.

If inadequate corrective action is noted, escalation of administrative action is required by the NCUA examiner. Staff should refer to the "Failure to take adequate corrective action" section in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#). For example, when credit union compliance with the DOR is inadequate, a PWL or other administrative action must be issued to achieve resolution within 180 days or less from the first date of identification.

To meet these objectives, examiners need to perform a follow-up contact within 75 days from the examination or contact completion date to assess progress. Such planning will allow sufficient time to draft and process any pending administrative action if necessary.

Based on the severity of the violation, the timeframes for administrative action can be accelerated. Section 206 of the [Federal Credit Union Act](#) contains a list of applicable administrative actions.

On rare occasions, external or uncontrollable events (such as a flood or the resignation of key officials) may delay compliance with written agreements concerning significant BSA violations. Supervisors may request an exception to the progression of administrative action from the Regional Director.

Examiners must prepare a memo supporting their request to their supervisor. The memo must contain the following:

- Identifying information (including initial identification date of significant BSA violation)
- Timeline for supervision and resolution
- Reason for recommending an alternate approach

No exception approved by the Regional Director may delay the progress of administrative action for more than 90 days after the completion dates presented under the "Failure to take adequate corrective action" section in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#), unless concurrence is received from E&I.

---

[NSPM content](#) last updated July 29, 2015

## B. Federally Insured, State-Chartered Credit Unions

SSAs conduct BSA examinations at FISCUs. Regional Directors may reach agreements with SSAs for NCUA examiners to conduct the BSA examination at FISCUs. These agreements will vary based upon the SSA.

NCUA collects information about BSA violations in state charters through the Consumer Compliance Violations module and reports to FinCEN along with BSA violations data on federal charters. If the SSA noted BSA violations but did not complete the module, the NCUA examiner must enter the information during their WCC 26 review.

The 90-day correction timeline outlined in NCUA Instruction 5001.06, [Bank Secrecy Act Compliance](#) is not binding for state charters. However, maintaining an adequate BSA program is a condition of federal insurance and we expect SSAs to adequately and promptly deal with significant violations.

NCUA has the enforcement authority for FISCUs examined by NCUA (SSA has authority to review). The term “examined” refers specifically to WCC 11s. If, during another type of contact, an NCUA examiner identifies unresolved BSA concerns or concerns not identified by the SSA, he or she should expand the scope of the review to include BSA and follow up to ensure BSA resolution.

During joint examinations, NCUA examiners can allow the SSA to review BSA, but the NCUA examiner must review the SSA’s work for sufficiency. If the review performed by the SSA is insufficient, the NCUA examiner should amend the review. The NCUA examiner must also ensure that:

- Consumer Compliance Violations module includes the appropriate regulation for BSA violations
- Required BSA questionnaires are completed
- Consumer Compliance Violations module and BSA questionnaires are included in the NCUA WCC 11 or WCC 23 examination upload

If a state report lacks adequate agreements for corrective action or the SSA is not adequately resolving the issue(s), examiners will recommend the supervisor (or Regional Director) communicate with the state, take appropriate action, and document the outcome in a memo to DOS. For significant BSA violations outstanding an unreasonable length of time, supervisors should follow up with the respective SSA to assess the status of corrective action. In rare instances, examiners may need to contact the credit union directly to assess resolution status. As a last resort, examiners should discuss with their supervisor as to whether formal correspondence to the SSA is required.

---

[NSPM content](#) last updated July 29, 2015

## 8. Reporting the Resolution of a BSA Violation

Examiners must supervise a credit union’s progress to ensure the timely resolution of significant BSA violations. Resolution encompasses the correction of the noted BSA violation(s) and the implementation of adequate controls to mitigate the potential for similar violations.

When significant BSA violations have been adequately corrected, examiners must upload an AIRES file with the Consumer Compliance Violations module properly completed.

---

*[NSPM content](#) last updated July 29, 2015*

## **9. BSA Control Reports**

Control reports serve as a mechanism to ensure the agency has a robust examination program that is properly resourced and monitored for adherence to national examination and quality standards.

### **A. E&I BSA Control Reports**

E&I is responsible for monitoring the national status and trends based on monthly and quarterly regional reports. E&I will compile this information into reports provided to the FinCEN. E&I is also responsible for establishing inter-agency examination procedures, evaluating the overall quality of the BSA examination program, collecting information on emerging risks, resources and program quality, and monitoring overall national trends to ensure a high quality BSA examination program.

E&I will run reports to evaluate the status of the national examination program, evaluate adherence to national standards, and provide reports to FinCEN including:

- BSA violations cited
- Unresolved BSA violations
- Accuracy of BSA violations cited
- Administrative Actions taken regarding BSA issues

### **B. Regional BSA Control Reports**

Regional Directors are responsible for measuring and monitoring the BSA examination program for quality and completeness, as well as adherence to established standards. The regions are responsible for reviewing and ensuring BSA violations are cited appropriately and correctly. At a minimum, the regions will be responsible for maintaining and reporting:

- Monthly report to E&I of all significant BSA violations with associated resolution dates cited in FICUs

- Log of all BSA violations outstanding for more than 90 days with status reported to E&I quarterly
- Monthly report to E&I of all administrative actions taken relating to BSA violations
- Quarterly responses to E&I regarding the accuracy of BSA violations cited (when applicable)

---

*[NSPM content](#) last updated July 29, 2015*

## Chapter 4. Change of Officials for Troubled and Newly Chartered Credit Unions

Under [§701.14](#) of [NCUA rules and regulations](#), federally insured credit unions meeting certain conditions (see the [Affected Credit Unions section](#) of the NSPM) must obtain the Regional Director's approval for personnel changes (i.e., board of directors, credit or Supervisory Committee, or senior executive officer) at least 30 days prior to the effective date of the change, or within 48 hours of election at an annual membership meeting. For state-chartered federally insured credit unions, NCUA will consult with the appropriate state supervisory authority before making a final decision.

The regulation requires written notice from the credit union and Regional Director approval before an individual can begin service at the credit union. The only exceptions to this requirement are if the credit union requests and the Regional Director waives prior notice ([§701.14\(c\)\(2\)\(i\)](#)) and in the case of the election of a new member of the board of directors or credit committee member ([§701.14\(c\)\(2\)\(ii\)](#)).

In the case of a newly elected member of the board of directors or credit committee member, the 30-day prior notice is "automatically waived" and the individual may begin serving but, within 48 hours, a complete notice as required under the regulation must be submitted to the Regional Director. If a Regional Director grants a prior notice waiver or in the case of a new elected director or credit committee member, the Regional Director can still deny the individual and will have 30 days after receipt of the notice and information.

---

[NSPM content](#) last updated July 29, 2015

### 1. DOS Responsibilities

#### A. Initial Notice Procedures

Within ten calendar days after receiving the notice, the Regional Director will [acknowledge the application](#) (if it is complete) or [request that the credit union submit specific additional information](#) within 30 calendar days.

#### B. Receipt of Incomplete Package

- Regional Director will issue a written decision within 30 calendar days of receipt of the original notice, plus the amount of time the credit union

takes to provide requested additional information

- If additional information is not submitted within 30 calendar days of the Regional Director's request, he or she may either deny the proposed individual or review and take action on the notice based on the information provided

## C. Receipt of Complete Package

- Upon receipt of a complete package, DOS will
  - Obtain a credit report
    - If the report contains adverse credit information, the Regional Director will issue a letter to the applicant encouraging them to provide an explanation.
    - DOS will provide the applicant a copy of the credit report containing the adverse credit information via certified mail to the applicant's private address. The credit union will not be copied on this correspondence.
  - Email the application, credit report, and other information to the supervisor (with a courtesy copy to the examiner) requesting a recommendation for approval or denial
  - Conduct a review of the Suspicious Activity Report database to determine if additional investigation into the applicant's background is warranted.
    - Regions may request that OGC perform a criminal background search on the applicant if determined necessary. However, regions should keep in mind that the results of the criminal background search may not be available until after the statutory response date passes. This does not allow the statutory response date to be extended.
- Regional Director will issue a written decision of approval or denial to the individual and the credit union within 30 calendar days of receipt of the notice
  - The Regional Director will use the applicable template:
    - [Pre-Adverse Action Disclosure Letter](#)
    - [Deny Change of Officials Due In Part to Adverse Credit](#)

---

*NSPM content last updated July 29, 2015*

## 2. Field Staff Responsibilities

- The examiner will recommend approval or denial and email the recommendation to their supervisor.
  - The supervisor reviews the examiner's recommendation. Following the [standard outlined in the NSPM](#), the supervisor will email a final recommendation to the regional office.
- The examiner, supervisor, or DOS may request a criminal background search on the individual if concerns arise during a review.

---

[NSPM content](#) last updated July 29, 2015

## 3. Affected Credit Unions

- Chartered within the past two years
- For FCUs assigned a CAMEL composite rating of 4 or 5 by NCUA or, for FISCUs, an equivalent of CAMEL 4 or 5 by either NCUA (after an onsite contact) or its state supervisor; or
- Credit unions granted assistance under §208 of the [Federal Credit Union Act](#) that remain outstanding and unextinguished

---

[NSPM content](#) last updated July 29, 2015

## 4. Required Information

A credit union must submit both a [Notice of Change in Official or Senior Executive Officer](#) (NCUA Form 4063) and an [Individual Application for Approval of Official or Senior Executive Officer](#) (NCUA Form 4063a) to obtain the Regional Director's approval for the replacement of certain credit union employees and all officials.

The *Individual Application for Approval of Official or Senior Executive Officer* will be completed and signed by the individual for whom the credit union is seeking approval. FISCUs shall also file a copy of these forms with their state supervisor.

---

[NSPM content](#) last updated July 29, 2015

## 5. Approval Process

Upon receipt of the examiner's recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the Regional Director do not agree with the field recommendation, the supervisor will be contacted to discuss further, as time permits. The field will be given the opportunity to further support or revise their recommendation. DOS finalizes the response letter for the Regional Director and upon signature, mails it to the credit union via expedited mail and copies both the examiner and supervisor.

If the application is approved, DOS will send a [letter informing the individual of NCUA's approval of employment or official association](#) with the credit union with a copy to the credit union, examiner, and supervisor.

## A. Approval Timeframes

Approval of a change of official is automatic if a completed application is not denied within 30 days of receipt.

Reference	Description	Timeframe	Automatic Approval
<a href="#">§701.14 c (2)(i)</a> Waiver of Prior Notice – Change in Official or Senior Executive	Parties may petition the appropriate Regional Director for a waiver of the prior notice required. Waiver may be granted if it is found that delay could harm the credit union or the public interest.	None	No

---

[NSPM content](#) last updated July 29, 2015

## 6. Waiver of 30 Day Notification Requirement

In some instances, a credit union may request a waiver of the 30 day advance notification requirement and fill a vacancy until the region has time to process their application package. In these cases, the regional office can issue a letter with an interim approval until the region has time to process the request. (Use the [Waive 30-Day Notification Requirement](#) template.)

No waiver request is required for newly-elected members of the board or directors or credit committee. These individuals may begin serving immediately so long as the credit union files a complete notice within 48 hours of the election.

---

[NSPM content](#) last updated July 29, 2015

## 7. Grounds for Denial

The Regional Director will provide specific reasons for denial based on the authority of [§701.14\(e\)](#) of [NCUA rules and regulations](#). All disapprovals require the concurrence of the Office of General Counsel (OGC). The Regional Director should forward any draft disapproval letter to OGC for review and concurrence at least ten calendar days prior to the expiration date for the Regional Director to respond to the application. Given the short timeframes for acting on these requests regional office staff may contact OGC for assistance at any point during their review process.

The Regional Director will weigh the factors listed below, and will deny the request if, on balance, the issues relating to the individual's competence, experience, character, or integrity are such that it is not in the best interest of the credit union's members or the public for the individual to be employed by or associated with the credit union.

Factors which may support denial include, but are not limited to:

- Criminal convictions
  - Certain criminal convictions may result in an automatic prohibition under §205(d) of the [Federal Credit Union Act](#) and eliminate any need for any review pursuant to [§701.14](#) of [NCUA rules and regulations](#). Other criminal convictions may not. Regional office staff should contact OGC whenever an applicant has a criminal conviction.
- Unsatisfactory work performance in the financial sector
- Lack of work experience in relevant areas of financial management
- Poor personal financial condition or credit history, particularly as it relates to losses caused to financial institutions
- Omission of significant information relevant for job consideration

The mere presence of one or more of these factors in a particular case should not automatically result in disapproval. Rather, when determining whether these or other factors are disqualifying it is important to consider whether, given the specific circumstances surrounding the potentially disqualifying factor, it has a sufficient nexus to the competence, experience, character or integrity necessary for the particular position so as to be disqualifying.

[Part 713](#) of [NCUA rules and regulations](#) requires certain minimum bond coverage for credit union employees and officials. Therefore, if an applicant is

unable to secure the required minimum coverage they may not serve and there is no need for any review under [§701.14\(e\)](#).

If the application is not approved, DOS will send a copy of the appropriate denial letter to the credit union, the examiner, and the supervisor by using their preferred expedited mail delivery service. DOS will also send the individual a separate denial letter. The letters will:

- Summarize the reasons for denial, providing specific reasoning as to why the application is denied. When the applicant provides an explanation for potentially disqualifying information any denial should discuss why on balance these mitigating factors are insufficient
- Inform the credit union and the individual of their rights to file a written request for reconsideration to the Regional Director within 15 calendar days of receipt of the notice of denial, or file an appeal directly with the NCUA Board

Use the [Deny Change of Officials Due In Part to Adverse Credit](#) template to notify the credit union, examiner, and supervisory examiner when weak personal financial condition or credit history forms part of the reasoning for the denial. The [letter to the applicant](#) contains additional disclosures, which are required by law.

When weak personal financial condition or credit history does not form part of the reasoning for the denial, use the [Deny Change of Officials Not Due to Adverse Credit](#) template to notify the credit union, examiner, and supervisory examiner. Notify the applicant using the appropriate template, [Deny Change of Officials Not Due to Adverse Credit - Applicant Letter](#).

---

*[NSPM content](#) last updated July 29, 2015*

## 8. Request for Reconsideration and/or Appeal

As [stated in the NSPM](#), NCUA will inform a credit union of its option to request reconsideration by the Regional Director or the option to appeal the decision directly to the NCUA Board in a denial letter. A credit union's request for reconsideration must:

- Be submitted to the Regional Director in writing
- Include any relevant previously omitted material and/or relevant doc-

uments not previously available

- Contain the specific reasons why NCUA should reconsider the denial

Examiners should not discourage a credit union from filing an appeal. There is a 15-day window to file an appeal following notice of denial. The credit union may appeal the decision before or after requesting Regional Director reconsideration. [Part 747 \(subpart J\)](#) of [NCUA rules and regulations](#) provides guidance for the appeal.

---

[NSPM content](#) last updated July 29, 2015

## 9. Application Withdrawal

If a credit union chooses to withdraw an application, the regional office will use the [Acknowledge Request to Withdraw Application](#) template to create a response acknowledging that NCUA is aware of the credit union's withdrawal.

---

[NSPM content](#) last updated July 29, 2015

## 10. Templates

- Respond to Incomplete Application
- Acknowledge Complete Application
- Waive 30-Day Notification Requirement
- Approve Change of Officials
- Deny Change of Officials Due In Part to Adverse Credit
- Deny Change of Officials Due In Part to Adverse Credit - Applicant Letter
- Deny Change of Officials Not Due to Adverse Credit
- Deny Change of Officials Not Due to Adverse Credit - Applicant Letter
- Pre-Adverse Action Disclosure Letter
- Acknowledge Request to Withdraw Application

---

[NSPM content](#) last updated July 29, 2015

# **Template: Respond to Incomplete Application for Change of Officials**

Date

Ms. Jane Smith [Applicant]  
Address  
City, State Zip

Dear Ms. Smith:

Pursuant to Part 212 of the Federal Credit Union Act and Sections 701.14 and 747 (Subpart J) of the National Credit Union Administration rules and regulations, we reviewed the information provided on your qualifications to serve on the board of directors of the ABC Federal Credit Union.

Our review indicated that your application is incomplete. You did not provide your employment history and left the questions in Section XX unanswered. Please complete these sections of your application and resubmit the form for our review.

In order to reconsider your application, please complete these sections and resubmit the form within 30 days from receipt of this letter. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: John Doe, ABC FCU Chairperson  
SE  
EX  
SSA (when applicable)

# **Template: Acknowledge Complete Application for Change of Officials**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [date], we received your request regarding the approval of [name] for the position of [POSITION] at [CU NAME].

We are processing your request pursuant to the National Credit Union Administration rules and regulations §701.14. We will advise you of our decision by [30 DAYS FROM WHEN THE Regional Office RECEIVED THE COMPLETE PACKAGE]. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Waive 30-Day Notification Requirement for Change of Officials**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We received your letter on [date], which indicated the board of directors has selected [name] for the position of [POSITION] of the ABC Federal Credit Union.

Pursuant to the National Credit Union Administration rules and regulations Section 701.14 (d) (2), the waiver of the 30-day prior notice requirement that you requested is hereby granted. Please note, however, that the waiver shall not affect the authority of the National Credit Union Administration to issue a Notice of Denial.

We are processing your request and will advise you of our decision to either approve or disapprove [NAME'S] appointment by [DATE - 30 DAYS FROM THE DATE OF THIS LETTER]. In the interim, we do not object to [name] acting in the capacity of [POSITION] of the credit union. (*For a FISCU ADD:* provided you obtain the concurrence of the State Supervisory Authority). Please contact examiner [name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Approve Change of Officials**

Date

Ms. Jane Smith [Applicant]

Address

City, State Zip

Dear Ms. Smith:

Pursuant to Section 701.14 of the National Credit Union Administration rules and regulations, we reviewed the information sent to us regarding your participation with [name] Credit Union.

Based on the information available to us, we approve your serving on the [board of directors / as a committee member, etc.], of [name] Credit Union. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc: [name], Board Chairperson

[name], CEO SE

EX

SSA (when applicable)

# **Template: Deny Change of Officials Due, In Part, to Adverse Credit**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Pursuant to Section 212 of the Federal Credit Union Act, 12 U.S.C. § 1790a(b), and Part 701.14 of the National Credit Union Administration rules and regulations, 12 C.F.R. Part 701, we reviewed the information provided on [NAME's] qualifications to serve as [SPECIFY POSITION] for ABC Federal Credit Union.

Both the Federal Credit Union Act and the National Credit Union Administration rules and regulations provide for denial of an individual when evidence of the individual's competence, experience, character, or integrity indicates it would not be in the best interest of the credit union's members or the public to permit the individual's association with the credit union.

We have completed our review of the information provided by your credit union and [name], along with other information obtained during our review. Based on our review, I am denying [NAME'S] application to serve as a member of the board of directors of the ABC Federal Credit Union.

With regards to our review of [NAME's] competence and experience, we have determined that [insert detailed explanation of findings regarding competence and experience].

Additionally, information contained on [NAME'S] credit report adversely reflects upon his character and integrity, which forms part of the basis for my decision. Specifically, [insert specific issues involving credit and explain how they are related to character and integrity].

Pursuant to Subpart B of Part 746 of the National Credit Union Administration rules and regulations, within 15 days of receipt of the Notice to Denial you may file a request for reconsideration of this determination at this office or appeal the determination directly to the National Credit Union Administration Board. 12 C.F.R. Part 746. Your request for reconsideration or appeal should address the above items. Please contact examiner [name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Deny Change of Officials Due, In Part, to Adverse Credit (Letter to Applicant)**

Date

Ms. Jane Smith [Applicant]

Address

City, State Zip

Dear Ms. Smith:

Pursuant to Section 212 of the Federal Credit Union Act, 12 U.S.C. § 1790a(b), and Part 701.14 of the National Credit Union Administration rules and regulations, 12 C.F.R. Part 701, we reviewed the information provided on your qualifications to serve as [specify position] for the ABC Federal Credit Union.

Both the Federal Credit Union Act and the National Credit Union Administration rules and regulations provide for denial of an individual when evidence of the individual's competence, experience, character, or integrity indicates it would not be in the best interest of the credit union's members or the public to permit the individual's association with the credit union.

We have completed our review of the information provided by you and the credit union, along with other information obtained during our review. Based on our review, I am denying your application to serve as a member of the board of directors of the ABC Federal Credit Union.

With regards to our review of your competence and experience, we have determined that [insert detailed explanation of findings regarding competence and experience].

From our review your character and integrity, we have determined that [insert explanation of findings regarding character and integrity with detailed explanation].

Information contained on your credit report adversely reflects upon your character and integrity, [insert explanation of nexus between adverse credit and character and integrity] which forms part of the basis for my decision.

The credit report was provided by XYZ Credit Reporting Agency. The contact information for this agency is:

XYZ Credit Reporting Agency  
1234 Credit Boulevard  
Anytown, US 12345  
(123) 456-7890

The XYZ Credit Reporting Agency only supplied the credit report; they did not make the decision to take adverse action and cannot give specific reasons for it. You have the right to dispute the accuracy or completeness of any information the credit reporting agency furnished, and you have the right to an additional free consumer report from the credit reporting agency upon request within 60 days.

Pursuant to Subpart B of Part 746 of the National Credit Union Administration rules and regulations, within 15 days of receipt of the Notice of Denial you may file a request for reconsideration of this determination at this office or appeal the determination directly to the National Credit Union Administration Board. 12 C.F.R. Part 746. Your request for reconsideration or appeal should address the above items. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Deny Change of Officials Not Due to Adverse Credit**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Pursuant to Section 212 of the Federal Credit Union Act, 12 U.S.C. § 1790a(b), and Part 701.14 of the National Credit Union Administration rules and regulations, 12 C.F.R. Part 701, we reviewed the information provided on [NAME's] qualifications to serve as [specify job] for the ABC Federal Credit Union.

Both the Federal Credit Union Act and the National Credit Union Administration rules and regulations provide for denial of an individual when evidence of the individual's competence, experience, character, or integrity indicates it would not be in the best interest of the credit union's members or the public to permit the individual's association with the credit union.

We have completed our review of the information provided by your credit union and [NAME], along with other information obtained during our review. Based on our review, I am denying [NAME'S] application to serve as a member of the board of directors of the ABC Federal Credit Union.

With regards to our review of [NAME's] competence and experience, we have determined that [insert explanation of findings regarding competence and experience with detailed explanation].

From our review [NAME's] character and integrity, we have determined that [insert explanation of findings regarding character and integrity with detailed explanation].

Pursuant to Subpart B of Part 746 of the National Credit Union Administration rules and regulations, within 15 days of receipt of the Notice of Denial you may file a request for reconsideration of this determination at this office or appeal the determination directly to the National Credit Union Administration Board. 12 C.F.R. Part 746. Your request for reconsideration or appeal should address the above items. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Deny Change of Officials Not Due to Adverse Credit (Applicant Letter)**

Date

Ms. Jane Smith [Applicant]  
Address  
City, State Zip

Dear Mr. Doe:

Pursuant to Section 212 of the Federal Credit Union Act, 12 U.S.C. § 1790a(b), and Part 701.14 of the National Credit Union Administration rules and regulations, 12 C.F.R. Part 701, we reviewed the information provided on your qualifications to serve as [specify position] for the ABC Federal Credit Union.

Both the Federal Credit Union Act and the National Credit Union Administration rules and regulations provide for denial of an individual when evidence of the individual's competence, experience, character, or integrity indicates it would not be in the best interest of the credit union's members or the public to permit the individual's association with the credit union.

We have completed our review of the information provided by you and the credit union, along with other information obtained during our review. Based on our review, I am denying your application to serve as a member of the board of directors of the ABC Federal Credit Union.

With regards to our review of your competence and experience, we have determined that [insert detailed explanation of findings regarding competence and experience].

From our review your character and integrity, we have determined that [insert explanation of findings regarding character and integrity with detailed explanation].

Pursuant to Subpart B of Part 746 of the National Credit Union Administration rules and regulations, within 15 days of receipt of the Notice of Denial you may file a request for reconsideration of this determination at this office or appeal the determination directly to the National Credit Union Administration Board. 12 C.F.R. Part 746. Your request for reconsideration or appeal should address the above items. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: SE  
EX  
SSA (when applicable)

# **Template: Change of Officials Pre-Adverse Action Disclosure Letter**

Date

Ms. Jane Smith [Applicant]  
Address  
City, State Zip

Dear Ms. Smith:

Pursuant to Section 212 of the Federal Credit Union Act and Parts 701.14 and 747 (Subpart J) of the National Credit Union Administration rules and regulations, we reviewed the information provided on your application to serve on the board of directors of [name] Credit Union.

As part of our review of your qualifications, we obtained a copy of your credit report. We have performed a preliminary review of the report and determined that information in it may contribute to a decision resulting in adverse action. This letter is our required pre-adverse action disclosure. We will notify you of final action on your application by [date].

Attached you will find a copy of your credit report and a copy of *A Summary of Your Rights Under the Fair Credit Reporting Act*. The contact information for the Experian Credit Reporting Agency who provided the credit report is:

Experian Credit Reporting Agency  
Address  
City, State Zip  
(XXX) XXX-XXXX

Please contact the Division of Supervision at [phone number] if you have any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #  
Enclosure

*Note: Do not CC any other parties*

[Separate page]  
bcc: SE  
EX

# **Template: Acknowledge Request to Withdraw Application for Change of Officials**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [date], we received your request to withdraw the Notice of Change in Official and Individual Application for Approval of Official form requesting approval of [name] to serve on the board of directors of ABC Federal Credit Union.

We have processed your request and you may consider this letter as notification of completion.  
Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# Chapter 5. Corporate Credit Union Program and Procedures

The NCUA Board created the Office of National Examinations and Supervision (ONES) in July 2012, leveraging seasoned national examiner and specialist resources to evaluate key risk areas and risk management practices in corporate credit unions and the largest consumer credit unions. ONES is responsible for overseeing corporate credit unions (corporates) and, as of January 1, 2014, consumer credit unions with \$10 billion or more in assets.

This section of the NSPM describes situations unique to corporates for consideration in fulfilling ONES's examination and supervision responsibilities.

## 1. ONES Mission

ONES ensures the safety and soundness of all corporates and consumer credit unions with assets of \$10 billion or more by:

- Providing timely and effective advice to the NCUA Board on legislative, regulatory, and operational issues.
- Developing, implementing and maintaining examination and supervisory policies and procedures that timely address corporate issues in an evolving financial market.
- Effectively managing ONES's resources, the applicable risk to the National Credit Union Share Insurance Fund and the systemic risk to the credit union system.

## 2. ONES Policies and Procedures

With the exception of circumstances in which [NCUA rules and regulations \(Part 704\)](#) and the related delegated authorities require other processes or procedures, ONES adheres to the policies and practices outlined in the NSPM for its assigned credit unions. ONES staff will follow the general responsibilities, procedures, and requirements in the [Regulatory Waivers and other Regulatory Actions](#) section of the NSPM to process waivers, changes of officials, and other regulatory requests.

ONES staff should substitute terminology and timeframes as appropriate throughout the NSPM. For example:

Standard Term/Language	ONES Equivalent
AIRES	Corporate Examination Work Center
Call Report 5300	Call Report 5310
Quarterly Call Reports, management reporting, trend analysis, etc.	Monthly Call Reports, management reporting, trend analysis, etc.

In instances where ONES is not able to use all of the automated tools for corporate examinations that are available to the regions for consumer credit union examinations, staff should follow existing procedures or processes until corporates are incorporated into the automated systems. For example, ONES staff should use monthly financial analysis of corporate consolidated balance sheet (CBS) trend reports in place of RATE.

---

*[NSPM content](#) last updated July 29, 2015*

### **3. Corporate Regulatory Waivers**

In general, corporate waiver requests will be processed using the following procedures. Refer to each specific waiver type outlined in this section for unique processing steps.

#### **A. Division of Supervision Initial Responsibilities (Review Request)**

Upon ONES's receipt of the credit union's application, DOS will perform a cursory review to determine if the credit union request is complete.

If a request is complete, DOS will:

- Prepare and send an acknowledgement letter to the corporate using the preferred expedited mail delivery service
- Prepare and send a work assignment to the field requesting a recommendation for approval or denial (package includes credit union's request, application materials, and supporting documentation)

If a request is incomplete, DOS will:

- Prepare and send an incomplete/denial letter to the credit union using the preferred expedited mail delivery service

- Ensure the letter lists the additional information the credit union must submit if they would like the request to be considered
- DOS will copy the examiner and supervisor on the letter

## B. Field Staff Responsibilities (Review Credit Union)

The examiner and his or her supervisor will evaluate the corporate's management, capital level, CAMEL and risk ratings, and financial strength and provide a recommendation whether to grant the request to DOS for processing. The examiner will scale the scope and depth of the review according to the materiality of the waiver request. With supervisor approval, the examiner will determine if an onsite contact is necessary.

After review, examiners will determine if the waiver package is complete. If a waiver package is not complete, the examiner will:

- Draft the appropriate incomplete/denial letter (refer to the templates provided), or
- Informally contact the credit union to obtain the missing information

If a waiver package is complete, the examiner will:

- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial
- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor

If recommending denial, examiners will not discourage any credit union from applying for reconsideration or filing an appeal, if applicable.

## C. Supervisor Responsibilities (Process Request)

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

## D. Division of Supervision Responsibilities (Process Request)

Upon receipt of the field's recommendation, DOS will review and analyze the recommendation for appropriate support and justification. Upon concurrence,

DOS will:

- Submit the recommendation and proposed response letter to the director for approval and signature
- Mail the signed letter to the credit union using the preferred expedited mail delivery service (copying the examiner and supervisor)

If DOS and/or the director do not agree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, giving the field the opportunity to further support or revise their recommendation in the Regional Summary
- Draft revised correspondence
- Finalize the response letter for the director's signature
- Mail the signed letter to the credit union using the preferred expedited mail delivery service (copying the examiner and supervisor)

---

*[NSPM content](#) last updated July 29, 2015*

## 4. Processing Corporate Requests for Expanded Authority

[Appendix B to Part 704](#) of the [NCUA rules and regulations](#) establishes the framework and requirements for managing the additional risk allowed when a corporate applies and is approved for expanded investment authorities. The risks associated with each expanded investment authority are unique; the rule allows a corporate to apply for additional investment authorities it determines is necessary to manage balance sheet risk or to request authority for all expanded authorities.

NCUA issued [Guidelines for Submission of Requests for Expanded Authority](#) in December 2011 to help corporates and examiners evaluate credit union compliance with expanded investment authorities (Parts I through IV). The guidelines provide additional clarity for the submission of requests for expanded authorities and helps examiners determine the need and qualifications of the credit union that has made a request.

ONES maintains a list of all approved expanded authorities and will provide the list to E&I upon request.

## A. Request Requirements

As described in [Appendix B to Part 704](#) of [NCUA rules and regulations](#), a corporate's request for an expanded authority waiver must include:

- Corporate self-assessment plan
- Justification supporting the request
- Draft policies and procedures
- Proposed systems and personnel needed to efficiently and effectively manage the proposed risk activity

A corporate should provide additional information and documentation if it believes it will enhance its self-assessment plan.

DOS will review incoming requests from individual credit unions for completeness prior to forwarding them to the field for review.

---

[NSPM content](#) last updated July 29, 2015

## B. Request Requirements

As described in [Appendix B to Part 704](#) of [NCUA rules and regulations](#), a corporate credit union's request for an expanded authority waiver must include:

- Corporate self-assessment plan
- Justification supporting the request
- Draft policies and procedures
- Proposed systems and personnel needed to efficiently and effectively manage the proposed risk activity

A corporate credit union should provide additional information and documentation if it believes it will enhance its self-assessment plan.

DOS will review incoming requests from individual credit unions for completeness prior to forwarding them to the field for review.

---

[NSPM content](#) last updated July 29, 2015

## C. Evaluating a Request for Expanded Authority

Examiners and their supervisors are responsible for evaluating the risk posed by an expanded authority request. During the evaluation, the examiner

should:

- Review all pertinent documents
- Consult with the assigned capital markets specialist to determine if an onsite contact is necessary
- Complete the applicable expanded authorities review checklist
- Initiate and send a recommendation memo to approve or deny the request to the ONES mailbox

---

[NSPM content](#) last updated July 29, 2015

## D. Approving a Request for Expanded Authority

Additional review and areas of responsibility beyond those outlined in the [Regulatory Waivers and other Regulatory Actions](#) section of this manual are required to approve a corporate's credit union's participation in expanded authorities as outlined in the table below.

<b>Part</b>	<b>Relating To</b>	<b>Approvals Required</b>
I	NEV volatility	ONES director E&I concurrence
II	Foreign investments	NCUA Board
III	Derivatives	ONES director E&I concurrence OGC concurrence
IV	Participation Loans	ONES director

When applicable, DOS will submit a package of information, including a summary memorandum, to E&I, OGC, and the NCUA Board for concurrence or approval.

E&I and OGC will review and analyze the package and make recommendations. Concurrence memos from these offices may include additional actions or considerations a credit union must address as a condition for approval.

---

[NSPM content](#) last updated July 29, 2015

## E. After Approving Corporate Expanded Authority

### ***1. Monitoring***

Examiners will ensure the credit union is compliant with the regulations and the requirements for operating under the approved expanded authority.

During each annual examination, examiners will document compliance with the regulation and investment authority requirements. Failure to maintain compliance will result in the revocation of the expanded authority.

### ***2. Addressing Violations***

If the examiner identifies a violation of the authorized expanded authority during a subsequent examination, he or she will document the violation in the examination report and treat it as a major concern. The examination will include corrective action including ceasing the activity in violation of the expanded authority, if necessary.

At a minimum, the DOR will direct the credit union to submit a written plan for resolution to the director. The examiner will evaluate the financial severity or potential risk and make a determination, in consultation with their supervisor, whether to recommend revocation of the expanded authority.

---

*[NSPM content](#) last updated July 29, 2015*

## **5. Investment Action Plans (IAP)**

Sections [704.6\(h\)](#) and [704.10](#) of the [NCUA rules and regulations](#) state requirements for an Investment Action Plan (IAP). NCUA's expectation is that corporates will maintain the quality of their investment portfolio in accordance with [Part 704](#) by evaluating securities, their issuers, and any counterparties in all investment transactions.

Any corporate in possession of an investment, including a derivative, that fails to meet a requirement of Part 704 must, within 30 calendar days of the failure, report the failed investment to its board of directors, supervisory committee and the ONES director. If the corporate does not sell the failed investment, and the investment continues to fail to meet a requirement of Part 704, the corporate must, within 30 calendar days of the failure, provide the ONES director a written action plan described in [§704.10](#) of [NCUA rules and regulations](#).

An investment is subject to the requirements of [§704.10](#) if the following regulatory requirements of [§704.6](#) have been violated:

- Appropriate monitoring of investment would reasonably lead to the conclusion that the investment presents more than a minimal amount of credit risk, or
- Investment is part of an asset class or group of investments that exceeds the issuer, sector, or sub-sector concentration limits of §704.6

For purposes of measurement, each new credit transaction must be evaluated in terms of the corporate's capital at the end of the transaction. An investment that fails a requirement of this section because of subsequent reduction in capital will be deemed non-conforming. Corporates are required to exercise reasonable efforts to bring nonconforming investments into conformity within 90 calendar days. Investments that remain nonconforming for more than 90 calendar days will be deemed to fail a requirement of this section, and the corporate must comply with [§704.10](#).

A corporate with a security that is covered by an IAP is subject to monthly monitoring and reporting requirements.

---

*[NSPM content](#) last updated July 29, 2015*

## **A. After Approving an Investment Action Plan**

### ***1. Evaluating Investments, Strategy and Policies***

Examiners and their supervisors are responsible for evaluating a corporate's investment strategy and policies, as well as the specific investments that resulted in the violation of [Part 704](#) and the need for the corporate to file an IAP. During the evaluation, the examiner should review all pertinent documents, including both pre- and post-purchase analyses. Examiners, through their supervisors, should make a recommendation to the director to approve or deny the investment action plan. Examiners should consult with the assigned ONES capital markets specialist to ensure appropriate analysis and recommendation.

### ***2. Monitoring***

Examiners will monitor monthly to ensure the corporate is compliant with the regulation and the requirements of any approved IAP. Monitoring will include

ensuring that the corporate conducts periodic evaluations to determine the need to continue to hold or sell out of compliance investments.

During each annual examination, examiners will document compliance with the regulation and approved IAP. Failure of a corporate to maintain compliance and meeting reporting requests may result in revocation of an approved IAP.

### ***3. Addressing Violations***

If during a subsequent examination the examiner identifies a violation of the approved IAP or additional regulatory violations which were unreported, the examiner will document the violation in the examination report and treat such violation as a major concern. The examination will include corrective action which may include directing the corporate to sell the out of compliance investments.

At a minimum, the DOR will direct the credit union to submit a written plan for resolution to the director. The examiner will evaluate the financial severity or potential risk and make a determination, in consultation with their supervisor, and the director, whether to recommend revocation of the IAP.

If the examiner and supervisor determine the violation of the investment authority does not present a heightened material risk to the corporate credit union and believes the corporate credit union will take appropriate corrective action through examination agreements, examiners will document the waiver violation in the Confidential Section, and provide support for the decision not to recommend revocation.

---

*[NSPM content](#)* last updated July 29, 2015

## **6. Capital Restoration Plans**

### **A. General Responsibilities**

#### ***1. Field and Office Responsibilities***

District examiners are responsible for monitoring compliance with the proper filing and maintenance of a Capital Restoration Plan, or CRP, under [§704.4 of NCUA rules and regulations](#). The ONES director has delegated authority in the management of the CRP and approval process.

Any undercapitalized corporate is required to have in place an NCUA-approved CRP. An acceptable CRP must specify:

- Steps the corporate will take to become adequately capitalized
- Levels of capital to be attained during each year in which the plan will be in effect
- How the corporate will comply with the restrictions or requirements then in effect under PCA
- Types of levels of activities in which the corporate will engage

## **2. Division of Supervision Responsibilities**

Due to the time sensitivity of CRP packages, DOS should perform a cursory review of incoming packages for completeness, making sure all the required information as outlined in [§704.4\(e\)\(2\)](#) is included.

For a **substantially incomplete package**, DOS will draft a letter to request the missing information and return the CRP.

For a **complete package**, DOS will:

- Prepare and send a work assignment and with the CRP to the examiner and the supervisor with a required response date at least ten business days before the ONES director's response deadline
- Prepare and send a letter to the corporate credit union (provide a date by which the director will respond consistent with [§704.4\(e\)\(4\)](#))

---

[NSPM content](#) last updated July 29, 2015

## **B. Processing a Capital Restoration Plan**

### **1. Federal Credit Union CRP**

Upon receipt of a substantially complete CRP package from a FCU, the examiner will contact the credit union to obtain any additional documentation necessary for processing.

Examiners and supervisors must analyze the CRP and provide a written recommendation in a [Regional Summary](#). You can also reference the Corporate Supervisory Instruction 12-01, *PCA for Corporate Credit Unions*, for additional information.

Examiners must submit a draft letter that outlines approval or denial of the CRP to ONES Mail through their supervisor. Employees can modify the [Approve](#)

[NWRP/RBP](#) and [Deny NWRP/RBP](#) templates for corporate use. If you recommend denying the plan, the letter must list the specific deficiencies in the plan that warrant denial. ONES DOS should ensure the delivery method of the letter to the credit union includes a signature.

## **2. Federally Insured, State-ChARTed Credit Union CRP**

A FISCU will submit its CRP to the ONES director and SSA. The processing procedures listed for federal credit unions will apply, along with the following steps:

- Supervisors will coordinate all related issues directly with the SSA
- Unless submitted directly to ONES, supervisors will obtain documentation of the SSA's approval or denial
- DOS will courtesy copy the appropriate SSA on all signed correspondence between the director, DOS, and the FISCU, including any director's approval or denial letters

---

[NSPM content](#) last updated July 29, 2015

## **3. Failure to Submit a Capital Restoration Plan**

DOS will monitor credit unions that fail to submit a CRP and contact the supervisor for a status report if a CRP is not received by the due date.

When any corporate credit union fails to timely file a CRP, the examiner will draft a Regional Director letter using the [Notify CU of Need to Submit NWRP/RBP](#) template. This letter gives a credit union 15 calendar days from the receipt of the notice to submit the CRP in accordance with [§704.3\(3\)\(1\)\(i\)](#) of [NCUA rules and regulations](#). The supervisor will submit the Regional Director letter to ONES Mail within three business days of receipt. FISCUs require SSA consultation.

Sometimes a corporate credit union may be in the process of merging or seeking a merger partner. The ONES director can agree to accept a merger plan in lieu of a CRP. However, the director's approval should be subject to the corporate credit union filing an acceptable merger plan or CRP by a reasonable, but specific, deadline. If the merging corporate is critically undercapitalized or undercapitalized, the deadline should be set to ensure

compliance with §704.4(k)(5)(ii) or §704.4(k)(5)(iii) of [NCUA rules and regulations](#).

[NSPM content](#) last updated July 29, 2015

#### **4. Monitoring a Capital Restoration Plan after Approval**

Examiners will monitor each corporate operating with a leverage ratio less than four percent and provide their supervisor with a monthly update report (ONES DOS will provide the corporate form (similar to the [quarterly PCA tracking report](#)) when needed. Examiners will perform onsite supervision contacts of these credit unions at least quarterly to assess compliance with the PCA and overall capital stability.

Examiners and their supervisor are responsible for monitoring the level of compliance with the CRP. Examiners should document their compliance review in the Status Update of each examination or follow-up examination report.

If the examiner determines that the credit union has materially fallen short of the earnings and leverage ratio goals of the plan, examiners will:

- Instruct the corporate to make adjustments to its financial and operational strategies to come into compliance with the CRP
- When appropriate, advise the corporate to develop and submit a revised CRP, or
- Pursue additional supervisory remedies such as administrative action

If the examiner determines that an existing approved plan is no longer adequate, he or she will send a draft message instructing the credit union to submit a revised plan (use the [Notify CU of Need to Revise or Replace NWRP memo](#)) to the ONES mailbox through the supervisor. Documentation will include a comparison of the corporate's actual performance with its current CRP. The CRP monitoring form provided by DOS outlines a corporate's action plan and monthly targets for the leverage ratio, earnings, assets, etc., and can be used to document and track the plan's performance.

Any findings or concerns relating to the NWRP should be cited in the examination report as appropriate.

[NSPM content](#) last updated July 29, 2015

## **5. Capital Restoration Plans that are No Longer Needed**

Once a corporate with a CRP is effectively classified as “adequately capitalized” under PCA and financial projections indicate the ability to remain “adequately capitalized” going forward, it is no longer required to operate under a CRP.

Examiners, with the supervisor’s concurrence, will review the corporate credit union’s financial and operational condition, confirm the accuracy of the net worth classification, and draft a memo to the director recommending the CRP be removed.

- Examiners will include a draft letter advising the credit union of the CRP end date and the need to continue accumulating retaining earnings as required by [Part 704](#) (use the [Notify CU that NWRP RBP Is No Longer Required](#) template)
  - The memo will include supervision plans, if necessary, for monitoring PCA compliance (earnings retention) until the credit union becomes “well capitalized.”
- Supervisor will review the recommendation and draft letter, and forward it to DOS for processing.
- ONES will issue the letter to credit unions formally acknowledging the CRP is no longer in effect.

In the case of FISCUs, the supervisor will contact the SSA to discuss the CRP end date and ongoing supervision plans. The SSA will receive a courtesy copy of the letter notifying the FISCU the CRP is no longer in effect.

---

[NSPM content](#) last updated July 29, 2015

## **6. Invoking a DSA or OCA for a Critically Undercapitalized Credit Union**

ONES field and office staff will follow the guidelines and procedures outlined in the [Prompt Corrective Action](#) section of the NSPM and in [§704.4 of NCUA rules and regulations](#) when invoking discretionary supervisory actions (DSAs) and other correction actions (OCAs) for a critically undercapitalized credit union.

---

[NSPM content](#) last updated July 29, 2015

## 7. Corporate Credit Union Service Organizations

In September 2010, the NCUA Board adopted major revisions to the corporate rule. As part of those revisions, all activities of corporate credit union service organizations (CUSOs) must be preapproved by NCUA pursuant to [§704.11](#) of [NCUA rules and regulations](#). Two preapproved activities in §704.11(e) are brokerage services (as defined in the [Securities Exchange Act of 1934](#)) and investment advisory services (as defined in the [Investment Advisers Act of 1940](#)). [Approved corporate CUSO activities](#) are presented on NCUA's website.

The [Corporate CUSO Activities](#) page on NCUA's website details a corporate's responsibilities for complying with [§704.11\(e\)](#), the approval process for requesting additional corporate CUSO activities, and a list of those additional activities that are approved for corporate CUSOs, including reporting requirements and other restrictions on any corporate CUSO which desires to engage in those activities

NCUA may occasionally approve additional activities. Once an activity has been approved, any corporate CUSO may engage in it without further approval from NCUA.

---

[NSPM content](#) last updated July 29, 2015

### A. Corporate CUSO Activity Approval Requests

In general, ONES will process requests for approval corporate CUSO activities using the following procedures.

#### **1. Initial Review**

DOS handles preliminary processing of requests for approval of corporate CUSO activities; however, depending on the specific activity submitted and the structure of the corporate CUSO (wholly owned versus minority owned), examiners or specialists and their supervisors may be consulted.

After ONES receives a corporate CUSO activity request, DOS will perform a cursory review to:

- Determine whether the request is complete
- Assess whether the activity is already approved
- Identify whether consultation with the district examiner or a specialized examiner is needed

If the corporate CUSO activity request is considered complete, DOS will:

- Prepare an acknowledgement letter and send it to the corporate or CUSO using the preferred expedited mail delivery service
- Review the request to determine whether it falls under an existing approved corporate CUSO activity.
  - If the request is for an activity that NCUA has approved for all corporate CUSOs, DOS will prepare an approval letter.
  - If the request is for an activity that has not been approved by NCUA, DOS will determine if the request meets criteria specified in [§704.11](#) of [NCUA rules and regulations](#) and evaluate the risks associated with the activity. If necessary, DOS will consult with the district examiner, specialized examiner, E&I, or Office of General Counsel. For field consultation, the supervision technician will prepare and send a work assignment to the field that includes the credit union's request, application package, supporting documentation, and request a recommendation for approval or denial.

If the corporate CUSO activity request is considered incomplete, DOS will:

- Prepare an incomplete/denial letter and send it to the credit union or CUSO using the preferred expedited mail delivery
- Ensure the letter lists the additional information the credit union or CUSO must submit if it would like the request to be considered
- Copy the examiner and supervisor on the letter

## **2. Field Staff Review**

Examiners and/or specialists should review all pertinent documents with their supervisor to evaluate whether the requested activity is appropriate and aligns with the corporate credit union's business plan, whether the CUSO is currently profitable, and determine if the CUSO has the resources to remain profitable on an ongoing basis. The scope and depth of the examiner's review will be scaled according to the materiality of the CUSO activity request.

After review, examiners will:

- Determine if additional information is needed (if additional information is required, examiners will informally contact the credit union or CUSO to obtain the missing information)

- If the activity approval request is considered complete, the examiner will complete a memo to include an approval or denial recommendation

Supervisors will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

### **3. Processing**

The delegated authority for approving corporate CUSO activities requires concurrence from E&I and OGC. Upon receipt of the field's recommendation, DOS will review and analyze the recommendation for appropriate support and justification. Upon concurrence, DOS will endorse the recommendation, provide additional support and justification as needed, and prepare a concurrence request package for the director's review and approval.

Once E&I and OGC concurrence are received, DOS will prepare the proposed approval letter and forward it to the director for signature. DOS will mail the signed letter to the credit union using the preferred expedited mail delivery service. DOS will then notify the NCUA webmaster to update the [Approved Corporate CUSO Activities](#) webpage.

If DOS and/or the director do not agree with the field's recommendation to approve or deny a CUSO activity request, the supervisor will be notified of the reasons. The field will be given the opportunity to provide additional support or justification and revise their recommendation memo.

---

[NSPM content](#) last updated July 29, 2015

## **B. Monitoring Corporate CUSOs**

DOS will maintain a list of corporate CUSOs, approved CUSO activities, and monitor receipt of required quarterly reports as specified on the NCUA website and in the corporate CUSO activity approval letter. The list of corporate CUSOs will be verified with district examiners each quarter to identify changes.

During a CUSO review, examiners will ensure that a CUSO engages only in approved activities. Examiners may consider activities of wholly-owned CUSOs during the corporate's annual examination if the activities are included in the examination scope. Examiners are also responsible for validating the corporate CUSOs listed on the CUSO log each quarter.

---

[NSPM content](#) last updated July 29, 2015

## 8. Prompt Corrective Action

Prompt Corrective Action (PCA) for corporates is designed to restore and improve the capital of FCU and FISCU corporates. The principal purpose of [§704.4 of NCUA rules and regulations](#) is to define the capital measures and capital levels that are used to determine appropriate supervisory actions for a corporate that is not adequately capitalized. The relevant PCA capital measures for corporates are:

- Leverage ratio
- Tier 1 risk-based capital (RBC) ratio
- Total RBC ratio

When a corporate is subject to PCA, the district examiner will monitor compliance to all applicable provisions of PCA contained in [§704.4](#). This section of the NSPM establishes policy and guidelines for corporates that NCUA staff will follow when completing PCA-related work assignments and examination or supervision of PCA-related issues.

---

[NSPM content](#) last updated July 29, 2015

### A. Category Classifications

Examiners need to consider if a credit union meets any applicable risk based requirements for PCA classification. Examiners will determine the effective date and PCA classification as defined under [§704.4\(d\) of NCUA rules and regulations](#) and ensure that assigned corporate credit unions comply with all requirements of §704.4.

It is important to note that a credit union may meet one or two of the well capitalized elements in the table on the following page but end up in the “Adequately capitalized” category because other elements are below the “well capitalized” thresholds.

Capital Category Classification for Corporate Credit Unions	Leverage Ratio	Tier 1 RBC Ratio	Total RBC Ratio
Well capitalized	5% or higher	6% or higher	10% or higher
Adequately capitalized	4% to	4% to	8% to

<b>Capital Category Classification for Corporate Credit Unions</b>	<b>Leverage Ratio</b>	<b>Tier 1 RBC Ratio</b>	<b>Total RBC Ratio</b>
	4.99%	5.99%	9.99%
Undercapitalized	Less than 4%	Less than 4%	Less than 8%
Significantly undercapitalized	Less than 3%	Less than 3%	Less than 6%
Critically undercapitalized	Less than 2%	Less than 2%	Less than 4%

## B. Effective Date of Classification

At its discretion, ONES may provide the examiner with documentation to determine the effective date of classification and/or if a credit union is newly chartered. It is incumbent on the examiner to be familiar with his or her district information.

In general, the effective date of the capital classification is the most recent of:

- The last day of the previous calendar month ( determined by the 5310 Call Report filing and the most typical effective date)
- A final NCUA report of examination delivered to the corporate
- Date corporate received written notice from NCUA (or, if state-chartered, the appropriate SSA) that its capital category has changed as provided in [§704.4\(c\)\(2\)](#) or [§704.4\(d\)\(3\)](#) of [NCUA rules and regulations](#)
  - A decline in capital category due to a correction of an error or mis-statement in the credit union's most recent Call Report
  - A reclassification to a lower capital category on safety and soundness grounds

---

[NSPM content](#) last updated July 29, 2015

## C. Reclassification Based on Correction

The effective date of an examination or supervision contact-based correction to a capital category will vary depending on whether the corporate is federally chartered or state-chartered:

## **1. For a Federal Credit Union**

If the contact involves a report upload (such as an examination or follow-up examination), the effective date is the date the officials receive the final report. If the contact does not involve a report upload, the effective date will be the date the credit union receives the notification letter.

## **2. For a Federally Insured State-Chartered Credit Union**

Consult and work cooperatively with the appropriate SSA official before correcting a FISCU's capital category. NCUA examiners will promptly notify the appropriate SSA of the agency's decision to correct a capital category. The date will depend on whether it was an independent or joint examination.

<b>Activity Type</b>	<b>Classification Effective Date</b>
Independent examination completed by SSA	
Joint examination in which NCUA EIC is aware the SSA will be providing a timely examination report to the FISCU	Date SSA releases its official examination report
Joint examination in which SSA may not release its examination report for several months	Follow procedure used for FCUs (through a notification letter) <ul style="list-style-type: none"><li>• Give the SSA an opportunity to review the draft notification letter before it is issued</li><li>• Copy the SSA on the final letter</li></ul>
Independent insurance review completed by NCUA	

---

[\*NSPM content\*](#) last updated July 29, 2015

## **D. Lowering a Classification**

If an examiner recommends lowering a corporate's capital category to anything lower than "well capitalized" based on an examination or supervision contact, he or she must:

- Obtain supervisor concurrence for lowering the category
- Note the agreement in the Confidential Section of the report

- Document the corrected capital category in the Examination Overview

If the examination or the supervision contact reduces the capital classification to a lower category and a report is not issued to the corporate, the examiner will prepare a draft letter to formally notify credit union officials of the corrected capital category and the required PCA action(s). This should be rare.

Findings resulting in the lowering of a corporate's capital category would be significant in most circumstances, warranting an examination report to the corporate's officials for the administrative record. Modify the [Net Worth Category Reclassification samples](#) for use with a corporate credit union. Examiners should forward the draft letter to the ONES mailbox for processing through their supervisor.

---

*[NSPM content](#) last updated July 29, 2015*

## Chapter 6. CUSO Registry

In November 2013, the NCUA issued a [final rule](#) affecting the relationship between credit unions and credit union service organizations. The Board subsequently issued [changes to corporate credit union rules](#) to require the same reporting for CUSOs that have a loan or investment from a corporate credit union.

[Part 712](#) and [S741.222](#) of [NCUA rules and regulations](#) apply to all federally insured credit unions that have an investment in, or loan to, a CUSO. [Section 712.3\(d\)\(4\)](#) requires CUSOs to agree, in writing, to provide information to the NCUA and the appropriate SSA, if applicable, on an annual basis.

The NCUA established the online [CUSO Registry](#) as the official reporting tool for CUSOs, which will report year-end information to the agency through the registry during an annual registration period (February 1 through March 31). The goal of the [CUSO Registry](#) is to obtain accurate information about CUSOs in order to effectively evaluate potential financial and operational risk to credit unions. This information also helps NCUA identify inter-relationships between credit unions and the CUSOs in which they invest, lend, and do business. As a result, it is imperative that information contained the registry is accurate.

---

[NSPM content](#) last updated July 31, 2018

## 1. Field Staff and Regional Office Responsibilities

As part of every RFE and Tier 1 SCUEP exam, field staff will document the review of CUSO information in the AIRES scope workbook and in the AIRES CUSO internal control questionnaire. Specifically, field staff will:

1. Answer questions 1 through 7(a) in the AIRES CUSO internal control questionnaire.
2. Determine if the credit union/CUSO relationships reported in the [CUSO Registry](#) are materially accurate. If registration is not current or if there is materially inaccurate information in the registry:
  - a. **If the credit union is the whole or majority owner of the CUSO**, the examiner should attempt to resolve any CUSO reporting issues/concerns through the credit union. If the credit union/CUSO does not resolve the issue, the examiner will refer the issue to the regional office using the [CUSO Registry Reporting Concern](#) form. The regional office will then use the appropriate template to send a letter to the credit union, CUSO, and any other credit union investors or lenders of record. The letter will advise credit unions that invest in or lend to the CUSO to immediately stop making additional investments in or loans to the CUSO until the registration record is corrected.
  - b. **For CUSOs with multiple owners**, the examiner should notify the regional office of any CUSO reporting issues/concerns immediately using the [CUSO Registry Reporting Concern](#) form. The regional office will use the appropriate template to contact the CUSO and any credit union investors/lenders of record as soon as possible. The letter will request that the CUSO resolve the reporting issue within 30 calendar days from the initial date of contact. If the CUSO does not resolve the issue, the regional office will use the [CUSO Registry Examination Follow-Up template](#) to send a letter to the CUSO and any other credit union investors or lenders of record. The letter will advise credit unions that invest in or lend to the CUSO to immediately stop making additional investments in or loans to the CUSO until the registration record is corrected.
3. Document the completion of each scope step in the compliance section of the scope workbook. Indicate if any issues were discovered, and document the status of resolution.

If an examiner finds that a credit union made a new loan to or investment in a CUSO during a period when the CUSO was not properly registered, this should be reported as an Examiner Finding in the credit union's Exam Report.

If an examiner finds that a CUSO is in breach of its contract with respect to registering, the examiner will note this as an Examiner Finding in the credit union's exam report with a reminder that the credit union may not make any new loans to or investments with the CUSO until it comes into compliance. If the issue is corrected during the course of the examination, the examiner should note this in the Examiner Findings.

Serious or significant recurring issues should be discussed with your supervisor and may warrant a Document of Resolution or Regional Director Letter. Any recommended enforcement action beyond a DOR or RDL should include consultation with the Office of General Counsel.

## 2. Additional Regional Office Responsibilities

Regional offices will:

- Process [CUSO Registry Reporting Concern](#) forms submitted by field staff
- Notify E&I of any CUSO that fails to comply with reporting requirements
- Coordinate with other regional offices when sending letters to investor/lender credit unions in other regions

---

[NSPM content](#) last updated July 31, 2018

## 3. Templates

- CUSO Registry Reporting Concern Form
- CUSO Registry Examination Follow-Up Letter
- CUSO Registry Regional Director Letter to Credit Union Owners or Lenders

---

[NSPM content](#) last updated July 31, 2018

# Template: CUSO Registry Reporting Concern

CUSO Registry Reporting Concern	
Credit Union Name	
Type of CUSO Relationship (check all that apply)	<input type="checkbox"/> Investor <input type="checkbox"/> Lender <input type="checkbox"/> Customer
NCUA Charter/Insurance Number	
CUSO Name <sup>1</sup>	
NCUA's Registry Number for the CUSO, if available <sup>2</sup>	
CUSO Contact Information	
<ul style="list-style-type: none"> <li>• Name of CUSO CEO or credit union's primary point of contact at CUSO</li> <li>• Mailing address, if available</li> <li>• Email address, if available</li> <li>• Phone number of CUSO CEO or primary point of contact, if available</li> </ul>	
Reporting concern	<input type="checkbox"/> No current registration
	<input type="checkbox"/> Materially inaccurate registration information
Description of reporting concern <sup>3</sup>	

<sup>1</sup> If the CUSO is in NCUA's [CUSO Registry](#), use the name reported in the registry. If the CUSO is not in the registry, use the CUSO name as reported by the credit union.

<sup>2</sup> NCUA assigns a number to each CUSO that begins with "111-." Numbers that begin with "TT-" indicate that the CUSO has not been reported through CU Online nor validated as a CUSO. Contact your regional office for more information about these reporters.

<sup>3</sup> Examiners should provide a description that is specific enough that office staff can understand and accurately describe the issue in any communications with the CUSO and/or credit unions.

# **Template: CUSO Registry Examination Follow-Up for Multiple-Owned CUSOs (30-Day Deadline)**

*NOTE: Print on NCUA letterhead*

Date

CEO Name  
CUSO Name  
Address  
City, State Zip

Dear [CEO Name]:

During a contact at [CU name], our staff noted that [CUSO name] did not complete its registration with NCUA through the [CUSO Registry](#) as required by NCUA rules and regulations.<sup>1</sup> [*Originating office should provide any relevant details about the lack of registration.*]

**It is important that [CUSO name] register by [DATE (30 days from date of initial contact)].** A continued delay in registering will jeopardize the permissibility of future investments in and/or loans to [CUSO name] by federally insured credit unions.

--OR--

During a contact at [CU name], our staff noted that [CUSO name]'s [CUSO Registry](#) record is materially inaccurate with regard to [*Originating office should provide any relevant details about inaccurate information.*].

**It is important that [CUSO name] register (or correct its registration record) by [DATE (30 days from date of initial contact)].** Continued delay in filing will jeopardize the permissibility of future investments in and/or loans to [CUSO name] by federally insured credit unions.

If you have questions about this message or believe you are not required to register, please contact this office before DATE at xxx-xxx-xxxx or [NAME@ncua.gov].

Regards,

[Name]  
NCUA Regional Director

---

<sup>1</sup> See 12 CFR Part 712, [Credit Union Service Organizations](#), and 12 CFR Part 741, [Requirements for Insurance](#); for a complete discussion, see 78 Fed. Reg. 72537 (Dec. 3, 2013). For more information about the CUSO rule, see NCUA Letter to Credit Unions 13-CU-13, [Changes to NCUA Regulations related to Credit Union Service Organizations](#), issued in November 2013, and 14-CU-07, [Contractual Agreements with Credit Union Servicing Organizations](#), issued in June 2014.

Region/[WRITER'S INITIALS]

SSIC XXXX

cc:      E&I  
          SSA (when applicable)  
          CEO of All Credit Union Investors/Lenders of Record  
          SE  
          EX

# Template: CUSO Registry Regional Director Letter to Credit Union Owners or Lenders

NOTE: Print on NCUA letterhead

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Our records indicate that [CU name] has made an investment in or loan to [CUSO name]. NCUA rules and regulations require CUSOs that receive loans or investments from federally insured credit unions to file annual reports with NCUA through the *CUSO Registry*.<sup>1</sup> I'm sending this letter to make you aware that *[Originating office fill in issues/concerns. If a 30-day letter was previously sent to the CUSO without sufficient response, the originating office will also make reference to that letter]*.

**As a result of [CUSO name]'s registration status, [CU name] must immediately stop making additional investments in or loans to the CUSO.** NCUA will consider investments in or loans to [CUSO name] that take place while the CUSO is not actively registered impermissible. Once [CUSO name] completes the required registration, [CU name] can resume making investments in or loans to the organization, subject to the regulatory limit.

--OR--

**As a result of [CUSO name]'s registration status, [CU name] must immediately stop making additional investments in or loans to the CUSO.** NCUA will consider investments in or loans to [CUSO name] that take place while the CUSO's record is not materially accurate impermissible. Once [CUSO name] corrects its registration record, [CU name] can resume making investments in or loans to the organization, subject to the regulatory limit.

If you have questions about this message, please contact this office at xxx-xxx-xxxx or [NAME@ncua.gov].

Regards,

[Name]

---

<sup>1</sup> See 12 CFR Part 712, *Credit Union Service Organizations*, and 12 CFR Part 741, *Requirements for Insurance*; for a complete discussion, see 78 Fed. Reg. 72537 (Dec. 3, 2013). For more information about the CUSO rule, see NCUA Letter to Credit Unions 13-CU-13, *Changes to NCUA Regulations related to Credit Union Service Organizations*, issued in November 2013, and 14-CU-07, *Contractual Agreements with Credit Union Servicing Organizations*, issued in June 2014.

NCUA Regional Director

Region/[WRITER'S INITIALS]  
SSIC XXXX

cc:      E&I  
          SSA (when applicable)  
          Credit Union CEO  
          CUSO CEO  
          SE  
          EX

## Chapter 7. CUSO Reviews

A credit union servicing organization, or CUSO, is an organization that is owned wholly, or in part, by one or more credit unions in order to provide services to credit unions, credit union members, or both. [Part 712 of NCUA rules and regulations](#) establishes requirements for CUSOs; these include limits on the amount of investments in or loans to a CUSO that an FCU can make. Certain sections of Part 712 apply to FISCUs.

[Section 712.3\(d\)\(3\) of NCUA rules and regulations](#) requires both federal credit unions and FISCUs to have a written agreement with their CUSO that requires the CUSO to provide the NCUA and the SSA, as applicable, with complete access to any books and records and allow the NCUA to review internal controls as deemed necessary. This allows NCUA's review of CUSO operations.

The NCUA does not have direct regulatory authority over CUSOs. However, NCUA and SSAs (under state statutes) periodically perform independent or joint reviews of CUSOs to ensure they comply with statutory and regulatory requirements, including those in Part 712. These reviews are also designed to ensure that CUSOs use sound business practices and to determine if the CUSO is in compliance with statutory and regulatory requirements for the products and services they provide.

This section of the NSPM outlines procedures for conducting independent reviews of CUSOs that may pose systemic risk to credit unions. It also explains how risks in CUSOs will be identified; the process by which independent CUSO reviews will be planned, scheduled, and staffed; and describes how CUSO review reports will be developed, distributed, and maintained.

This section does not address procedures for examiners who perform a CUSO review as part of the normal credit union examination process. Examiners conducting such a review should refer to the [Examiner's Guide](#), the [CUSO Registry review procedures outlined in the NSPM](#), and the CUSO internal control questionnaire contained in AIRES Questions.xls.

---

*[NSPM content](#) last updated July 31, 2018*

# 1. General Responsibilities Regarding CUSOs

## A. E&I

E&I will monitor the national status and trends of CUSOs through data available from the [CUSO Registry](#). E&I will use this information, along with CUSO reviews, to evaluate risk mitigation and control and to identify weaknesses in overall CUSO supervision processes. E&I will maintain a SharePoint database of CUSO reviews along with the planned CUSO review list for the current year.

E&I will also distribute NCUA authored CUSO reviews to SSAs that did not otherwise receive a copy of the final report from the regions.

## B. Regional Office

Yearly, regions will solicit CUSO recommendations from NCUA staff and each SSA in the region. During the annual resource budgeting process, ARDPs will collectively determine which CUSOs will receive on-site CUSO reviews based on SSA and field staff recommendations, a CUSO's overall risk profile (identified through CUSO Registry information), and the availability of staff resources.

DOS staff are responsible for:

- Coordinating report actions with the examiner-in-charge, supervisor, SSAs, and CUSO officials
- Coordinating report responses with the CUSO, SSAs, and the EIC
- Finalizing and distributing draft and final reports to internal (regional, central offices, E&I) and external (CUSO, SSA, credit union owners/investors) recipients

## C. SE and DSA

SEs and DSAs will coordinate with examiners, specialists, and PCOs to identify CUSOs whose operations may pose potential risk and will recommend an independent CUSO review to regional management. SEs and DSAs are responsible for reviewing the yearly CUSO review recommendations provided by staff. If SEs or DSAs are presented with a case from staff that warrants more immediate attention, they will immediately notify the regional DOS director, ARDP, and ARDO.

## D. Field Staff

Field examiners, specialists, and PCOs are responsible for identifying potential risks associated with CUSOs based on information gathered during NCUA onsite contacts, examinations, and insurance reviews.

If an examiner, specialist, or PCO believes a CUSO poses significant risk to credit unions, he or she will recommend it for independent review through their supervisor. A CUSO may pose a significant risk to credit unions through its operations or the products and services it provides. It may also pose a risk to the credit unions that have an ownership in or loan to the CUSO if not financially stable.

Recommending a CUSO for independent review is done annually through the referral and selection process discussed in the [Selecting CUSOs for Review](#) section of the NSPM. If field staff determine the risks are pervasive or serious enough to warrant consideration for scheduling a review outside the annual process, they will make a recommendation to their supervisor immediately.

---

*[NSPM content](#) last updated December 30, 2016*

## 2. Selecting, Scheduling, and Resourcing CUSO Reviews

Regions will solicit recommendations for CUSO reviews from the field annually. Recommendations should come from examiners, specialists, and PCOs (through their supervisors). The region will also solicit recommendations for CUSO reviews from each SSA in the region and will review CUSO Registry reports to identify CUSOs with any wide-ranging regional or national impact.

During the annual resource budgeting meeting, ARPDs will review and discuss CUSOs presenting potential risk to credit unions and identify:

- CUSOs requiring cross-regional coordination and staffing, including identifying the region that will be primarily responsible for scheduling and staffing the review as well as any specialized resources necessary
- CUSOs that will receive reviews staffed and coordinated within the region, including identifying the supervisor (SE or DSA) responsible for scheduling and staffing the review

The final selection of CUSOs for each of the review categories above will be based on potential or emerging risks resulting from the services the CUSO

provides, the CUSO's geographical footprint, and the systemic risk the CUSO's operation may pose to credit unions regionally or nationwide.

On a quarterly basis, regions will provide the following information in the quarterly workload memo to E&I:

- Changes (additions or deletions) to the list of CUSOs scheduled for a review
- Anticipated dates for completion of CUSO reviews for the upcoming quarter

---

*[NSPM content](#) last updated December 30, 2016*

### 3. Scope of Review

NCUA staff conducting stand-alone CUSO reviews must use the [CUSO review scope workbook](#). The CUSO review scope workbook is not required for follow-up CUSO reviews or reviews of CUSOs conducted as part of the normal examination process. The CUSO review scope workbook includes CUSO review steps common to all CUSOs regardless of service type. These review steps are, in large part, based on requirements outlined in [Part 712 of NCUA rules and regulations](#).

**Regional supervisors responsible for a CUSO review may request expertise outside of their group.** This may be an opportunity to bring in SMEs or other specialized resources available in the region such as regional lending specialists, RISOs, or others.

The [CUSO review scope workbook](#) also provides specific review scope steps based on the products or services provided by the CUSO (for example, MBL, mortgage loan origination, IS&T, investment services, etc.). While the scope workbook is intended to provide more consistency during CUSO reviews, the examiner-in-charge has the flexibility to customize the scope as needed. Not all scope steps outlined in the workbook are required; each scope should be commensurate with the size and complexity of the CUSO being reviewed.

The EIC should generally design the review to determine regulatory compliance, assess the risk to investing or lending credit unions, and assess potential risks to credit unions that use the CUSO's products or services. Examiners can also consult the CUSO section of the [Examiner's Guide](#) for more information regarding the risks CUSOs can pose to credit unions.

As part of the scheduling process, the examiner will send the CUSO a [pre-review letter](#) that outlines goals, staff, timelines, etc. approximately 30 days before the start of a review.

Some issues identified during a CUSO review may need to be addressed directly with individual credit unions that invest in or lend to the CUSO. For example, if a federal credit union is over the statutory limit for investments in or loans to the CUSO, or if a credit union does not have written agreement with the CUSO as required by regulation, the issue should be addressed directly with the credit union. When reviewing finalized CUSO reports, DOS will bring all such concerns to the attention of the SE and to the assigned examiner of the credit union(s) that invest in or lend to the CUSO.

*[NSPM content](#) last updated July 31, 2018*

## 4. CUSO Review Report and Workpapers

A CUSO review report must include six specific sections (if applicable to the CUSO):

- Cover page
- Review summary
- Review findings and recommended corrective actions (when applicable)
- Loan exceptions (if applicable)
- Management response
- Confidential Section (not included in draft or final report provided to CUSO officials)

The EIC will format these required sections using the [CUSO review report template](#).

The report must include the following information, which the EIC can provide in any of the six sections listed above:

- CUSO's background information
- List of CUSO officials/senior management (including individual backgrounds)
- CUSO's organizational chart

- List of credit unions that invest in, loan to, or are affected by the CUSO, and the level of involvement for each credit union listed
- [Scope of review](#)
- List of services offered by the CUSO
- CUSO's financial data and trends (the EIC can use the embedded CUSO FINANCIAL TEMPLATE.xlsx worksheet to incorporate information and trends into the report at his or her discretion)

The EIC has flexibility in developing the overall content of the CUSO report, and may include additional documents in the report as attachments or appendices. Additional documents should be formatted consistently with the CUSO review report template.

An AIRES file will not be uploaded for independent CUSO reviews.

*[NSPM content](#) last updated July 31, 2018*

## 5. Distributing a Draft Review Report

The EIC will forward the draft CUSO review package to their supervisor for initial review. At a minimum, the CUSO review package will include the CUSO Review report (including any attachments and appendices) and the Confidential Section. Upon review and approval, the supervisor will forward the draft report to DOS Mail; DOS will log the item and review it within 14 days. The responsible DOS analyst, working with the EIC and the EIC's supervisor, will review, edit, and clarify the report as necessary.

Once the draft report has been reviewed by DOS and agreed-upon changes have been made, the DOS analyst will mark the report "Draft" and send it to any SSA that participated in the on-site review. The DOS analyst will not provide the draft report for comment to any SSA that did not participate in the review.

The DOS analyst will use the [Draft Report Cover Letter to SSA](#) template to develop a draft report transmittal letter to the SSA. The letter establishes a 15-day response date, and indicates that NCUA will assume the SSA accepts draft report content as provided if a response is not provided within 15 days. The DOS analyst working with the EIC will revise the draft report based on any SSA responses provided.

Once SSA comments are received and incorporated into the draft report by DOS (or if no SSA participated in the review), the DOS analyst will send a copy of the draft report to CUSO management. The DOS analyst will use the [Draft Report Cover Letter to CUSO](#) template to create a transmittal letter for the draft report. This letter will request CUSO management provide comments regarding review content and responses to all findings and recommended corrective actions within 15 days of receipt.

## A. Management Response

DOS analysts will forward a copy of any CUSO management responses to the draft report on to the EIC. The EIC will review the responses within ten days of receipt to determine if they are sufficient to address all concerns. The EIC, DOS analyst, and SSA staff (if applicable) will coordinate with CUSO management regarding the responses as necessary.

If a CUSO is unable or unwilling to respond to NCUA, the agency will issue the report and include an indication that the CUSO did not provide a response. The EIC will work with CUSO management to a reasonable extent to ensure the sufficiency of management's response. If no agreement can be reached, the finalization and distribution of the report will be handled on a case-by-case basis in consultation with regional management.

Once the EIC and DOS analyst agree on the adequacy of management's responses, the DOS analyst will add management's responses to the appropriate response section of the [CUSO Review Report](#). Once the final report has been updated with management responses, the DOS analyst will provide a copy to the EIC and coordinate with the EIC to determine whether a management conference will be held with CUSO officials.

---

[NSPM content](#) last updated July 31, 2018

## 6. Distributing a Final Review Report

After the DOS analyst inputs management responses into the final report, he or she will finalize the report and distribute it as outlined below:

Cover Letter	Recipient
<a href="#">Draft Report Cover Letter to CUSO</a>	CUSO officials

Cover Letter	Recipient
<a href="#">Final Report</a> <a href="#">Cover Letter to Investors and Lenders</a>	Credit union officials of each federally insured credit union that invests in or loans to the CUSO
<a href="#">Draft Report</a> <a href="#">Cover Letter to SSA</a>	SSAs that regulate credit unions which use products or services provided by the CUSO (Obtain the list of affected SSAs from information in the <a href="#">CUSO Registry</a> .)
N/A	Regional SEs, DSAs and DEs, ARDO, ARDP, and DOS director
N/A	E&I (for distribution to SSAs who did not receive the report directly from the regions)

Regions will send the report to \_E&I mail ([EIMail@ncua.gov](mailto:EIMail@ncua.gov)) and identify which SSAs have already received a copy of the final report. Regions will also identify other SSAs outside their geographical boundaries who need to receive a copy: E&I will send copies of the CUSO report to these SSAs per signed [information sharing agreements](#).

Certain reports may be issued jointly with or through the SSA, which will necessitate alteration of these processes and negotiation with the particular SSA. Template letters may need to be amended to include the SSA's logo, signature, and related information as appropriate.

[NSPM content](#) last updated December 30, 2016

## 7. Management Conference

Once DOS has distributed the final report, the EIC or supervisor may schedule a management conference with CUSO officials. While this conference is not mandatory, the EIC or supervisor will request it if:

- the CUSO Review Report identified material issues, or
- CUSO management requests a conference (management will be provided the option to hold a conference if the CUSO review does not identify material issues)

If scheduled, this conference will be held within 30 days of issuing the final report to the CUSO.

Depending on the severity of the issues and the response of the CUSO's management team, the EIC may need to schedule a conference with CUSO officials prior to the distribution of the report to discuss proper corrective action. The EIC should discuss this option with, and get concurrence from, their supervisor prior to scheduling.

Even if the SSA is not involved with the review, DOS should extend an invitation to the appropriate SSA to attend the management conference (if scheduled) with CUSO officials. This should only occur when the CUSO has state-chartered credit unions that invest in or loan to the CUSO, or are provided products and services by the CUSO. In these cases, DOS should provide a copy of the final review report to the SSA at least three business days before the scheduled meeting to allow the SSA sufficient time to review the final report.

If a conference is held, the EIC will review report content, discuss all material concerns, and obtain formal agreement on the responses provided by CUSO management. This conference will normally be held with the CUSO board of managers and/or key management depending on the severity of the issues noted during the review. The SSA will be offered the opportunity to attend the conference meeting as applicable. The EIC should include commitments regarding conference results in the Confidential Section of the report.

After the management conference (if one is held) or the final report is issued by DOS, the EIC will compile a final CUSO review package that includes all related and required review items (for example, final report, Confidential Section, etc.). The EIC will send a complete CUSO review package to DOS within five days of the management conference or, if no conference is held, within five days of issuing the final report to CUSO officials.

---

*[NSPM content](#)* last updated July 31, 2018

## 8. CUSO Follow-Up Reviews

CUSO follow-up reviews can be conducted when directed by the SE, the DSA director or other senior NCUA officials. The EIC conducting the follow up contact will use their discretion in developing both the content and the format of the follow-up review report. However, at a minimum, the follow-up review

report will address action taken by the CUSO officials on the recommended corrective actions outlined in the original CUSO review report.

Once the draft follow-up report is finalized; the EIC will forward a copy of the report to their supervisor for initial review. Upon review and approval, the supervisor will forward the draft follow-up report to DOS Mail. DOS will log the item and review it within 14 days. The responsible DOS analyst, working with the EIC and the EIC's supervisor, will review, edit, and clarify the report as necessary.

Once the follow-up report is finalized, DOS will distribute the review follow-up report in accordance with [distribution procedures outlined in the NSPM](#) and ensure upload of the final follow-up review report in accordance with the [procedures outlined in the NSPM](#).

---

*[NSPM content](#) last updated December 30, 2016*

## 9. CUSO Review Report Maintenance

E&I will maintain a [CUSO SharePoint site](#), which will serve as the central repository for all agency CUSO reviews. E&I will organize CUSO reviews by EIN numbers, and will identify CUSOs by name for ease of reference.

Once regional DOS has distributed the final CUSO review report, DOS staff will upload a compressed file (zip file) of the review to the CUSO SharePoint site and send an email to [E&I Mail](#) and to all other regional DOS mailboxes to alert them to the upload.

To ensure consistency, regional DOS will:

- Zip all CUSO review files so that only one file for each separate CUSO review is uploaded to the system
- Name the zip file as follows: YYYYMM\_EIN, where 'YYYYMM' is the effective date (for example, a CUSO with an EIN of 987654 and an examination effective date of June 30, 2014 would be named 201406\_987654.zip)

It is imperative that EINs are accurate, since the EIN is the primary identifier for the CUSO. DOS will upload the zip file to the appropriate EIN folder or create a new folder using the CUSO EIN if one does not already exist. For example, a CUSO with an EIN of 987654 would have a folder identified as 987654 (with no other characters in the name). All CUSO reviews will be housed in a folder using the EIN.

E&I DOS staff will amend the master EIN/CUSO list if necessary and ensure appropriate links are maintained to actual CUSO files within seven days of receiving notification of an upload.

---

*[NSPM content](#) last updated July 29, 2015*

## 10. State Supervisory Authorities & CUSO Reviews

CUSO reviews may be performed jointly with an SSA or independently by an SSA. For joint reviews, the agency that initiates the review is typically in charge of the review.

SSAs may conduct CUSO reviews and issue CUSO review reports independently, and may provide a copy of the review report directly to NCUA regional offices.

For independent SSA CUSO review reports, a DOS analyst will prepare a summary of the report outlining areas of concern and any conclusions based on the report. The depth and breadth of this review will depend on the nature of the CUSO.

DOS will route their review comments and a copy of the SSA report to the DOS Director, Regional Director, ARDO, and the ARDP for comments. The DOS analyst will ensure the review report and comments are posted to the [CUSO SharePoint site](#) in the same manner as a review completed by NCUA within 30 days of receipt. In addition the DOS analyst will provide a copy of the final SSA report and summary to regional SEs and DSAs.

---

*[NSPM content](#) last updated July 29, 2015*

## 11. Templates

- CUSO Pre-Review Letter
- CUSO Review Scope Workbook
- CUSO Financial Spreadsheet
- CUSO Review Report
- Draft Report Cover Letter to CUSO
- Draft Report Cover Letter to SSA
- Final Report Cover Letter to CUSO

- Final Report Cover Letter to Investors and Lenders
- Final Report Cover Letter to SSA

---

*[NSPM content](#) last updated July 31, 2018*

# Template: CUSO Pre-Review Letter

*NOTE: Print on NCUA letterhead*

Date

SENT BY EMAIL

Mr. John Doe  
President/CEO  
ABC CUSO  
Address  
City, State Zip  
Email address

Dear Mr. Doe:

The National Credit Union Administration (NCUA), will be performing a review of the books, records, and operations of [CUSO Name] beginning [Date of 1<sup>st</sup> Day Onsite at CUSO].<sup>1</sup> The effective date of the review is as of [Date]. The purpose of the review is to determine the level of risk to federally insured credit unions investing in, loaning to, or obtaining services from [CUSO Name], a credit union service organization (CUSO).

The review will focus on the overall soundness of [CUSO Name]'s business strategy, internal control structure and whether [CUSO Name] is providing services to federal and state chartered credit unions in accordance with applicable industry standards and NCUA Rules and Regulations Part 712. *[Tailor this section to the focus of the review, which could be lending, investment brokerage services, etc.]*

## ***Prepare for On-Site Examiners***

Approximately [number of examiners] NCUA [and SSA, as applicable] examiners will participate in the review. [Examiner Name and Title] is the Examiner-in-Charge and he/she reports to [Supervisor's Name]. Included, as an attachment to this letter, is a list of examiners including their roles, and arrival and departure dates. For security purposes, examiners will provide official identification when they arrive.

To prepare for on-site examiners, we ask that you:

- Make appropriate security arrangements according to your internal security protocols.
- Provide [Examiner Name and Title] with a list of CUSO staff contacts and invite appropriate CUSO staff to participate in an entrance meeting on [Month, Day and Year] with the review team (meeting will take place at the CUSO).
- Provide sufficient work space to accommodate examiners on the dates specified in the attachment.
- Gather items on the attached document request list.

---

<sup>1</sup> See [NCUA rules and regulations §Part 712.3](#) for details regarding NCUA access to CUSO books and records.

### *Document Request List*

The document request list attached to this letter contains a list of items we will need to complete our review. To prepare for the review, you should:

- Notify your internal audit department and other staff that examiners are authorized to access internal audits, compliance reports, and workpapers.
- Gather the information listed on the enclosed attachment and index all items before [Date of 1<sup>st</sup> day onsite].

### *Data Security*

It is important to minimize risk to sensitive CUSO data provided electronically. This may include, but not be limited to, proprietary CUSO information and/or credit union or credit union member information. NCUA defines sensitive data as (1) any information which by itself, or in combination with other information, could be used to cause harm to a credit union, credit union member, or any other party external to NCUA, and (2) any information concerning a person or their account which is not public information, including any non-public personally identifiable information.

In order to ensure sensitive electronic data is well protected, the data held by NCUA needs to be encrypted. The process of exchanging this data also needs to be secure and well controlled. Thus, **NCUA examiners may only accept sensitive data electronically as follows:**

#### Option 1 – Secure Electronic Transmission Or Transfer By Removable Media That Includes Encryption

Data file(s) can be provided on removable media (thumb drives, external hard drives, etc.) or transmitted through a secure electronic transmission. Either the data file(s) or the device/transmission itself must be encrypted under this method. The CUSO can provide such information using its own removable media or, if permitted by the CUSO's information technology security policy, media provided by an NCUA examiner. CUSOs can use various commercially available methods to electronically transmit files, such as via email or some type of secure file sharing service, provided the method incorporates encryption that meets the standards set forth below.

NCUA examiners will only accept such data files under this option if the following minimum data encryption requirements are met:<sup>2</sup>

---

<sup>2</sup> CUSO security procedures should be followed if they require more stringent encryption and password standards than those listed.

- 128-bit AES encryption<sup>3</sup>
- Strong password (a minimum of eight characters; mixture of upper- and lower-case, numbers, and special characters; not easily guessable, etc.)
- Password must be provided separately from the device or transmission

Under this option when encrypted media provided by NCUA is not used, NCUA examiners will rely on the credit union's assertion that the encryption requirements above were met. Thus, NCUA examiners will have the CUSO representative confirm in writing that the data file(s), removable media, or secure transmission provided to NCUA meets the minimum encryption requirements outlined above. If the transfer occurs while NCUA staff is onsite, this can be accomplished by the CUSO representative signing a *Chain of Custody* document to be provided by the examiner receiving the data. Otherwise, the CUSO representative can confirm through email that the transfer met the standards above.

#### Option 2 – In Person Transfer by Removable Media Does Not Include Encryption<sup>4</sup>

If the CUSO is unable or unwilling to electronically provide sensitive data in a manner that meets the requirements outlined for option 1 or 2, NCUA examiners may then only accept such data electronically if a CUSO representative in person provides the data file(s) to the examiner and remains physically present while the examiner transfers the data to NCUA's encrypted equipment. NCUA examiners will immediately begin the transfer process when provided the data file(s). To complete the controlled transfer, examiners will have the credit union representative:

- Take receipt of the removable media from the examiner immediately after the data transfer is complete, and
- Sign a chain-of-custody document to acknowledge receipt of the removable media.

**NCUA examiners will not accept any sensitive data electronically if a CUSO is unable to meet the requirements outlined in this letter.** If you are unable to meet these expectations, please contact the examiner in charge before they arrive on-site to resolve the issue.

---

<sup>3</sup> The U.S. National Institute of Standards and Technology (NIST) established the Advanced Encryption Standard (AES), a specification for the encryption of electronic data, in 2001. For more information, see "[Announcing the ADVANCED ENCRYPTION STANDARD \(AES\)](#)" (PDF). *Federal Information Processing Standards Publication 197*. United States National Institute of Standards and Technology (NIST). November 26, 2001. Retrieved July 31, 2015.

<sup>4</sup> The CUSO should not electronically transmit sensitive data to NCUA examiners, such as via unencrypted email, if the transmission or data file(s) does not meet the encryption standards specified in this letter. The CUSO is responsible for any consequences associated with electronically transmitting or providing data to NCUA if the CUSO did not follow the protocols in this letter.

### ***After the On-site Review***

We estimate the on-site review will end by [Date], at which time CUSO management will have opportunity to participate in an exit meeting which we will schedule early in the contact. The examiner in charge will share draft findings and conclusions at this meeting, so please schedule with staff accordingly. We will alert you of any changes in the schedule as the review progresses.

After completion of the on-site review, the examiner in charge will prepare a draft report which will issued by the [Regional Office]. You should expect to see your draft report within 45 days of field work completion. CUSO management will then have opportunity to review the draft report and provide responses to findings and information presented in the report. The CUSO's responses will be included in the final report, which will be distributed by the regional office to CUSO management and officials as well as credit union owners/investors.

If you have any questions about this letter or the attachments, please contact me at [Phone Number] or at [Email Address]. Thank you in advance for your cooperation.

Sincerely,

[NAME]  
Examiner in Charge

Region/[WRITER'S INITIALS]  
SSIC 5060

#### Attachments

- Secure File Transfer Portal User Guide
- Review Team Participants
- List of Requested Items

cc: Field supervisor (supervisory examiner, national field supervisor, or director of special actions)  
Field staff (district examiner, problem case officer, Examiner, or specialized examiner)  
Regional DOS Mailbox

<b>Items Needed for CUSO Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
<b>General</b>			
1	List of all credit union customers and those serviced by CUSO. Obtain POC and address information.		
2	List of current and proposed activities and services provided to CUSO partners and clients		
3	Management agreements and/or contracts made between the investing and/or lending credit unions and/or between the CUSO and its employees, if any		
4	List of CUSO investors, percentage of investment, and dollar amount of ownership		
5	Info regarding CUSO working arrangements/membership with any CU league, association, or trade		
6	Periodic reports provided by CUSO to credit unions (e.g., payments history, risk ratings updates, follow-up reports)		
7	Any report of third party reviews (e.g., loan reviews, lending activities)		
8	Any promotional materials		
<b>Plans</b>			
9	Disaster recovery plan		
10	Strategic business plan		
11	Capitalization plan (if not included in strategic business plan)		
12	Marketing plan (if separate from strategic business plan)		
<b>Staff and Board of Directors</b>			
13	CUSO organization chart		
14	List of CUSO officials (board of directors or board of managers)		
15	List of CUSO management, personnel, and their applicable job descriptions and summary of qualifications		
16	CUSO staff training programs		
18	Monthly Board of Managers and all other committee minutes and consent to elect board members		
<b>Policies, Procedures, and Methodologies</b>			
19	CUSO Policies and Procedures Manuals		
20	Policy and procedures for managing “pipelined” loans		
21	Policy and procedures for processing loan applications, underwriting, and making recommendations		
22	Policy or methodology used to determine service pricing		
23	Procedures for allocating operating cost and assessing monthly fees and charges to the member credit unions (if applicable)		
24	Procedures for tracking loan payments (if done by CUSO) and procedures for reporting to credit union		
25	Written policies/procedures used to conduct loan follow-up activities		

<b>Items Needed for CUSO Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
26	Data processing backup procedures		
27	Policy/procedures to manage liquidity		
28	Intrusion detection and monitoring procedures (internet, in-house, etc.)		
<b>Contracts, Agreements, Legal Documents</b>			
29	Legal opinion(s) addressing the corporate organization, "corporate veil," and limited liability of the investing and/or lending credit unions (e.g., CUSO structured as a separate legal entity)		
30	CUSO organizational/structure documents (LLC, etc.), Articles of Incorporation, bylaws, certificate of good standing, etc.		
31	Any documentation supporting CUSO compliance with laws of the state(s) in which it operates or serves owning or serviced credit unions (e.g., licensing, registration, etc.)		
32	Records of ownership, with contractual agreements (e.g., partnership, etc.) or other written agreements, the dollar amount of investments and/or loans to the CUSO, by investor(s) or affiliated credit unions)		
33	Service contacts/agreements with owning and serviced credit unions		
34	Insurance policies (e.g., liability, bonding, and property coverage)		
35	Loan participation and loan participation servicing agreements/contracts for all serviced credit unions (if any)		
36	Copies of stock certificates (if applicable)		
37	Operating fee arrangements with participating credit unions		
38	Contracts with business vendors (e.g., leases, data processing, etc.)		
39	Copy of any funding guarantees in agreements (if any)		
40	CUSO-provided memo that outlines any outstanding or pending litigation		
41	Loan participation and servicing agreements/contracts for all serviced credit unions		
<b>General Ledger, Tax Compliance, CPA Audits</b>			
41	Most recent CUSO budget and budget variance report		
42	General ledger information through most recent quarter end		
43	Financial statements for previous and most recent year to date (e.g., balance sheet, income and expense)		
44	List of any internal investments or cash investment deposits, by type		
45	Most recent CPA audit report and audit engagement letter		
46	Federal and state income tax returns and schedules for previous year		
47	List of any contingent liabilities		
<b>Loans</b>			
48	List of any loans made <b>to the CUSO</b> including lender name, loan amount; rate, term, and origination date		
49	List of any loans owned (in full or in part) by the CUSO		

<b>Items Needed for CUSO Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
50	List of open loans as of review date Include loan amount, origination date, loan type, risk rating (if used), owning credit union, and loan participants (if applicable)		
51	List of loans granted year-to-date as of review date Include loan amount, origination date, loan type, risk rating (if used), owning credit union, and loan participants (if applicable)		
52	List of all participated loans as of review date (if applicable) Include loan amount, origination date, loan type, risk rating (if used), owning credit union, and loan participants		
53	Loans presently in process (pipeline) as of review date Include loan amount, origination date, loan type, risk rating (if used), owning credit union, and loan participants (if applicable)		
54	List of all delinquent loans as of review date Include, at minimum, borrower name(s), present loan balance, loan type, original loan amount, origination date, number of days delinquent, owning credit union, and loan participants (if applicable)		
55	List of all loans charged off 24 months prior to review date Include, at minimum, borrower name(s), charged-off loan balance, original loan amount, loan type, origination date, charge-off date, owning credit union, and loan participants (if applicable)		
<b>IS&amp;T, Electronic Data Processing</b>			
56	Information regarding the IS&T electronic data processing (EDP) system used by the CUSO		
57	Copy of any third-party reviews of EDP activities		
58	List of EDP internal controls in place (e.g., passwords, access, and controls)		
59	Intrusion detection and monitoring procedures (internet, in-house, etc.)		

<b>Items Needed for CUSO Information Systems &amp; Security Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
<b>Audit</b>			
1	Current IT audit plan/schedule, scope, and reports, including any external audit or internal audit outsourcing engagement letters		
2	Internal IT reviews (e.g., penetration tests, vulnerability tests, general controls audits, etc.)		
3	External IT reviews (e.g., penetration tests, vulnerability tests, general controls audits, etc.)		
4	Management responses to audit issues		
5	Management action plans (including dates, finding, action plan steps and milestones, responsible person, current status, and outstanding items)		
6	Position descriptions of auditors that perform IT-related reviews		
<b>Board and Management Oversight</b>			
7	Long- and short-term strategic plans that include technology		
8	IT-related governing documents (e.g., policies, procedures, charters, etc.)		
<b>Vendor Management</b>			
9	Vendor management policies and procedures		
10	List of all critical service providers		
11	Contracts that govern critical service providers		
12	Last periodic review of critical service providers (SSAE 16 Type 2 Reports)		
<b>Information Security Program</b>			
13	Information security policy		
14	Documentation used to develop risk assessment, including (but not limited to): - System characterizations (business process/system characterizations) - Ranking list of assets/process (asset ranking) - Identified threat scenarios - Identified vulnerabilities - List of controls - Mitigation strategies - Residual risk identifications - Controls testing		
<b>Intrusion Detection and Response</b>			
15	Documentation of any internal or external incidents since previous contact which required the use of incident response procedures, including management's response		
16	Results of testing (e.g., simulations, walk-throughs, etc.)		
<b>Software Development and Acquisition</b>			
17	Software development and acquisition policies and procedures [included under management IT related governing document]		

<b>Items Needed for CUSO Information Systems &amp; Security Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
18	List of current software development projects and Systems Development Lifecycle (SDLC) phase (e.g., coding, maintenance, etc.)		
19	Results of auditing/testing of software development projects		
<b>Business Continuity Planning (BCP)</b>			
20	<b>BOARD/MANAGEMENT OVERSIGHT:</b> Provide contingency plan and related documentation and provide BCP-related governing documents (policies, procedures, etc.)		
21	<b>VENDOR MANAGEMENT:</b> Provide 1) list of all critical BCP related service providers; 2) contracts governing BCP related critical service providers; 3) last periodic review of critical BCP service providers		
22	<b>AUDIT:</b> Provide management responses to audit issues related to BCP and management action plans regarding findings (including finding, action plan steps and milestones, responsible person, current status and outstanding items)		
23	<b>RISK:</b> Provide copy of the most recent Business Impact Analysis and Risk Assessment		
24	Provide hot site description and location information		
25	Provide copies of detailed BCP testing (not just summary), test results and retesting since last review		
<b>Miscellaneous Items</b>			
26	Incident response policy and procedures		
27	Network diagram including IP addresses and all communication links (network architecture)		
28	Detailed IT organizational chart including a list of IT personnel and respective assigned functions		
29	List of personnel with unrestricted physical access to critical equipment (e.g., computer room, communication closets)		
30	List of users with administrative access to critical systems		
31	Baseline configuration for all critical systems including firewalls, routers, switches, and servers (computer systems security)		
32	Risk Assessment presented to board of directors, including date(s) of board meeting(s) where assessment was presented and/or discussed		
33	All IT initiatives and project plans (completed, in-process, and future plans)		
34	List of all servers, operating systems, and service level patches, including an identification of the function for each server and comment on plans for new items		
35	List of all internet applications, including brief description of the related technical environment and functions		

<b>Items Needed for CUSO Information Systems &amp; Security Review</b>			
<b>Item</b>	<b>Required Information</b>	<b>Make Available</b>	<b>Copy</b>
36	List of all other applications, including brief description of the related technical environment and functions		
37	List of all products and services accessible to all internal and/or external users		
38	Training plan and documentation of training conducted since previous review, including training attendance log(s)		

## CUSO Scoping Workbook

<b>CUSO Review (Core Review)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
<b>Compliance with NCUA Rules and Other Legal Requirements</b>				
1	Review legal opinion(s) that address the corporate organization, "corporate veil," and limited liability of the investing and/or lending credit unions (i.e. CUSO is structured as a separate legal entity) to determine overall compliance with legal organizational requirements and Part 712	<a href="#">Part 712</a>		
2	Review board of directors / managers meeting minutes to determine overall compliance with Part 712 and safe and sound business practices	<a href="#">Part 712</a>		
3	Review CUSO organizational/structure documents (LLC, etc.) including Articles of Incorporation, bylaws, Certificate of Good Standing, etc. to determine compliance with legal organizational requirements and Part 712	<a href="#">Part 712</a>		
4	Review documentation which indicates that any services provided by CUSO that are not preapproved by regulation have been authorized by the NCUA Board to determine overall compliance with service requirements in Part 712	<a href="#">Part 712</a>		
5	Review CUSO's Privacy Act policy to determine if it complies with FRB Regulation P (Privacy of Consumer Financial Information)	<a href="#">Part 1016</a>		
6	Review licenses to operate in states where CUSO conducts business and ensure CUSO provides documentation that it complies with laws of states in which it operates to determine overall compliance with organizational requirements and Part 712	Federal and/or state statutes		
7	Review contractual agreements (e.g., partnership, etc.) or other written agreements, the dollar amount of investments and/or loans to the CUSO by investors or affiliated credit unions) to determine overall compliance with legal organizational requirements and Part 712	<a href="#">Part 712</a>		
8	Review list of investors, including percentage and dollar amount of ownership, to determine overall ownership and control of CUSO and determine if owner credit union(s) comply with investment limits	<a href="#">Part 712</a>		
9	Review list of loans to CUSO including lender name, loan amount, rate, and terms to determine compliance with Part 712	<a href="#">Part 712</a>		
10	Review CUSO's insurance coverage (liability, bonding, and property) to determine compliance with Part 712 and sound business practices	<a href="#">Part 712</a>		
11	Review CUSO's record in the <i>CUSO Registry</i> to ensure it is current and accurate.	<a href="#">CUSO Registry</a>		
12	Review complaints processes, scan complaints, and evaluate any outstanding or pending litigation (outline to be provided by CUSO) to determine compliance with overall legal requirements and potential impact on CUSO operations	Safety and Soundness		
13	Review stock certificates (as applicable) to determine overall compliance with legal organizational requirements	Safety and Soundness  GAAP		
14	Review documentation of measurement showing that CUSO primarily serves credit unions, CUSO membership, or the membership of credit unions that contract with the CUSO to ensure that regulatory requirement is met	Part 712.3(b)		
<b>CUSO Management, Operational Plans, and Agreements</b>				
15	Review strategic business plan to determine CUSO's overall planning level and strategic direction	Sound Business Practices		
16	Review capitalization plan (if not included in strategic business plan) to determine CUSO's overall planning level and strategic direction; obtain any regulatory correspondence that requires additional capitalization (e.g., Trust CUSOs)	Sound Business Practices		
17	Review any CUSO working arrangements with the league, trades, or other associations to review CUSO's overall involvement in the credit union marketplace	Sound Business Practices		
18	Review mission statement (or see strategic business plan)	Sound Business Practices		

## CUSO Scoping Workbook

<b>CUSO Review (Core Review)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
19	Review list of activities and services provided to CUSO partners and clients to determine overall scope of services	<a href="#">Part 712</a> <a href="#">Sound Business Practices</a>		
20	Review list of credit unions serviced by CUSO to determine overall scope of CUSO business	Sound Business Practices		
21	Review operating fee arrangements with participating credit unions to determine overall fee structure and confirm that fee structure coincides with written agreements with serviced credit unions	Safety and Soundness Sound Business Practices		
22	Review CUSO contracts with business vendors (leases, data processing, etc.) to determine scope and potential impact of such contracts on financial and operational aspects of CUSO	Safety and Soundness Sound Business Practices		
23	Review any funding guarantees in agreements to determine if they impact income generation and if they coincide with CUSO agreements with credit unions	Safety and Soundness Sound Business Practices		
24	Determine if CUSO provides training to credit unions on the CUSO procedures	Safety and Soundness Sound Business Practices		
25	Review service contracts/agreements with participating credit unions to determine CUSO and participating credit union scope of responsibilities and to determine if CUSO procedures and policy are properly reflected in agreements	Safety and Soundness Sound Business Practices		
<b>CUSO Organization and Staffing</b>				
26	Review CUSO organization chart to determine overall CUSO organizational structure	Sound Business Practices		
27	Review list of management, personnel, and job descriptions to determine if CUSO has sufficient staff and experience to underwrite and follow-up on loans	Safety and Soundness Sound Business Practices		
28	Review list of CUSO officials (senior staff, board of managers, etc.) and summary of board member qualifications to determine CUSO's overall scope of control	<a href="#">Part 712</a>		
29	CUSO staff experience levels and training programs for products and services offered to determine if staff receives training and is current on industry standards and best practices	Sound Business Practices		
30	Review employment-related contracts	Safety and Soundness Sound Business Practices		
<b>Financial and Operational Status</b>				
31	Review list of contingent liabilities to determine impact of liabilities on CUSO's overall financial status	Safety and Soundness GAAP		

## CUSO Scoping Workbook

CUSO Review (Core Review)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
32	Review most recent budget and variance report to determine existence of budgetary planning and whether management and board of directors use material as a tool to control CUSO operations	Sound Business Practices  Safety and Soundness		
33	Review profitability and overall financial position using most recent quarter-end financial info (balance sheet, income statement) as well as other information provided by CUSO officials to determine CUSO's overall financial status	Safety and Soundness  GAAP		
34	Review general ledger through most recent quarter-end to validate CUSO's financial information	Safety and Soundness  GAAP		
35	Review procedures for allocating operating cost and assessing monthly fees and charges to the member credit unions to determine adequacy of cost allocation and fees to credit union members (as applicable)	Safety and Soundness  GAAP		
36	Review investments to determine if adequate controls for investments are in place and in accordance with sound business practices (as applicable)	Safety and Soundness  Sound Business Practices		
37	Review most recent CPA audit report and engagement letter to determine if opinion audit was performed as required by NCUA rules	<u>Safety and Soundness</u> <u>Part 712</u> <u>GAAP</u>		
38	Review federal and state income tax returns and schedules to ensure CUSO complies with filing requirements	IRS requirements		
39	Review CUSO policy/procedures to manage liquidity to determine if sufficient controls are in place	Safety and Soundness  Sound Business Practices		
40	Review third party vendor due diligence to determine the level of review of third party vendors	Safety and Soundness  Sound Business Practices		
41	Review promotional materials and website content to determine use of promotional activities	Sound Business Practices		
<b>Data Processing System</b>				
42	Determine whether adequate internal controls for data processing systems are in place (e.g., passwords, access, controls, etc.)	Safety and Soundness  Sound Business Practices		
43	Review intrusion detection and monitoring procedures (internet, in-house, cloud etc.) to determine if data processing systems are protected by intrusion detection systems (IDS)	Safety and Soundness  Sound Business Practices		
44	Review data processing backup procedures to determine if adequate systems are in place to ensure the availability of product and financial information	Safety and Soundness  Sound Business Practices		

## CUSO Scoping Workbook

<b>CUSO Review (Core Review)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
45	Review process for credit unions to access information from CUSO to ensure that the confidentiality of member data is maintained through multi-factor authentication	GLBA may apply		
46	Review disaster recovery plan to determine if adequate backup systems are in place, ensuring the availability of product and financial information	Safety and Soundness  Sound Business Practices		

## CUSO Scoping Workbook

CUSO Review (Consumer Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Consumer Underwriting Policy and Procedures</b>				
1	Review all consumer loan policies and procedures used for underwriting and servicing of consumer loans to determine if they meet requirements			
1.1	Determine whether CUSO uses its own policies and procedures or a serviced credit union's policy/procedures. If the CUSO uses the serviced credit union's policy/procedure, what controls do they have in place to ensure they are complying with the specific policies?			
1.2	Determine the adequacy of underwriting and policies and procedures used and whether they comply with sound lending practices, as well as general lending requirements outlined in Part 701			
<b>Consumer Loan Files</b>				
2	Review judgmental sample of consumer loans to determine if loan file documentation contains underwriting documentation required by policy and procedure and as required by contract between the CUSO and credit union (as applicable)	<a href="#">Part 701</a> <a href="#">Sound Business Practices</a>		
<b>Loan Participations</b>				
3	Review loan participation and servicing agreements/contracts for all serviced credit unions (if applicable) to determine contractual relationship for services with credit unions. Did the CUSO obtain an attorney review of agreement/contract?	<a href="#">Part 701</a> <a href="#">Sound Business Practices</a>		
4	Determine if loan participation contracts and agreements contain terms and conditions, related recourse provisions, and contain sufficient documentation to support that loans meet underwriting in accordance with sound business practices and Part 701	<a href="#">Part 701</a> <a href="#">Sound Business Practices</a>		
5	Review list of loan participations to determine the amount and concentration of loan participations in credit unions serviced by the CUSO	<a href="#">Part 701</a> <a href="#">Sound Business Practices</a>		
<b>Loan Delinquency, Collections, and Charge-offs</b>				
6	Review CUSO policy and procedures regarding the handling of loan delinquency, collections actions, loan modification and charge-offs and confirm that CUSO is compliant with the policy and procedure	FACTA Sound Business Practice		
7	Review sample of delinquent loans to determine if:  (1) Initial underwriting was sufficient  (2) If there are any common underwriting characteristics that led to payment fault  (3) If this information is documented and reported to the credit unions in some manner (if contractually required)	Sound Business Practices		
8	If CUSO does repossession and liquidation as part of their loan servicing, determine if CUSO's actions are in agreement with the contracts and agreements	Sound Business Practices		
9	Review judgmental sample of delinquent loans to determine if collection actions are sufficient and properly documented based on the borrowers level of delinquency	Sound Business Practices		

## CUSO Scoping Workbook

CUSO Review (Consumer Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
10	<p>Review history of loan charge-offs over the past 12 to 24 months (overall, and by credit union) to determine</p> <p>(1) Each serviced credit union's risk level</p> <p>(2) Overall effectiveness of underwriting and collections activities</p>	Sound Business Practices		
<b>Loan Portfolio Monitoring and Management</b>				
11	Review reports CUSO provides serviced credit unions to determine if proper monitoring is occurring	Sound Business Practices		
11.1	Review volume of loans originated in a given month or period to identify abnormal growth			
11.2	Review total loans outstanding to identify trends			
11.3	Review total loans per credit quality of the individual borrower (e.g., A, B, C, D, or E tiered loans) to identify abnormal growth			
12	Review third party loan review or other audit reports to determine scope and results of such reviews	Sound Business Practices		
13	Review procedures for tracking loan payments to determine if adequate procedures are in place to control loan payments and ensure proper accounting is taking place (as applicable)			
14	Review loan participation and servicing agreements/contracts for all serviced credit unions to determine contractual relationship for services with all credit unions (as applicable)	Sound Business Practices		

## CUSO Scoping Workbook

<b>CUSO Review (Mortgages)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
<b>General Mortgage Activities</b>				
1	Review CUSO structure in Steps 1.1-1.7			
1.1	Determine if CUSO offers underwriting for self or CUSO participants			
1.2	Determine if CUSO offers servicing			
1.3	Determine if CUSO sells loans directly			
1.4	Determine if CUSO offers loan participations			
1.5	Determine if CUSO offers OREO management			
1.6	Determine if CUSO offers collections or delinquency monitoring			
1.7	Determine if CUSO sells or packages loans to FNMA, FHLB, etc.			
2	Request any third party reviews of the CUSO's loans, processes, and policies in the last two years; determine if reviews identified problems and whether CUSO management has taken corrective action			
<b>Mortgage Underwriting and Follow-Up Activities</b>				
3	Review pipeline and commitment/rate lock reports to identify new loans that are being considered for approval			
4	Review consumer related information/disclosure packets. Review consumer marketing documentation for compliance with real estate requirements			
5	Review loan policies and written procedures to determine if the CUSO uses its own policy and procedures or the policy and procedures of the individual credit union client			
6	Complete a sample review of mortgage loans to review compliance and sound underwriting and document your loan selection of certain loan types (recently granted, concentrations, problem loans, etc.)			
7	Review the loan funding process to determine whether the CUSO is funding loans or only the credit union clients			
8	Review current loan interest rates, along with information on how pricing is determined, to ensure rates are appropriate			
9	Review loan policy exceptions to ensure credit unions are not accepting increased risk without increased income			
10	Determine the method of assigning the loan to the credit union and whether the assignment is made in a timely manner to ensure credit unions are not accepting unnecessary increased risk			
11	Review any credit score and property value migration reports to determine if there is increasing or decreasing risk in the loan portfolio based on changes in credit scores and property values, if applicable			
<b>Mortgage Compliance Activities</b>				
12	Review list of mortgage loan officer (MLO) numbers, registration, and tracking/monitoring to ensure SAFE Act Compliance	SAFE Act		
13	Review compliance with "high priced mortgage" rules	12 CFR 1000+		
14	Review procedures and practices for compliance with Flood Act	Flood Act		
15	Review CUSO's compliance with applicable consumer mortgage regulations (e.g. Flood Act, SAFE Act, HMDA, QM, RESPA, Equal Credit Opportunity Act, etc.)			
<b>Mortgage Servicing Activities</b>				
16	Review insurance and property tax tracking reports to determine if procedures and controls are in place; perform a random review of individual loans to test accuracy			

## CUSO Scoping Workbook

CUSO Review (Mortgages)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
17	Review escrow reports and statements to determine compliance with Regulation Z	<a href="#">Regulation Z</a>  <a href="#">12 CFR 1026</a>		
18	Review collection and foreclosure processes/procedures to determine whether CUSO assists in the processes and whether procedures are appropriate			
19	Determine how CUSO is valuing foreclosed property by reviewing its evaluation methods and policies for OREOs			
20	Determine method used for calculating delinquency and test process to determine if CUSO uses appropriate delinquency calculation methods for credit unions			
21	Review servicing agreements and fee structure to determine if they are reasonable and appropriate to market			
22	Review collection process by evaluating detailed list of loans over one month delinquent at effective date serviced/booked by the CUSO, if held or serviced by CUSO			
23	Review modified, TDR, or extended loans to evaluate the extent of collection problem loans and determine if appropriate controls are reporting are in place			
24	Review any reports generated to show risk composition/trends and risk management processes for the various loan portfolios serviced/booked			
25	Review list of any loans charged-off in previous year and current year			
26	Review servicing, monitoring and tickler reports			
27	If CUSO makes recommendations on the allowance reserves for credit union portfolios it services, evaluate the adequacy of the recommendations			
28	Evaluate loan performance data (delinquency, charge-off, yield) CUSO provides to client credit unions			
<b>Other Mortgage Activities</b>				
29	Review third parties to whom CUSO sells loans (FNMA, FHMLC, Sun Trust, PHH, etc.); examine third party sales outlets and contracts/agreements/status to determine whether CUSO is selling and whether the ability to sell is expected to continue			
30	For CUSOs that originate or offer loan participations with credit unions, review compliance with ASC 860 (formerly FAS 140) with regard to legal isolation tests	GAAP		
31	For CUSOs that originate or offer loan participations with credit unions, review summary information CUSO provides to credit unions regarding credit risk factors and key loan terms/data to ensure disclosure is adequate			
31.1	Confirm that CUSO is exercising due diligence of originating lenders			
31.2	Confirm that agreements in place with originating lender comply with participation regulations			

## CUSO Scoping Workbook

CUSO Review (Mortgages)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
31.3	Confirm that originating lender is holding required amounts per regulation	Part 701.22		
32	Review ownership of mortgage servicing rights; if CUSO owns the mortgage servicing rights, determine whether it accounts for the mortgage servicing rights according to GAAP	GAAP		
<b>Appraisals</b>				
33	Review list of approved appraisers	Part 722		
34	Review CUSO policies and/or procedures for appraisals; determine if CUSO is using its own policies or credit union policies for appraisal ordering			
35	Obtain a copy of the engagement letter for the appraiser			
36	Determine the process for appraisal reviewers (e.g., are reviewers qualified, are reviewers also the underwriters, etc.)			

## CUSO Scoping Workbook

CUSO Review (Member Business Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>MBL Underwriting and Follow-Up Activities</b>				
1	Review CUSO MBL loan policies and procedures manuals (if used) or review of underwriting standards of credit unions used to determine if they are sufficient to meet the requirements of Part 723	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
2	Review history of loan charge-offs in past 24-36 months (both overall, and by credit union) to determine risk level to credit unions	Sound Business Practices		
3	Review policy and procedures for managing processing of loans to determine how process works from the time the loan applications is received to time loan is funded or sold to determine process for pipeline loans is reasonable and in accordance with industry standards	Sound Business Practices		
4	Review list of property/non-real estate appraisers used to determine if list is reasonable for areas serviced by CUSO	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
5	Review policy and procedures for processing loan application and making recommendations to determine process for loan underwriting is reasonable and in accordance with industry standards	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
6	Review third party MBL reviews to determine scope and results of reviews	Sound Business Practices		
7	Review list of loans originated over a reasonable time period and list of loans made year-to-date to determine risk rating of loans; include loan amount, origination date, loan type, credit score (if available), risk rating (if used), and lead lender credit unions. Determine if CUSO retains of log recommended denied loans that the CU approves and funds. See if CUSO retains information pertaining to that decision. Determine if CUSO retains log of terms modified by CU as part of decision making process.	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
8	Review MBL risk rating policy/practices (if used) to determine if CUSO is providing risk ratings to serviced credit unions	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
9	Review the adequacy of the policy/procedures for site inspections on new loans as well as for the periodic/annual review process, if contractually required.			
10	Review and evaluate the CUSO policy and reporting requirements when they make a recommendation for approval or denial of a loan that is a policy exception			
11	Review loans presently in the pipeline by amount, type, and lead lender credit union	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
<b>Judgmental Sample of Recent MBL Underwriting</b>				
12	Select a sample of loans for review to determine if loan files contain sufficient documentation to support that loans meet underwriting requirements in Part 723 and sound business practices; describe your sampling criteria including loan types, concentrations, recent loans, problem loans and provide a statistical summary of loans reviewed by each team member	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		

## CUSO Scoping Workbook

CUSO Review (Member Business Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
13	Determine if initial loan files contain sufficient documentation to support that loans meet underwriting requirements of corresponding SBA program	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
14	Determine if initial loan files contain credit recommendation memo that outlines all loan factors, financial/operational calculations/ratio and risk, makes recommendation regarding loan funding/denial, loan covenants, and makes a general loan rate recommendation (if applicable)	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
<b>Judgmental Sample of Seasoned MBLs</b>				
15	Confirm that loans have periodic/annual reviews and loan files contain updated cash flow analysis and summary memos to the credit file. Document deficiencies identified in reporting process.	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
16	Confirm that loan file closure documentation includes collateral insurance documentation, lien filings, fully executed promissory note, and loan agreements	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
17	Determine if loan file contains required follow-up information from borrower, documentation regarding analysis, and risk rating, and determine if memo is timely and sufficient to support recommended risk rating (not applicable if done by the credit union)	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
<b>Loan Portfolio Servicing and Portfolio Management</b>				
18	Review CUSO procedures for tracking loan payments to determine if adequate procedures are in place to control loan payments and proper accounting is taking place (as applicable)	Safety and Soundness		
19	Review procedures used to conduct loan periodic/annual reviews to determine if adequate procedures are in place	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
20	Review periodic reports provided by CUSO to credit unions (e.g., payments history, risk ratings updates, follow-up reports)	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
21	Review loan delinquency as of review date and loan charge-offs of the past 24 months (for CUSO as a whole, if available)	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
22	Review present loan delinquency (by credit union, in total, or both) to determine risk level to credit union	Sound Business Practices		
23	Determine if CUSO makes a recommendation for reserves under ASC 310-10 (FAS 114)	GAAP		
24	Review loan participation and servicing agreements/contracts for all serviced credit unions to determine scope of CUSO and credit union responsibilities and loan participation agreements (if applicable)	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
25	Determine if there are any federal or state guaranteed loans; if so, determine if servicing of these loans is sufficient to ensure the guarantee is retained	Per SBA		
26	Determine if CUSO provides information for the 5300 or 5310 to determine if accurate information is provided to the credit union	Call Report instructions		

## CUSO Scoping Workbook

CUSO Review (Member Business Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
27	Obtain the agreement for asset management and liquidation (if done by CUSO) to determine responsibility between CUSO and credit unions for asset management and liquidation process	As applicable		
28	Review CUSO controls over OREOs to determine if they are sufficient (as applicable)	GAAP, per agreement with credit union		
<b>Loan Participations</b>				
29	Determine if loan participation agreements contain terms and condition related to follow-up activities, risk ratings, recourse provisions, and potential NCUA waivers to determine if files contain sufficient documentation to support that loans meet underwriting and follow-up actions outlined in Part 723 and are in accordance with sound business practices	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
30	Determine amounts and concentration of loan participation in credit union serviced by CUSO to determine if info to support that loans meet underwriting and follow-up actions outlined in Part 723 and in accordance with sound business practices	<a href="#">Part 723</a> <a href="#">Sound Business Practices</a>		
31	Determine whether there is a true sales opinion formulated by legal counsel for the loan participation to review compliance with ASC 860 (formerly FAS 140) with regard to legal isolation tests	GAAP		

## CUSO Scoping Workbook

CUSO Review (Indirect Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Indirect Underwriting Policy and Procedures</b>				
1	Review indirect lending policies and procedures used for underwriting and servicing of indirect loans to confirm they comply with Part 701	<a href="#">Part 701</a> <a href="#">Applicable State Law</a>  <a href="#">Sound Business Practices</a>		
1.1	Determine if CUSO uses its own policies and procedures for indirect loans or a serviced credit union's policy/procedures			
1.2	Determine the adequacy of underwriting policies and procedures and determine general compliance with general lending requirements outlined in Part 701 and sound lending practices			
<b>Dealer Management Practices</b>				
2	Review CUSO policies and procedures manual(s) for approving dealerships, if used, to ensure they are sufficient and address:  (1) Standards for approving dealerships, including at least annual updates of both the dealership's ongoing qualifications and the standards  (2) Dealership compensation  (3) Dealer reserves  (4) Recourse provisions  (5) Documentation standards  (6) Procedures to determine borrower creditworthiness  (7) Procedures to determine qualification under a credit union's field of membership	<a href="#">Part 701</a>  <a href="#">Sound Business Practices</a>		
3	Review sample of CUSO-dealer contractual agreements to determine if it address all requirements set forth in CUSO indirect lending policy and procedures	Sound Business Practices		
4	Obtain a history of loan charge-offs in the past 12 to 24 months (overall, and by credit union) to determine risk level to credit unions	Sound Business Practices		
5	Determine if CUSO can unilaterally modify terms of a loan that is in default; if contract allows for modifications without input from the credit union	<a href="#">Part 701</a>  <a href="#">Sound Business Practices</a>		
6	Obtain a current loan delinquency list (overall for all entities served by the CUSO and by credit union) to determine risk level to credit unions	Sound Business Practices		
<b>Indirect Loan Files</b>				
7	Review judgmental sample of recently underwritten indirect loan files to determine if documentation is sufficient to support that loans meet underwriting requirements in Part 701 and sound business practices	<a href="#">Part 701</a>  <a href="#">Reg Z</a>  <a href="#">US PATRIOT Act</a>  <a href="#">Sound Business Practices</a>		

## CUSO Scoping Workbook

CUSO Review (Indirect Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Loan Delinquency, Collections and Charge-offs</b>				
8	Review CUSO policy and procedures regarding the handling of loan delinquency, collections actions, loan modification and charge-offs to ensure they comply with sound lending practices	Sound Business Practices		
9	Review present loan delinquency (overall, and by credit union) if contract between CUSO and client requires this report to determine risk level to credit union and determine the overall effectiveness of underwriting and follow-up activities	Sound Business Practices		
10	Review sample of delinquent loans to determine if initial underwriting was sufficient and to determine if any common underwriting characteristics were in evidence that may have led to payment fault	Sound Business Practices		
11	Determine if loan servicing and or participation contracts and agreements contain terms and condition related to collections collateral repossession and liquidation	Sound Business Practices  State law		
12	Review judgmental sample of delinquent loan to determine if collection actions are sufficient and properly documented based on the borrowers level of delinquency	<a href="#">Part 701</a>  <a href="#">Sound Business Practices</a>		
13	Review repossesed loans procedures and reporting	<a href="#">Part 701</a>  <a href="#">Sound Business Practices</a>		
<b>Loan Participations</b>				
14	Review loan participation and servicing agreements/contracts for all serviced credit unions (if applicable) to determine contractual relationship for services with credit unions	Sound Business Practices		
15	Determine if loan participation contracts and agreements contain terms and conditions related recourse provisions and contain sufficient documentation to support that loans meet underwriting in accordance with sound business practices and Part 701	<a href="#">Part 701</a>  <a href="#">Sound Business Practices</a>		
16	Review list of loan participations to determine amounts and concentration of loan participations in credit unions serviced by the CUSO	Sound Business Practices		

## CUSO Scoping Workbook

CUSO Review (Indirect Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>General Indirect Lending Controls</b>				
17	Review CUSO-established creditworthiness and documentation standards for dealers to determine if CUSO verifies that dealers comply with standards; determine if CUSO has procedures and controls to oversee the dealership's credit evaluation and the final paperwork submitted by the dealer to ensure that it complies with the established standards (due diligence on dealers)	Sound Business Practices		
18	Review procedures to ensure CUSO verifies collateral values (ensure LTV limits are within credit union risk tolerance)	Sound Business Practices		
19	Review procedures to verify the sales contract with the borrower; ensure that dealers are not power booking (excessive vehicle add-ons that may or may not exist)	Sound Business Practices		
20	Review procedures to ensure CUSO verifies loan documentation from loan application to loan closing (loan file checklist)	Sound Business Practices		
21	Review procedures to ensure loan payments are made directly to the CUSO (if loan is serviced by CUSO)	Sound Business Practices		
22	Review procedures and controls to ensure that charges are not made to the dealer's reserve accounts to disguise delinquent accounts (if loan is serviced by CUSO)	Sound Business Practices		
23	Review policy and procedures to determine if the CUSO has an established, quality rating system for dealerships; determine if CUSO does due diligence initially and/or ongoing, and determine if the due diligence is sufficient to control risk	Sound Business Practices		
23.1	Determine if CUSO uses rating system to fund dealer reserves and holdback accounts			
24	Review list of dealerships in indirect lending program to determine types of dealerships (e.g., new versus used, independent versus national chains)	Sound Business Practices		

## CUSO Scoping Workbook

CUSO Review (Indirect Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Loan Portfolio Monitoring and Management</b>				
25	Determine if CUSO provides adequate monitoring reports to serviced credit unions by providing internal reports on  (1) Volume of indirect loans originated in a given month or period (at least until a program is seasoned)  (2) Total indirect loans outstanding  (3) Total loans outstanding to any one dealer  (4) Total loans per credit quality of individual borrower (e.g., A, B, C, D, or E tiered loans)	Sound Business Practices		
26	Review procedures for tracking loan payments (if done by CUSO) to determine if adequate procedures are in place to control loan payments and proper accounting is taking place	Safety and Soundness		
27	Review CUSO's third party loan review to determine scope and results of review (if conducted)	Sound Business Practices		
28	Determine if procedures are in place for loan follow-up activities (e.g., loan file post-audit) and review procedures to ensure they align with sound business practices (if applicable)	<a href="#">Part 701</a>  <u>Sound Business Practices</u>		
29	Determine if CUSO reviews the financial condition of each dealer it selects, and the adequacy of the review procedures	Sound Business Practices		
30	Determine if CUSO developed procedures to ensure compliance with state laws that govern indirect lending arrangements; review procedures for ensuring compliance with any applicable state and federal laws (e.g., motor vehicle sales financing laws, etc.)	State statutes		
31	Determine if comprehensive written agreements that address the rights, duties, obligations, and recourse of the dealer and the credit union are in place with each participating dealer	Sound Business Practices		
32	Determine if CUSO obtained a legal opinion on the dealership agreements and loan documents; review the legal opinion on file	Sound Business Practices		
33	Review procedures for determining field of membership qualifications and process for initial membership deposit	<a href="#">Part 701</a>		

## CUSO Scoping Workbook

CUSO Review (Private Student Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Private Student Loan (PSL) Underwriting and Follow-Up Activities</b>				
1	Determine number of credit unions being provided services by CUSO			
2	Identify and review the sources of marketing for private student loans			
3	Determine if student loans are direct or indirect loans			
4	Determine if the CUSO has a standard contract with each credit union or if there are multiple contracts; review and comment upon any variances or customization			
5	Identify if there is a minimum annual funding requirement; if so, determine the penalty if the commitment level is not obtained			
6	Determine whether potential borrowers need to be members of the credit union, and how members initially establish relationship and apply for loan			
7	Determine who is responsible for compliance with BSA, OFAC, and CIP			
8	Determine number of students served by CUSO			
9	Determine if loans are made to part time or full time students			
10	Determine if loans are available for non-profit schools or for profit schools			
11	<p>Determine if CUSO has established appropriate policies and procedures over PSL program that address:</p> <ul style="list-style-type: none"> <li>(1) Types of PSL (undergraduate, graduate, consolidation, etc.)</li> <li>(2) Acceptable Concentration Limits (as percentage of net worth and assets, per borrower, growth, etc.)</li> <li>(3) Origination costs</li> <li>(4) Deferment period</li> <li>(5) Repayment options</li> <li>(6) Approval authority</li> <li>(7) Third party vendors</li> <li>(8) Qualification under the field of membership</li> <li>(9) Exceptions</li> <li>(10) Process for handling claims (timeline)</li> <li>(11) Monitoring and reporting timelines</li> </ul>			
12	Determine concentration risk trends relating to growth and future funding requirements from approved credit limits and review credit union specific portfolios			
13	Determine if loan underwriting is set by CUSO, and whether each credit union has adopted them (as applicable)			
14	If PSLs are system approved loans, determine if the credit unions can deny/reject loans that meet the program guidelines			
15	If PSLs are system approved loans, determine if the credit union can override and grant loans that are denied by system			

## CUSO Scoping Workbook

CUSO Review (Private Student Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
16	Determine who is responsible for compliance with TIL, adverse action notices, security of information, etc.			
17	Determine if CUSO established separate policies and procedures for open-end lending programs which clearly differentiate <i>underwriting</i> versus <i>routine verification</i> requirements	Regulation Z 12 CFR 1026 Subpart B		
18	Determine if there is a minimum FICO score for a borrower or minimum annual income required			
19	If applicable, review internal scoring model used by CUSO; determine if CUSO uses a proprietary model, identify which factors are used in the model, and whether FICO is used as part of the score			
20	Identify what purposes student loans may be used for, whether funds can be used for past due tuition, or are limited to books and tuition for current session/quarter			
21	Determine the frequency of verification of enrollment			
22	Determine if CUSO has an internal process to review loan documentation prior to dispersal to ensure they meet policy requirements and to make sure documentation is complete/accurate; if so, evaluate the process' adequacy			
23	Determine the funds distribution process			
24	Obtain and review a trial balance of all current loans outstanding and select and review a sample of these loans considering dollar amount, various credit unions involved, level of education, etc			
25	Obtain and review a list of student loans granted in the past year and select and review a sample of these loans considering dollar amount, various credit unions involved, level of education, etc.			
26	Identify and evaluate terms (fixed/variable), maximum amounts (by year/by student), and pricing (prime +, LIBOR), and identify the maximum loan repayment period			
27	Determine the percentage of loans in deferment, repayment, forbearance, or other types of work out loans and review credit union specific portfolios			
28	Obtain and review a list of all student loans in deferment and select and review a sample of these loans considering dollar amount, various credit unions involved, level of education, timing or length of deferment, etc.			
29	Determine if the CUSO offers or requires a monthly "good faith" payment by the borrower even while the borrower is in school or during the grace period			
30	Identify and comment upon the grace periods granted to a borrower following graduation			
31	Determine if a borrower can elect to make interest only payments following graduation, and, if so, for what period of time			
32	Determine if unpaid interest is capitalized and added to the back end of the deferment			
33	Review "default" definition utilized by CUSO			
34	Determine any third party default insurer and review conditions for the default insurer to pay or not pay on claims			

## CUSO Scoping Workbook

CUSO Review (Private Student Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
35	Determine who reviews the third party default insurer, what type of due diligence is performed by the CUSO, and whether the various states have limitations on use of the insurer			
36	Determine the number of days the credit union has to notify the CUSO of default conditions, by contract			
37	Review performance analysis completed on the loan portfolio regarding default rates and determine if default rates are available by school			
38	Obtain and review a list of all student loans currently delinquent and select and review a sample of these loans considering dollar amount, various credit unions involved, level of education, degree of delinquency, etc.			
39	Determine if collection activities are handled by the CUSO or outsourced			
40	Review and analyze the standard loan performance data (delinquency, charge-off, yield, etc.) provided to client credit unions and review credit union specific portfolios			
41	Review delinquency and default trends for all student loans (by school if possible) and review credit union specific portfolios			
42	Determine if allowance for loan and lease losses recommendations are made to credit unions and review appropriateness of those recommendations			

## CUSO Scoping Workbook

CUSO Review (Payday Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Consumer Underwriting Policy and Procedures</b>				
1	Review all payday loan policies and procedures used for underwriting and servicing of consumer loans	<a href="#">Part 741</a> <a href="#">Sound Business Practices</a>		
1.1	Determine if CUSO uses its own policies and procedures or a serviced credit union's policy/procedures	<a href="#">Part 741</a> <a href="#">Sound Business Practices</a>		
1.2	Determine the adequacy of underwriting and policies and procedures used and in compliance with general lending requirements outlined in Part 701 and sound lending practices	<a href="#">Part 741</a> <a href="#">Sound Business Practices</a>		
<b>Payday Loan Files</b>				
2	Review judgmental sample of payday loans to determine if loan file documentation contains contain underwriting documentation required by policy and procedure and as required by contract between CUSO and credit union (as applicable)	<a href="#">Part 741</a> <a href="#">Sound Business Practices</a>		
3	Review or calculate annual percentage interest rates on loans to determine compliance with NCUA interest rate limits (Part 701) or state usury law	<a href="#">Part 741</a> <a href="#">State law</a>		
<b>Loan Delinquency, Collections and Charge-offs</b>				
7	Review CUSO policy and procedures regarding the handling of loan delinquency, collections actions, loan modification and charge- offs	Sound Business Practice		
8	Review sample of delinquent loans to determine if initial underwriting was sufficient and to determine if any common underwriting characteristics were in evidence that may have led to payment fault	Sound Business Practices		
9	Determine if loan servicing and or participation contracts and agreements contain terms and condition related to collections collateral repossession and liquidation	Sound Business Practices		
10	Review judgmental sample of delinquent loan to determine if collection actions are sufficient and properly documented based on the borrowers level of delinquency	Sound Business Practices		
11	Review history of loan charge-offs over past 12 to 24 months (overall, and by credit union) to determine risk level to each serviced credit union and determine overall effectiveness of underwriting and collections activities	Sound Business Practices		
<b>Loan Portfolio Monitoring and Management</b>				
12	Review internal reports CUSO provides serviced credit unions to determine if it is providing proper monitoring reports	Sound Business Practices		
12.1	Review volume of loans originated in a given month or period to identify abnormal growth			
12.2	Review total loans outstanding to identify trends			
12.3	Review total loans per credit quality of the individual borrower (e.g., A, B, C, D, or E tiered loans, if used) to identify abnormal growth			
13	Review third-party loan review or other audit reports to determine scope and results of such reviews	Sound Business Practices		
14	Review procedures for tracking loan payments to determine if adequate procedures are in place to control loan payments and ensure proper accounting is taking place (as applicable)	Safety and Soundness		

## CUSO Scoping Workbook

CUSO Review (Payday Loans)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
15	Review loan participation and servicing agreements/contracts for all serviced credit unions to determine contractual relationship for services with all credit unions (as applicable)	Sound Business Practices		

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>General</b>				
1	Review list of services offered to individuals and institutional clients provided by CUSO	State law		
2	Determine whether primary regulator completed a trust examination	State law		
3	If there is an internal audit or administrative account review process, identify who receives the completed report and determine whether management responded to any findings in a timely manner	<a href="#">Part 712</a>		
4	Confirm that CUSO has minimum compliance policies to cover BSA, OFAC, Gramm-Leach-Bliley Act, and USA Patriot Act	<a href="#">12 CFR</a>		
5	Confirm that CUSO has a sufficient compliance program	Sound business practices		
5.1	Ensure compliance program has strong support from the board and senior management			
5.2	Ensure compliance program is administered by a designated compliance officer			
5.3	Ensure compliance program has established procedures for periodic compliance testing and validation			
5.4	Ensure compliance program makes business line management responsible and accountable for compliance and the compliance program's effectiveness			
5.5	Ensure compliance program establishes effective and timely communication systems for reporting and following up on compliance activity and deficiencies			
6	Confirm that CUSO has obtained an independent test of the compliance program (identify whether management has responded to any findings from review)	Sound business practices		
7	Review management contracts or compensation contracts for potential contract clauses (such as a golden parachute) that present additional risk to the credit unions served by the CUSO	Sound business practices		
8	Determine whether volume and type of services provided by the vendor present an increased risk	Sound business practices		
9	Determine whether CUSO is registered as offering investment advisory services in the states they do business			
10	Obtain list of compensation schedules and/or fees for services	Sound business practices		
11	Determine whether CUSO board monitors the implementation of projects or risk-taking strategies used to achieve CUSO's strategic goals and financial objectives	Sound business practices		
12	Confirm that policies cover all significant lines of business and support functions, include clear standards of performance, and are effectively communicated at all CUSO staff levels	Sound business practices		
12.1	Ensure policies address brokerage placement practices (when appropriate)			
12.2	Confirm policies address methods for ensuring fiduciary officers and employees do not use material information in connection with any decision or recommendation to purchase a security (when appropriate)			
12.3	Ensure policies address method for preventing self-dealing and conflicts of interest (when appropriate)			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
12.4	Ensure policies address the selection and retention of legal counsel who is readily available to advise the institution and its fiduciary officers and employees on fiduciary matters (when appropriate)			
12.5	Ensure policies address investment of funds held as fiduciary or short-term investments and the treatment of fiduciary funds awaiting investment or distribution (when appropriate)			
13	Confirm that CUSO has a policy relating to ethical behavior	Sound business practices		
14	Confirm that CUSO board of directors or a designated committee reviews policies annually	Sound business practices		
15	Confirm that ethics training for staff is provided regularly (indicate most recent training date in comments)	Sound business practices		
16	Confirm that staff can report fraud, HR complaints, or other concerns anonymously using an established method	Sound business practices		
17	Confirm that management has assessed the expected outcome of any outstanding litigation against the CUSO (indicate assessment results in comments)	Sound business practices		
18	Determine whether senior management has sufficient experience in the areas in which they are involved (review resumes)	Sound business practices		
19	Determine whether CUSO has standard procedures for annual account reviews which cover all types of services offered	Sound business practices		
20	Determine whether there is a clear separation of Trust assets from the credit union owner(s)	Sound business practices		
21	Determine whether all assets are held in joint custody or under dual control	Sound business practices		
22	Confirm that CUSO complies with escheatment laws; unclaimed property is properly identified in a separate account and with an appropriate subsidiary ledger	Sound business practices		
23	Confirm that CUSO has adequate policies for securities trading	17CFR 270.17j-1d  Sound business practices		
23.1	Confirm that the policies assign responsibility for supervision of all officers or employees who:  (1) Transmit orders to or place orders with registered broker/dealers;  (2) Execute transactions in securities for customers; or  (3) Process orders for notification or settlement purposes, or perform other back office functions with respect to securities transactions effected for customers			
23.2	Confirm that the policies describe the supervision and reporting of transmittal and execution separately from the processing of orders for notification or settlement purposes			
23.3	Confirm that the policies provide for the fair and equitable allocation of securities and prices to accounts when the Trust receives orders for the same security at approximately the same time and places the orders for execution either individually or in combination			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
23.4	Confirm that the policies provide for the crossing of buy and sell orders on a fair and equitable basis to the parties to the transaction, where permissible under applicable law			
23.5	<p>Confirm that the policies require officers and employees to report all personal transactions in securities made by them or on their behalf in which they have a beneficial interest to the CUSO within the deadline specified in the SEC rule for quarterly transaction reports, if the officers and employees:</p> <ul style="list-style-type: none"> <li>(1) Make investment recommendations or decisions for the accounts of customers;</li> <li>(2) Participate in the determination of the recommendations or decisions; or</li> <li>(3) In connection with their duties, obtain information concerning which securities are purchased, sold, or recommended for purchase or sale by the CUSO</li> </ul>			
24	Review any significant changes in strategies, products, or services planned in the next 12 months	Sound business practices		
<b>Custody Services</b>				
25	Determine whether CUSO provides custody services			
26	Confirm that CUSO enforces dual controls (describe dual controls identified in policy and/or procedures in comments)	Sound business practices		
27	Confirm that CUSO has adequate segregation of duties	Sound business practices		
28	Confirm that accounts (particularly suspense accounts) are reconciled timely	Sound business practices		
29	Confirm that CUSO has an account acceptance process that ensures proper documentation of account acceptance; documentation assesses the operational needs of the client and ensures CUSO has the capacity to serve the client	Sound business practices		
30	Confirm that CUSO custody agreements are standardized and that the CUSO reviews any deviations from the standard agreement before accepting a trust account	Sound business practices		
30.1	Confirm that CUSO documents the review process, which typically involves legal counsel and senior management review			
31	Confirm that staff receive sufficient training to comply with new laws and regulations	Sound business practices		
32	If income payments are posted on a contractual basis (versus actual), determine whether CUSO process or procedures effectively manage the liquidity risk	Sound business practices		
33	Confirm that account is monitored for corporate actions and the process to notify the client (describe process used to notify the client)			
34	Determine whether CUSO provides custody for retirement accounts			
35	If CUSO allows "free-riding" (also known as day trading) in custody accounts, determine whether it has established a credit line for the account and explain why management allows this practice			
36	Determine whether CUSO engages in global custody services			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
37	If CUSO safekeeps any non-depository eligible securities and miscellaneous assets (e.g., jewelry, art, coins, etc.), confirm that it maintains appropriate documentation for the transfer or trading of these assets			
38	If CUSO safekeeps traded securities, determine whether it participates directly with a depository institution or "piggybacks" with a correspondent bank (provide documentation)			
38.1	Confirm that an agreement is in place between the CUSO and the Federal Reserve, DTCC, or another financial institution			
39	Determine whether CUSO reconciles changes to the depository position daily			
40	Confirm that CUSO has effective control over the electronic terminal access			
40.1	Confirm that electronic terminal interfaces are subject to appropriate access controls (ID and password) and periodic audits			
40.2	Confirm that each person that has electronic terminal interface access has a separate ID and password and can only perform functions necessary for their job			
40.3	Confirm that IDs and passwords are not shared			
40.4	Confirm that the person (normally the system administrator) responsible for granting access to system that interfaces with a depository is independent of the securities processing activity			
41	For trade initiations, determine whether CUSO has processes in place to ensure customer instructions for trades are clear, arrive in an agreed upon format, and are properly documented			
42	Determine whether CUSO has an affirmation/confirmation process in place and process is generally completed within the normal settlement cycle			
43	Determine whether CUSO generates reports on safekeeping to meet the needs of the customer, and reporting system generates report to comply with regulations (e.g., BSA, tax accounting, financial account, etc.)			
44	If CUSO offers cash management services (e.g., pooling of cash, sweeping of accounts, investing of accounts into specific activities, etc.), determine whether sufficient controls to protect the customer's cash are in place			
45	Determine whether CUSO has sufficient controls over income collection responsibilities (e.g., dividends, coupon payments, etc.)			
46	Review CUSO's process and procedures for corporate actions			
46.1	Ensure CUSO has systems to make it aware of all corporate actions under custody			
46.2	Ensure CUSO has systems to track customer notifications and timeframes			
46.3	Ensure CUSO has systems to process and settle actions in a timely manner			
46.4	Ensure procedures for corporate actions include documentation of all customer directions			
47	Review CUSO process to monitor the tax reclamation process			
<b>Personal Fiduciary Services (Primarily Trusts)</b>				
48	Determine whether CUSO manages personal trusts			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
49	Determine whether CUSO offers discretionary investment management services			
50	If CUSO offers estates services as part of the fiduciary services, confirm that CUSO has procedures in place for probate			
51	Determine whether CUSO trust accounting allows the separation of income from principal			
52	Review CUSO policies and procedures related to trusts to ensure they address all trustee duties			
53	Review CUSO policies related to personal fiduciary account			
53.1	Ensure policies address broker placement practices (if CUSO does not act as a broker)			
53.2	Ensure policies address use of inside information relating to security transactions			
53.3	Ensure policies address self-dealing and conflicts of interest			
53.4	Ensure policies address selection and retention of legal counsel			
53.5	Ensure policies address investment of fiduciary funds			
53.6	Ensure policies address account acceptance			
53.7	Ensure policies address account administration			
53.8	Ensure policies address management information reporting			
54	Determine whether CUSO has a pre-acceptance review process			
54.1	Confirm that CUSO has established a due diligence process for reviewing each prospective account that considers applicable risk management issues and ensures compliance with policies and procedures			
54.2	Confirm that CUSO documents results of review process in the file			
55	Confirm that CUSO's pre-acceptance process reviews the assets which will be used to fund the account, identifies risks or concerns with the account, and clearly documents the CUSO determination that it has the expertise to manage the assets			
56	Determine whether CUSO is compliant with its pre-acceptance policy (review pre-acceptance documentation in the files)			
57	Determine whether CUSO makes sound judgments of its ability to accept an account (review pre-acceptance documentation in the files)			
58	Determine whether CUSO reviews the account for conflicts of interest (review pre-acceptance documentation in the files)			
59	Confirm that CUSO management evaluates a potential fiduciary investment management account or portfolio using a process; describe process used			
59.1	Determine whether the terms of the governing instrument are documented			
59.2	Determine the types of assets currently in the portfolio			
59.3	Determine what types of assets will be purchased and managed for the portfolio			
59.4	Determine whether the CUSO has done an environmental due diligence review			
59.5	Determine whether the process solicits input from portfolio managers, risk managers, and legal consultants			
59.6	Determine whether the CUSO demonstrates an ability to appropriately manage the portfolio			
60	If CUSO accepts successor trusteeships, confirm that its policies cover this situation			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
61	Confirm that CUSO does a due diligence review of successor trusteeships <b>before</b> becoming the successor trustee			
61.1	Confirm that CUSO identified and reviewed all account assets prior to any account activity and, if possible, obtained indemnification from the predecessor for any actions taken prior to the assumption of the fiduciary relationship			
61.2	Confirm that CUSO has a written record indicating that it has performed a proper due diligence investigation, or has appropriate releases from the court and all beneficiaries			
62	If the trust documents (will or trust instrument) include an exculpatory clause which attempts to relieve the trustee from certain liabilities, confirm that CUSO obtains legal advice before accepting the account			
63	If CUSO accepts co-trustee accounts, confirm that its policies cover this situation			
64	If CUSO accepts co-trustee accounts in which another financial institution is the co-trustee, confirm that it has a co-trustee agreement between itself and the other financial institution			
65	If CUSO accepts co-trustee accounts, confirm that trust instrument has been reviewed by legal counsel and approved by the board of directors			
66	If CUSO is significantly different in assets size or skills than a financial institution co-trustee, confirm that CUSO signs/ed an indemnity agreement and indicate whether an agreement was considered, if not, in comments			
67	Determine whether CUSO promptly reviews all assets of each discretionary account to assess whether they are appropriate for the account once it accepts the account			
68	Determine whether CUSO establishes an investment policy statement that establishes the account's investment objectives and strategies for each discretionary account it accepts			
69	Determine whether CUSO reviews a synoptic record that includes a brief summary of the account's investment policy statement during the initial post-acceptance review			
70	Determine whether CUSO has a checklist to ensure it obtains all information needed to establish an account			
71	Determine whether each account has a formal, legal agency contract or trust agreement which establishes the fiduciary relationship	State and federal law		
71.1	Confirm that the legal document has been reviewed by legal counsel for compliance with state and federal law			
71.2	Confirm the contract clearly specifies the CUSO's fiduciary duties and obligations, and articulates the nature and limits of each party's status as agent or principal			
71.3	Ensure contract contains provisions for co-trustees (as applicable)			
72	Determine whether account files contain a copy of the governing trust documents			
73	Confirm that CUSO has appropriate software to manage trust accounts			
73.1	Confirm that software is appropriate for all types of assets (real estate, investment, mineral rights, etc.)			

## CUSO Scoping Workbook

<b>CUSO Review (Trusts)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
73.2	Confirm that board management has adequate information systems to assess, control, and monitor risk from personal fiduciary accounts			
74	Determine whether recordkeeping and document retention policies require the CUSO to maintain account records for a minimum of three years from the account closing or three years from the termination of the litigation related to the asset, whichever is longer			
75	Determine whether CUSO policies and procedures have sound controls over original documents filed with court authorities			
76	Determine whether CUSO policies/procedures ensure original documents are properly authenticated and preserved for future accounting			
77	Determine whether CUSO policies/procedures ensure original documentation, including board and committee minutes noting approvals and actions taken, is maintained in a centrally controlled location			
78	Determine whether CUSO follows recordkeeping procedures			
79	Determine whether CUSO performs annual account reviews as part of the policies and procedures			
79.1	Review the account objectives, beneficiary needs, and income tax consequences			
79.2	Confirm that reviews determine whether account assets are appropriate, individually and collectively, for the account			
79.3	Determine whether review considers the account's investment policy statement, analyzes investment performance, and reaffirms or changes the investment policy statement, including asset allocation guidelines			
79.4	Confirm that assets that are no longer appropriate for the account are replaced consistent with prudent investment practices			
80	Determine whether CUSO replaces assets that are no longer appropriate for the account in a timely manner			
81	If CUSO has fiduciary accounts with discretionary distribution authority, determine whether CUSO policy/procedures address this type of situation (indicate whether the CUSO is in compliance with the policy in the comments (if applicable))			
82	Determine whether CUSO has a policy and/or procedure to ensure there is adequate communication with the customer (indicate whether communication is documented in the file in comments)			
82.1	Confirm that CUSO has a system in place ensuring that a representative periodically contacts the account principals and beneficiaries to determine whether their financial objectives and circumstances have changed			
83	Determine whether CUSO has a policy and/or procedure for account termination in compliance with state law	State law		
84	Determine whether CUSO performs an account review prior to termination and develops a plan of action for the disposal and/or distribution of the remaining assets			
84.1	Confirm that plan is approved internally and submitted to the beneficiaries			
84.2	Confirm that plan considers the type and value of the assets			
84.3	Confirm that plan considers difficulties in dividing the assets			

## CUSO Scoping Workbook

CUSO Review (Trusts)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
84.4	Confirm that plan considers distributions in cash or in kind			
84.5	Confirm that plan considers tax consequences			
84.6	Confirm that plan considers releases			
84.7	Confirm that plan considers timing of distributions			
84.8	Confirm that plan considers the needs and circumstances of the remaindermen (people who receive income or principle after the beneficiaries have been fully compensated)			
84.9	Confirm that plan considers judicial and beneficiary accountings			
85	Determine whether plan of distribution addresses whether any laws require a judicial filing to release the fiduciary from its obligations			

## CUSO Scoping Workbook

CUSO Review (Payment Systems)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Audit and Compliance</b>				
1	Determine whether annual audits comply with NACHA rules	<a href="#">NACHA Rules</a>		
1.1	Determine the independence and competence of the party performing the audit			
1.2	Determine whether the committee reviewed and approved the audit			
1.3	Determine whether the responsibilities for high-risk entries, such as WEB or TEL were included in the scope			
1.4	Determine whether corrective actions are satisfactory regarding any audit exceptions			
2	Review regulatory, audit and information security reports from each service provider (SSAE- 16, IS&T audits, etc.)	<a href="#">SSAE-1</a> <a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix D</a>		
2.1	Review material issues noted on SSAE-16 report			
2.2	Review copies of correspondence between CUSO and other regulatory agencies including state regulators, NACHA, and FRB that pertain to ACH operations to assess whether CUSO has compliance or regulatory issues related to its ACH			
2.3	Review correspondence between CUSO and ACH customers to determine if there have been any substantive problems raised by customers			
3	Confirm that all payment systems products comply with applicable regulations (e.g., BSA-AML, OFAC, GLBA, CFPB, etc.); indicate whether CUSO has procedures that enable it to freeze proceeds of funds transfers transactions in favor of blocked parties under OFAC sanctions in comments	FFIEC BSA-AML Examination Manual  OFAC  GLBA  CFPB		
4	Confirm that CUSO complies with regulatory requirements specific to credit cards	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
4.1	Review VISA and MasterCard websites to verify the expiration date of compliance			
4.2	Verify that CUSO is PCI compliant (adheres to standards for handling credit cards)			
4.3	Determine whether CUSO provides disclosures for credit cards; if not, determine whether they are provided at the member credit union level			
4.4	Confirm that disclosures state all information required by regulation			
4.5	Determine whether call center(s) that access sensitive member information are safely and securely handled (if applicable)			
4.6	Determine whether account maintenance updates provided by CUSO are safe and secure and that GLBA requirements for handling data in place (GLBA required when dealing with customer account information)			

## CUSO Scoping Workbook

<b>CUSO Review (Payment Systems)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
4.7	Confirm wire payments are processed as per regulations (e.g., OFAC checks)			
4.8	Confirm that returns and insufficient funds (NSF) items are handled as per regulations			
4.9	Review charge-offs handling (if applicable) and ensure funds available and notification is done timely as per regulation			
4.1	Determine whether Catch 21 processing is done in accordance with regulation			
<b>Management Oversight</b>				
5	Determine whether payment systems product(s) risk assessments address COSO internal control framework numbers 6-9	<a href="#">COSO Internal Control Framework</a>		
5.1	Confirm that risk assessments specify suitable objectives			
5.2	Confirm that risk assessments identify and analyzes risk			
5.3	Confirm that risk assessments assess fraud risk			
5.4	Confirm that risk assessments identify and analyze significant change			
6	Review CUSO's overall plan to determine specific and overall strategic direction for each payment systems product (consider effect of competition on CUSO's overall payments operations)	Sound Business Practices		
7	Review overall alignment of CUSO's business plans with its technology and operational plans for retail payment systems to determine quality and effectiveness of CUSO's retail payment systems management function	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
7.1	Review alignment of CUSO's business plans with its technology and operational plans for retail payment systems			
7.2	Evaluate data center and network management and the quality of internal controls over internal ATM networks and gateway connectivity to regional, national, and international EFT/POS and bankcard networks			
7.3	Evaluate departmental management and the quality of internal controls, including separation of duties and dual control procedures, for bankcard, ATM and debit card, ACH, check items, and electronic banking payment transaction processing, clearance, and settlement activity			
7.4	Evaluate departmental management and the quality of information security and GLBA 501(b) compliance policies relating to retail payment system-generated customer data			
8	Assess management's ability to manage outsourced relationships with technology service providers for payment systems	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
8.1	Confirm CUSO has process to encrypt transactions in route between technology service providers and CUSO			
8.2	Evaluate adequacy of contract provisions including service level, performance agreements, responsibilities, liabilities, and management monitoring			
8.3	Evaluate management's determination of the service provider's compliance with applicable financial institution and consumer regulations and with third-party requirements (e.g., NACHA, GLBA, bankcard company, and interchange)			

## CUSO Scoping Workbook

<b>CUSO Review (Payment Systems)</b>				
<b>Item</b>	<b>Goal/Objective</b>	<b>Reference</b>	<b>Reviewer Initials</b>	<b>Results/Comments</b>
8.4	Evaluate adequacy of contract provisions for personnel, equipment, and related services			
8.5	Evaluate quality of management information systems (MIS) and reports needed to monitor the technology service provider's performance appropriately			
9	Evaluate CUSO's use of in-house and outsourced data processing systems to support retail payment products and processes	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
9.1	Determine the stability of existing systems			
9.2	Determine how current existing systems are configured.			
9.3	Determine whether there is adequate capacity for current and planned transaction volumes			
9.4	Determine whether the CUSO uses leading edge technologies or only mature technologies			
9.5	Determine to what extent systems are outsourced			
9.6	Determine whether outsourcing arrangements are governed by contracts and service level agreements			
9.7	Determine whether vendors are industry-recognized leaders			
10	Review CUSO's bonds to ensure institution has sufficient coverage associated with each payment systems product to cover risks associated with origination activity for applicable payment systems product such as ACH and funds transfers	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
11	Review management's response to issues raised during previous reviews and during internal and external audits performed since last review to determine whether they reveal any weaknesses and/or issues	Sound Business Practices		
11.1	Review the reasonableness of management's responses and corrective actions			
11.2	Assess the adequacy and timing of corrective action			
11.3	Determine whether CUSO resolves root causes or specific issues			
11.4	Review any outstanding issues			
12	Determine whether CUSO maintains appropriate documentation of any related operational or credit losses incurred, reasons for the losses, and actions taken by management to prevent future losses	Sound Business Practices		
12.1	Review documentation of discussions with management			
12.2	Review committee reports and actions			
12.3	Review sufficiency of corrective actions			
13	Identify any known or perceived payment systems risks based on understanding of risk levels and issues from audit and regulatory reports to determine whether oversight is commensurate with the level of risks	Sound Business Practices		
<b>Legal</b>				
14	Review CUSO's ACH agreements and contracts to confirm they comply with NACHA Rules and safe and sound business practices	<a href="#">NACHA</a>		
14.1	Determine CUSO's position(s) in ACH network (e.g., sender, receiver, RDFI, ODFI, settlement point, third-party processor, receiving point)			

## CUSO Scoping Workbook

CUSO Review (Payment Systems)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
14.2	Obtain and review copies of all ACH agreements including: (1) Settlement agreement (2) Processing agreement (3) Origination agreement (4) Third-party processing agreement(s), if applicable			
14.3	Determine whether contracts/agreements adequately set forth responsibilities of CUSO and member			
14.4	Determine whether agreements include recognition of all relevant NACHA requirements			
14.5	Determine whether the ACH clearinghouses to which the CUSO is a member stipulate: (1) Funding arrangements (outgoing) (2) Expedited Funds Availability Act (Reg CC), if applicable (3) UCC-4A (credit transfer only) (4) Electronic funds transfers (Regulation E), if applicable			
14.6	Determine whether agreements between the ODFI and originators adequately address: (1) Liabilities and warranties (2) Responsibilities for processing arrangements (3) Other originator obligations such as security and audit requirements			
14.7	Determine whether agreements with originators address exposure limits			
14.8	Determine whether agreements list the types of transaction activity authorized by the originator by SEC code			
14.9	Determine whether agreements identify any pre-funding arrangements			
14.1	Determine overall compliance with the NACHA and related regulations specific to ACH agreements			
15	Ensure all service level agreements are covered with written contracts that address key elements in the FFIEC IT Examination Handbook, Retail Payments Systems IT Booklet (Appendix A)	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
16	Ensure all credit card service level agreements (SLA) are covered with written contracts that address key elements in the FFIEC IT Examination Handbook, Retail Payments Systems IT Booklet (Appendix A)	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
16.1	Verify that contracts with member credit unions define SLA's, backup responsibilities, recovery responsibilities, regulatory responsibilities, security, and data safety			
16.2	Review contracts between CUSO and credit card services vendors for data safety and recovery, if applicable			
<b>Internal Control</b>				
17	Review overall operational controls related to processing and authorization of request for each payment systems product	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		

## CUSO Scoping Workbook

<b>CUSO Review (Payment Systems)</b>				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
17.1	Review list of authorized employees and authorizations (e.g., card ordering / re-ordering / blocking, PIN issuance, card limit changes)			
17.2	Review participating member credit unions' authorization lists			
17.3	Review reports and logs used to verify appropriate staff access to each payments systems application(s) and secured areas (e.g., retained plastics, PIN mailer storage)			
17.4	Ensure access to each payment systems product is covered with written authorizations			
18	Obtain and review users reports to ensure authorized and secured access (logical and physical) to each payment systems product	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
18.1	Review physical and logical access to each payments systems product			
18.2	Review management's review of users reports, including file maintenances			
18.3	Review security token management			
18.4	Evaluate recording methods used (e.g., telephone recordings via tape or electronic)			
18.5	Review desktop configuration for each payments systems application			
19	Review overall control environment for credit cards	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
19.1	Ensure control environment addresses critical elements of the FFIEC IT Examination Handbook, Retail Payments Systems IT Booklet (Appendix A)			
19.2	If CUSO handles any plastics with credit union logos, confirm that dual controls are in place at storage, mailing, and printing			
19.3	Identify built-in controls that capture a card if the wrong personal identification number (PIN) is consecutively used			
19.4	Determine whether captured cards are kept under dual control of persons not associated with card issuance or PIN issuance			
19.5	Determine whether the CUSO has real-time fraud monitoring			
19.6	Determine whether CUSO has adequate procedures to ensure that notification of loss, theft, or unauthorized use of card results in promptly blocking unauthorized withdrawals or transfers from member's account			
19.7	Determine whether PINs are mailed separately from cards, if applicable			
19.8	Determine whether personnel who have custody of cards are prohibited from also having custody of PINs at any stage of issuance, verification, or reissuance			
19.9	Determine whether FALCON security is in place for cards			
19.1	If CUSO is responsible for notifying the member credit unions of card fraud, determine whether adequate procedures to ensure member credit unions are promptly notified of any fraud are in place			

## CUSO Scoping Workbook

CUSO Review (Payment Systems)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
19.11	If CUSO is responsible for reissuing cards, determine whether it can provide the credit union with a list of suspected cards affected by any fraudulent activity			
19.12	If CUSO offers credit union members a support phone call-center, determine whether procedures in place to ensure member credit union info is accurate when communicating to a credit union's member are adequate			
19.13	Determine whether written procedures for handling "hot" cards are adequate			
19.14	Member facing web access to info. If CUSO provides interface for member credit unions to look up member card info and reports, determine process and functionality (are member credit unions allowed to look at transactions, registers, activate new cards, download statements, request credit line increases, inquiry, and make payments)			
19.15	If CUSO provides interface for member credit unions to look up member card info and reports, evaluate each transaction allowed, as well as access levels of users, to ensure it is secure and uses multi-factor authentication			
19.16	If CUSO provides interface for member credit unions to look up member card info and reports, determine who has authority to grant access from member credit union (should only be allowed by the member credit union to add users to access information about their members)			
19.17	Ensure CUSO creates member users if they have an interface for users using dual processing or supervisor/auditor review of changes to users			
19.18	If CUSO allows members to look at card information online, determine the type of interface used and whether multifactor authentication is used			
19.19	Ensure CUSO creates member users if they have an interface for users using dual processing or supervisor/auditor review of changes to users			
19.2	If pre-paid cards or gift cards are issued, check on stock and bin information and determine where and how the card balance information is applied			
19.21	Check website for accuracy and to ensure it does not contain outdated information			
<b>Financials</b>				
20	Review ACH funding and credit to ensure sufficient controls are in place with inherent credit and liquidity risks	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
20.1	Assess process for releasing payments to an ACH operator and determine that assurances are obtained that sufficient collected funds or credit lines are available or prefunding is required			
20.2	For prefunding arrangements for customers without credit lines, determine if CUSO places a hold on the funds or maintains them in a separate account until the transaction date			

## CUSO Scoping Workbook

CUSO Review (Payment Systems)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
20.3	For non-pre-funded arrangements, determine if CUSO places holds on outgoing payments to deposit accounts, applies them as a reduction to credit lines, or includes them in the overall monitoring process			
20.4	Assess whether management approves payments resulting in extensions of credit lines and retains documentation to support the approvals			
20.5	Assess management's risk assessment of ACH services in terms of its importance to the overall CUSO treasury services function			
21	Review ACH credit policy to determine if it adequately addresses the CUSO's ACH credit risk in view of the CUSO's role(s) in the ACH network	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
21.1	Review policies and procedures to monitor originating member balances for credit payments to ensure payments are made against collected funds or established credit limits; if payments exceed established credit limits, determine whether they are properly authorized			
21.2	Review credit assessment procedures for members that originate large volumes of ACH credit transactions			
21.3	Determine the dollar amount of ACH credit risk exposure to the CUSO resulting from its ODFI activity using system reports that list each participant's maximum file size limits and permissible ACH transaction types			
21.4	Determine if CUSO treats deposits resulting from ACH-transmitted debits on other accounts as uncollected funds until there is reasonable assurance the debits have been paid by the other institution on which they were drawn			
21.5	Determine if management monitors drawings against uncollected funds to ensure they are within established guidelines			
21.6	Determine if management monitors originating members for unreasonable numbers of unauthorized ACH debits			
22	Review credit and liquidity exposure to originators of high risk transactions to determine if CUSO has established procedures to monitor the creditworthiness of its originator members on an ongoing basis	<a href="#">FFIEC IT Examination HandBook, Retail Payments Systems IT Booklet, Appendix A</a>		
22.1	Determine if CUSO has established ACH and funds transfers exposure limits for originators, and consider whether the limit is: (1) Based on the originator's credit rating and activity levels (2) Reasonably relative to the originator's risk exposure			
22.2	Determine if the ODFI reviews exposure limits periodically			
22.3	Determine if CUSO has implemented procedures to monitor ACH entries initiated by an originator relative to its exposure limits across multiple settlement dates			
22.4	Determine if CUSO considers the volume of its uncollected ACH transactions as part of its liquidity risk management practices			
23	Financial controls on credit cards address risks associated with credit, liquidity, and asset quality	Sound Business Practices		

## CUSO Scoping Workbook

CUSO Review (Payment Systems)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
23.1	Review settlement process to ensure funds are applied and balanced in a timely manner			
23.2	Evaluate write-offs or losses to determine if there is a significant amount and identify why they occurred, and if there is a pattern which indicates poor internal controls			
23.3	Ensure procedures are in place to document losses and mitigate losses			
23.4	If CUSO handles payments from members of their member credit unions, check security handling and timely posting of payments, including faxed and mailed payments			
23.5	If CUSO sets offline credit card limits, determine whether the liability is documented if funds are not recovered			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>CUSO-Specific Information Security Program</b>				
1	Review CUSO information security program to determine if IT management has adequate standards and procedures	<a href="#">Part 748</a>		
1.1	Determine if standards and procedures that govern <b>risk assessment</b> are adequate			
1.2	Determine if standards and procedures that govern <b>personnel</b> are adequate			
1.3	Determine if standards and procedures that govern <b>development and acquisition</b> are adequate			
1.4	Determine if standards and procedures that govern <b>computer operations</b> are adequate			
1.5	Determine if standards and procedures that govern <b>outsourcing risk management</b> (i.e., risk management of outsourced operations) are adequate			
1.6	Determine if standards and procedures that govern <b>computer and information security</b> are adequate			
1.7	Determine if standards and procedures that govern <b>business continuity planning</b> are adequate			
1.8	Determine if standards and procedures that govern <b>audits</b> are adequate			
2	Review CUSO information security policies and procedures manual(s) to ensure it addresses establishing information security standards	<a href="#">Part 748</a> <a href="#">Sound Business Practices</a>		
2.1	Determine if CUSO policies and procedures address authentication and authorization			
2.2	Determine if CUSO policies and procedures include an acceptable-use policy that dictates appropriate use of CUSO's technology including hardware, software, networks, and telecommunications			
2.3	Determine if CUSO policies and procedures address administration of access rights at enrollment, when duties change, and at employee separation			
2.4	Determine if CUSO policies and procedures address appropriate authentication mechanisms including token-based systems, digital certificates, and/or biometric controls and related enrollment and maintenance processes, as well as database security			
2.5	Determine if CUSO policies and procedures address network access and network access controls, including firewalls			
2.6	Determine if CUSO policies and procedures address appropriate application access controls			
2.7	Determine if CUSO policies and procedures address remote access controls including wireless, VPN, modems, and internet-based			
2.8	Determine if CUSO policies and procedures address host systems and databases			
2.9	Determine if CUSO policies and procedures address secure configuration (hardening)			
2.1	Determine if CUSO policies and procedures address operating system access			
2.11	Determine if CUSO policies and procedures address application access and configuration			
2.12	Determine if CUSO policies and procedures address prevention of malicious code			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
2.13	Determine if CUSO policies and procedures address logging			
2.14	Determine if CUSO policies and procedures address monitoring and updating			
2.15	Determine if CUSO policies and procedures address user equipment			
2.16	Determine if CUSO policies and procedures address physical controls over access to hardware, software, storage media, paper records, and facilities			
2.17	Determine if CUSO policies and procedures address encryption controls			
2.18	Determine if CUSO policies and procedures address software development and acquisition including change management			
2.19	Determine if CUSO policies and procedures address personnel security			
2.2	Determine if CUSO policies and procedures address media handling procedures and restrictions, including procedures for securing, transmitting and disposing of paper and electronic information			
2.21	Determine if CUSO policies and procedures address intrusion detection and response			
2.22	Determine if CUSO policies and procedures address service provider oversight			
2.23	Determine if CUSO policies and procedures address business continuity			
2.34	Determine if CUSO policies and procedures address insurance			
2.25	Determine if CUSO policies and procedures address data security			
3	Determine the adequacy of CUSO risk assessment	<a href="#">Part 748, Appendix A</a>		
3.1	Determine whether the CUSO has identified all reasonable threats to the financial institution assets			
3.2	Determine whether CUSO has analyzed its technical and organizational vulnerabilities			
3.3	Determine whether CUSO has considered the potential effect of a security breach on customers as well as the CUSO			
3.4	Determine whether CUSO has identified and ranked information assets (e.g., data, systems, physical locations) according to a rigorous and consistent methodology that considers risks to customer (the credit union's) non-public information as well as risks to CUSO			
4	Determine whether risk assessment process provides adequate support for security strategy, controls, and testing plan implemented by CUSO	Part 748, Appendices A and B GLBA, Section 501 and 505 (b)		
4.1	Determine whether the risk assessment process is multidisciplinary and knowledge-based (key practice)			
4.2	Determine whether the risk assessment process is systematic and centrally controlled (key practice)			
4.3	Determine whether the risk assessment process is an integrated process (key practice)			
4.4	Determine whether the risk assessment process activities are accountable (key practice)			
4.5	Determine whether the risk assessment process maintains adequate documentation (key practice)			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
4.6	Determine whether the risk assessment process is knowledge enhancing (key practice)			
4.7	Determine whether the risk assessment process is regularly updated (key practice)			
5	Evaluate CUSO's security program testing plan to determine whether the scope and timing of tests are supported by the risk assessment; review internal and external tests to ensure they are adequate to validate the performance of key security controls; and ensure that CUSO uses sufficient expertise to test more complex security aspects where appropriate (e.g., penetration testing, vulnerability assessments, source code reviews)	<a href="#">GLBA</a>		
6	Determine whether internal/external audit control activities performed by CUSO are adequate	<a href="#">Part 748 Sound Business Practices</a>		
7	Review CUSO's internal audit organization structure for independence and clarity of the reporting process and determine whether independence is comprised of: (1) Auditors responsible for operating a system of internal controls or actually performing operational duties or activities (2) Audit manager reports functionally to a senior management official (e.g., CFO, controller, or similar officer) (3) Audit manager's compensation and performance appraisal are done by someone other than the board or audit committee	<a href="#">Part 748 Sound Business Practices</a>		
8	Determine whether CUSO follows up and reports on management's resolution to identified IT problems in an appropriately timely and formal manner	<a href="#">Part 748</a>		
9	Determine whether CUSO management sufficiently corrects the root cause(s) of all significant deficiencies noted in audit reports and, if not, determine why corrective action is not sufficient	<a href="#">Part 748</a>		

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Information Security Program</b>				
10	Evaluate security of CUSO's network	<a href="#">Part 748</a>		
10.1	Determine if intrusion prevention systems are in place to monitor network traffic for distinctive pattern associated with attacks			
10.2	Determine if content filters are appropriate for business network			
10.3	Determine if anti-virus and anti-spamware systems that can detect patterns in files indicative of malicious software are installed			
10.4	Evaluate CUSO's network architecture (diagram) from a security perspective (including internal network, internet gateways, DMZ, extranets, and remote access)			
10.5	Evaluate firewall(s) (supplement with Technical-Level 3 platform-specific procedures)			
10.6	Evaluate router(s) (Technical-Level 3 platform-specific procedures)			
10.7	Evaluate configuration management process for the network and network devices (i.e., device hardening and the management of changes)			
10.8	Evaluate number of administrators, appropriateness, and control processes for administrative access to network devices			
10.9	Evaluate effectiveness of the security patching process for network devices			
10.1	Evaluate internet and gateway processes for malicious software prevention, detection and correction			
11	Evaluate security of host/server and database	<a href="#">Part 748</a>		
11.1	Evaluate the configuration management process for servers and databases (i.e., server and database hardening and the management of changes)			
11.2	Evaluate the number of administrators, appropriateness and control processes for administrative access to servers and databases			
11.3	Evaluate the effectiveness of the security patching process for servers and databases			
11.4	Evaluate process for malicious software prevention, detection and correction on servers			
11.5	Evaluate host (server) and database monitoring and intrusion detection capabilities and process			
12	Evaluate effectiveness of workstation security	Part 748 FFIEC Internet Banking Guidance		
12.1	Evaluate configuration management process for workstations (i.e., client hardening and the management of changes)			
12.2	Evaluate number of administrators, appropriateness and control processes for administrative access to workstations			
12.3	Evaluate effectiveness of security patching process for workstations			
12.4	Evaluate process for malicious software prevention, detection and correction on workstations			
13	Evaluate effectiveness of security administration including	<a href="#">Part 748</a>		
13.1	Evaluate process used to monitor and enforce policy compliance (e.g., granting and revoking user rights)			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
13.2	Evaluate adequacy of automated tools to support secure configuration management, intrusion detection, policy monitoring, enforcement, and reporting			
13.3	Evaluate management's ability to effectively control the pace of change to their environment, including the process used to gain assurance that changes to be made will not pose undue risk in a production environment			
<b>Business Continuity Plan/Disaster Recovery</b>				
14	Determine whether CUSO has an appropriate organizational business continuity plan (BCP)	Part 748 FFIEC BCP booklet		
14.1	Verify that BCP addresses the recovery of each business unit/department/function according to its priority ranking in the risk assessment and considering interdependencies among systems			
14.2	Verify that the BCP takes the following into account: personnel; facilities; technology (hardware, software, operational equipment); telecommunications/networks; vendors; utilities; documentation (data and records); law enforcement; security; media; and shareholders			
15	Determine whether quality of BCP oversight and support provided by board of directors and senior management is adequate	Part 748 FFIEC Guidance on BCP/DRP		
15.1	Determine if board has established an institutional business continuity planning process appropriate for the CUSO's size and complexity which defines the organization's business continuity strategy			
15.2	Determine if a senior manager has been assigned responsibility to oversee the development, implementation, testing, and maintenance of the BCP			
15.3	Determine if the board has ensured that adequate resources, including sufficient human resources, are devoted to the business continuity process			
15.4	Determine if the board reviews and approves the written BCP(s) and testing results at least annually and documents these reviews in the board minutes			
15.6	If senior management periodically reviews and prioritizes each business unit, business process, department, and subsidiary for its critical importance and recovery prioritization, determine how often reviews are conducted			
15.6	If applicable, determine if senior management has evaluated the adequacy of the BCPs for its service providers, and ensured the CUSO's BCP is compatible with those service provider plans, commensurate with adequate recovery priorities			
16	Determine if BCP(s) include(s) appropriate testing to ensure the business process(es) will be maintained, resumed, and/or recovered as intended	Part 748 FFIEC Guidance on BCP/DRP		
16.1	Determine if BCP(s) is tested at least annually			
16.2	Verify that all critical business units/departments/functions are included in testing			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
16.3	Verify that tests include all of the following components: (1) Setting goals and objectives in advance (2) Realistic conditions and activity volumes (3) Use of actual back-up system and data files while maintaining off-site back-up copies for use in case of an event concurrent with the testing (4) Participation and review by internal audit (5) Post-test analysis report and review process that includes a comparison of test results to the original goals (6) Development of a corrective action plan(s) for all problems encountered (7) Board of directors review			
17	Determine if adequate business impact analysis (BIA) and risk assessment have been completed	<a href="#">Part 748</a>		
17.1	Determine if all functions and departments were included in the BIA			
17.2	Review BIA to determine if identification and prioritization of business functions are adequate			
17.3	Determine if BIA identifies maximum allowable downtime for critical business functions, acceptable levels of data loss and backlogged transactions, and the cost and recovery time objectives associated with downtime			
17.4	Review risk assessment and determine if it includes scenarios and probability of occurrence of disruptions of information services, technology, personnel, facilities, and service providers from internal and external sources			
18	Evaluate security awareness program to determine if it is adequate	Sound Business Practices		
18.1	Determine whether management is adequately trained and sufficiently accountable for the security of personnel, information, and systems			
18.2	Determine if security program is documented in a plan and scheduled			
18.3	Review security guidance and training provided to ensure awareness among employees and contractors, including annual certification that personnel have read and understand their responsibilities			
18.4	Determine if security elements are embedded in manager and employee job descriptions			
19	Determine whether security incident response process is adequate	<a href="#">Part 748</a>		
19.1	Determine whether an incident response team is established by policy			
19.2	Determine whether an incident response team contains appropriate membership			
19.3	Determine whether an incident response team has appropriate training to investigate and report findings			
19.4	Determine whether an incident response team has access to back-up data and systems, an inventory of all approved hardware and software, and monitored access to systems (as appropriate)			
19.5	Determine whether an incident response team has appropriate authority and timely access to decision makers for actions which require higher approval			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
<b>Data Management and Physical Security</b>				
20	Review data storage and back-up methodologies, media transport, and off-site storage strategies to determine whether they are adequate	<a href="#">Part 748</a> <a href="#">GLBA</a>		
20.1	Review CUSO's data storage methodologies and assess whether management has appropriately planned its data storage process and has suitable standards and procedures in place to guide the function			
20.2	Determine if CUSO creates timely backups of operating systems, databases, applications, and business data for operational recovery and off-site storage for disaster recovery in accordance with its risk assessment			
20.3	Review CUSO's inventory of data and program files stored on and off-site			
20.4	Review and determine if management has appropriate back-up procedures to ensure the timeliness of data and program file back-ups; evaluate the timeliness of off-site rotation of back-up media			
20.5	Identify controls used to protect data and determine if the data is protected while in transit in a manner consistent with the risk assessment			
20.6	Determine whether management performs periodic physical inventories of offsite back-up material			
21	Determine whether adequate environmental monitoring and controls are in place	<a href="#">Part 748</a>		
21.1	Determine if uninterruptable power supplies (UPS) are employed for the building, computer room, or individual servers or network devices			
21.2	If backup power generators are used for building, computer room, or individual servers or network devices, determine if the capacity and runtime of generator(s) is sufficient to support designated critical computing equipment for required time periods; determine if type and testing of generator(s) are sufficient to ensure reliability			
21.3	Determine if heating, ventilation, and air conditioning (HVAC) systems are adequate and can operate using the back-up power source			
21.4	Determine the availability of an adequate number and positioning of smoke, heat, water, and temperature sensors with remote, active monitoring and notification capability			
22	If CUSO maintains adequate network topology documentation, determine if it is adequately documented to permit an understanding of the network is segmented and controlled and also changes in configuration			

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
23	Determine adequacy of the CUSO's physical security	<a href="#">Part 748</a>		
22.1	Review and determine whether the identified physical security measures are sufficient to reasonably protect the operations center's human, physical, and information assets			
22.2	Evaluate physical security, environmental controls, and monitoring for IT infrastructure—in conjunction with the risk assessment, considering: (1) Structural integrity of room (e.g., walls, open or drop ceilings, etc.) (2) Number of entrances, doors, windows or other entry points (3) Effectiveness of primary entry control system(s), logs, periodic reviews of logs, etc. (4) Alternate entry systems (e.g., physical keys-mechanical locks, number of keys, key control system, etc.) (5) Number and appropriateness of individuals on accompanied and unaccompanied computer/network access control rosters (6) Process for gaining accompanied or unaccompanied access and frequency of review of access roster			
22.3	Determine whether there are adequate physical security controls around the telecommunications environment, including: (1) Telecommunications demarcation point (2) Controls that limit access to wiring closets, equipment, and cabling to authorized personnel (3) Secured telecommunications documentation			
<b>Internet Banking Authentication</b>				
24	If CUSO has a documented risk assessment related to internet banking, determine if changes in the internal and external threats environment, in the customer base adopting electronic banking, or in functionality are addressed in the risk assessment	<a href="#">FFIEC Internet Banking Guidance</a>		
25	Determine whether CUSO systems employ complex challenge questions and complex device authentication and whether they are employing sophisticated questions or one time passwords (OTP), and layered security	<a href="#">FFIEC Internet Banking Guidance</a>		
26	Ensure minimum security settings meet regulatory guidelines	<a href="#">FFIEC Internet Banking Guidance</a>		
27	Ensure multifactor authentication is in place for commercial accounts and ensure that CUSO requires separate user ID to initiate and approve large transactions	<a href="#">11-CU-09</a>		
<b>Cloud Computing</b>				
28	Ensure the CUSO obtained an adequate audit of cloud computing	<a href="#">FFIEC Internet Banking Guidance</a>		
29	Determine if CUSO has adequate service provider oversight by interviewing management and reviewing CUSO information to identify: (1) Current outsourcing relationships and changes to those relationships since last examination (2) Material service provider subcontractors, affiliated service providers, or foreign-based third party providers (3) Current transaction volume in each function outsourced (4) Any material problems experienced with the service provided (5) Service providers with significant financial or control related weaknesses	<a href="#">FFIEC Internet Banking Guidance</a>		

## CUSO Scoping Workbook

CUSO Review (Information System and Technology)				
Item	Goal/Objective	Reference	Reviewer Initials	Results/Comments
30	Evaluate the process for entering into a contract with a service provider	<a href="#">FFIEC Internet Banking Guidance</a>		
30.1	Determine whether contract contains adequate and measurable service level agreements			
30.2	Determine whether allowed pricing methods do not adversely affect the institution's safety and soundness, including the reasonableness of future price changes			
30.3	Determine whether the rights and responsibilities of both parties are sufficiently detailed			
30.4	Determine whether required contract clauses address significant issues such as financial and control reporting, right to audit, ownership of data and programs, confidentiality, subcontractors, continuity of service, etc.			
30.5	Determine whether legal counsel reviewed the contract and legal issues were satisfactorily resolved			
30.6	Determine whether contract inducement concerns are adequately addressed			
31	Evaluate whether the security-related due diligence in service provider research is sufficient	<a href="#">FFIEC Internet Banking Guidance</a>		
31.1	Determine if CUSO appropriately assessed third party provider's procedures for hiring and monitoring personnel who have access to CUSO systems and data			
31.2	Determine whether CUSO has assessed service provider's ability to meet contractual security requirements			

## STATEMENT OF FINANCIAL CONDITION

	Period 1	Period 2	Period 3	Period 4
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00
Accounts Receivables	\$60,000.00	\$60,000.00	\$60,000.00	\$60,000.00
Certificates of Deposit	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
Prepaid Expenses and Other	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00
Other Assets	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00
<b>TOTAL CURRENT ASSETS</b>	<b>\$176,000.00</b>	<b>\$176,000.00</b>	<b>\$176,000.00</b>	<b>\$176,000.00</b>
<b>LONG TERM ASSETS</b>				
Fixed Assets- Net of Depreciation	\$ 55,418.00	\$ 55,418.00	\$ 55,418.00	\$ 55,418.00
Certificates of Deposit	\$ 151,596.00	\$ 151,596.00	\$ 151,596.00	\$ 151,596.00
Other Long Term Assets	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LONG TERM ASSETS</b>	<b>\$ 207,014.00</b>	<b>\$ 207,014.00</b>	<b>\$ 207,014.00</b>	<b>\$ 207,014.00</b>
<b>TOTAL ASSETS</b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accrued Expenses and Acct Payable	\$9,000.00	\$9,000.00	\$9,000.00	\$9,000.00
Deferred Revenue	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
Other Current Liabilities	\$0.00	\$0.00	\$0.00	\$0.00
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$59,000.00</b>	<b>\$59,000.00</b>	<b>\$59,000.00</b>	<b>\$59,000.00</b>
<b>LONG TERM LIABILITIES</b>				
Deferred Revenue	\$22,222.00	\$22,222.00	\$22,222.00	\$22,222.00
Other Long Term Liabilities	\$0.00	\$0.00	\$0.00	\$0.00
<b>TOTAL LONG TERM LIABILITIES</b>	<b>\$81,222.00</b>	<b>\$81,222.00</b>	<b>\$81,222.00</b>	<b>\$81,222.00</b>
<b>TOTAL LIABILITIES</b>	<b><u>\$81,222.00</u></b>	<b><u>\$81,222.00</u></b>	<b><u>\$81,222.00</u></b>	<b><u>\$81,222.00</u></b>
<b>EQUITY</b>				
Members Paid In Capital	\$ 240,000.00	\$ 240,000.00	\$ 240,000.00	\$ 240,000.00
Retained Earnings	\$ 61,792.00	\$ 61,792.00	\$ 61,792.00	\$ 61,792.00
<b>TOTAL EQUITY</b>	<b><u>\$ 301,792.00</u></b>	<b><u>\$ 301,792.00</u></b>	<b><u>\$ 301,792.00</u></b>	<b><u>\$ 301,792.00</u></b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>	<b><u>\$383,014.00</u></b>

## Income Statement

	Period 1	Period 2	Period 3	Period 4
<b><u>INCOME</u></b>				
Primary Income	\$1,046,624.00	\$1,046,624.00	\$1,046,624.00	\$1,046,624.00
Fee Income	\$157,040.00	\$157,040.00	\$157,040.00	\$157,040.00
Interest income	\$4,472.00	\$4,472.00	\$4,472.00	\$4,472.00
<b>TOTAL INCOME</b>	<b>\$1,208,136.00</b>	<b>\$1,208,136.00</b>	<b>\$1,208,136.00</b>	<b>\$1,208,136.00</b>
<b><u>COSTS &amp; EXPENSES</u></b>				
Salaries and Benefits	\$816,345.00	\$816,345.00	\$816,345.00	\$816,345.00
Depreciation Expense	\$38,844.00	\$38,844.00	\$38,844.00	\$38,844.00
Fees and Services	\$162,892.00	\$162,892.00	\$162,892.00	\$162,892.00
All Other Expenses	\$29,650.00	\$29,650.00	\$29,650.00	\$29,650.00
<b>TOTAL COSTS &amp; EXPENSES</b>	<b>\$1,047,731.00</b>	<b>\$1,047,731.00</b>	<b>\$1,047,731.00</b>	<b>\$1,047,731.00</b>
<b>NET EARNINGS</b>	<b>\$160,405.00</b>	<b>\$241,410.00</b>	<b>\$76,192.00</b>	<b>\$292,268.00</b>

CUSO Financial Performance Ratios				
	Period 1	Period 2	Period 2	Period 4
Total Assets	\$383,014	\$383,014	\$383,014	\$383,014
Net Profit (Annualized)	\$160,405	\$241,410	\$76,192	\$292,268
Net Equity	\$ 301,792.00	\$ 301,792.00	\$ 301,792.00	\$ 301,792.00
Assets/Contributed Capital/ Assets	62.66%	62.66%	62.66%	62.66%
Total Paid-in-Capital	\$ 240,000.00	\$ 240,000.00	\$ 240,000.00	\$ 240,000.00
Current Ratio	2.98	2.98	2.98	2.98
Quick Ratio	1.86	1.86	1.86	1.86
Return on Assets	41.88%	63.03%	19.89%	76.31%
Return on Investment	66.84%	59.40%	89.40%	108.20%
Return on Net Equity	53.2%	80.0%	25.2%	96.8%
Primary Liquidity Ratio	28.7%	28.7%	28.7%	28.7%

**% of Total Income  
(Period 4)**

86.6%

13.0%

0.4%

**100.0%**

67.6%

3.2%

13.5%

2.5%

86.7%

24.2%

**Overall and Trending Comments**



**NCUA**  
National Credit Union Administration

CREDIT UNION SERVICE  
ORGANIZATION  
REVIEW REPORT

Name of CUSO

Date

---

Prepared by:

**National Credit Union Administration**  
Reviewer in Charge: PE/PCO/Specialist's Name

**The State of XXX (as applicable)**

Reviewer in Charge: SSA Examiner's Name

---

---

## TABLE OF CONTENTS

---

Review Summary .....	[page #]
Review Findings & Recommended Corrective Action .....	[page #]
Loan Exceptions (as applicable) .....	[page #]
Management Responses (as applicable) .....	[page #]
Appendix A – Title (as applicable) .....	[page #]
Appendix B – Title (as applicable) .....	[page #]
Appendix C – Title (as applicable) .....	[page #]
Appendix D – Title (as applicable) .....	[page #]

## Review Summary

---

*The RIC can exercise their discretion as to how the narrative of this review summary is structured in the final report package. The narrative below is only a suggested format.*

### **Review Purpose, Source, Scope, Approach, and Format**

#### **Purpose**

The purpose of this (joint) CUSO review was to determine the level of risk to federally insured credit unions investing in, lending to, or obtaining services from XYZ, LLC (XYZ) credit union service organization (CUSO).

Specifically, the review was designed to determine if the CUSO is providing services to federal and state chartered natural person credit unions in accordance with statutory and regulatory requirements specified in: the Federal Credit Union Act; NCUA rules and regulations; and (specify other requirements and guidelines based on the type of CUSO reviewed). In addition, we designed the review to provide specific recommendations to address any regulatory concerns, share insurance fund related matters or other areas of concern identified during our contact.

XYZ is a (Wholly Owned) CUSO (or a CUSO with ownership held by multiple Credit Unions or individuals owners). Since the CUSO is owned (in whole or in part) by natural person credit unions, we evaluated the CUSO under Part 712, NCUA rules and regulations. However, the primary focus of the review was to determine the risk associated with the products and services provided by XYZ to natural person credit unions.

#### **Source**

The review had an effective date of XXXXX 31, 20XX; however, we considered all subsequent and material operational and financial information available at the time of our review.

Review results were based on information provided to examiners and specialists by CUSO officials and staff during the on-site review.

NCUA examiners and specialists participating in the review were:

PCO XXXX XXXXX, NCUA Reviewer-in-Charge

Principal Examiner (PE) XXXX, SL-SME

Regional Lending Specialist XXXX XXX

Also participating in the review were:

Examiner XXXX XXXXXX from the State of XXX-Banking Department

Examiner XXXXXX XXXXX from the Commonwealth of XXX- Division of Banks

#### **Scope**

The general scope of our review included an assessment of the CUSO's:

- Organizational structure, management processes, and business planning activities
- Overall financial and operational position
- Ability to provide (product or services depending on CUSO type) and other services to credit unions in accordance with NCUA rules and regulations, federal lending directives/guidelines, contractual provisions, and sound business practices
- Compliance with applicable federal law, regulations and state statutes
- Internal/external controls processes and related business activities

We would like to thank XYZ management and staff for their cooperation and professionalism during the review.

### **Review Approach and Report Format**

We used a risk-based approach for the review. This approach focuses on (seven) risk areas; their impact on the CUSO, as well as credit unions owned and serviced by XYZ. The risk areas include: (Credit; Strategic; Interest Rate; Liquidity; Transaction; Compliance; and Reputation risk, as applicable)

This report is divided into the following (four or X number of) main sections.

Review Summary	Includes CUSO background and organization information; summarizes the seven risk areas, the degree of risk; and outlines the issues impacting each risk area for the CUSO and owning/serviced credit unions
Review Findings & Recommended Corrective Action	Outlines specific risk issues and includes a discussion of the issues; as well as recommendations to address issues
Loan Exceptions (if applicable)	Identifies specific exceptions noted during a review of individual loan files
Management Responses	Provides a summary of responses from CUSO officials regarding findings and recommended corrective actions
Report Attachments	(List the attachments and their purpose)

### **General Review Comments**

#### **Background**

XYZ, LLC, (XYZ) was originally established in 20XX by XXXX founding credit unions to provide XXX services to federal and state credit unions within the XXX area. (Outline any other organizational changes or significant events).

## Risk Areas Reviewed

During the review, we looked at (seven) risk areas and the factors affecting these risk areas for the CUSO and affiliated credit unions. The table below outlines these risk areas and comments regarding risks identified during the review.

Risk Area	Factors Impacting Risk Areas and Comments
<b>Credit</b>	<i>Reviewers should organize their analysis into appropriate risk areas for the type of services the CUSO offers and outline concerns noted during the review. Reviewers should keep in mind that not all risks outlined in this table will be appropriate for all CUSOs.</i>
<b>Transaction</b>	
<b>Liquidity</b>	
<b>Strategic</b>	
<b>Compliance</b>	
<b>Interest Rate</b>	
<b>Reputation</b>	

## Financial Performance

XYZ has continued to improve its financial position over the past four years with the CUSO becoming profitable as of December 31, 20XX. During 20XX a four percent dividend was paid to owning credit unions based on XYZ profitability. Budgetary projections suggest XYZ will be profitable in 20XX with a projected net income of approximately \$XXX,XXX. Attachment 1 outlines financial information since 20XX as well as pro-forma statements for 20XX.

## Services Provided

XYZ provides commercial/member business lending services to federal and state credit unions in (Geographical Area). Services provided by XYZ include (listing of product and services provided by CUSO)

*List services here*

These services are authorized under Part 712, NCUA rules and regulations.

CUSO Review Report  
NAME OF CUSO

*Other sample topic areas of review to include in the narrative:*

*Management/Staff Experience  
Serviced Credit Unions  
Strategic Business Planning  
Results of External (or other regulatory) Audits*

*In addition, the RIC can use the embedded financial worksheet below to incorporate financial information and trends into the report, but it is not required. The format for its use in the report is at the discretion of the RIC.*



## Findings & Recommended Corrective Action

---

The RIC can use their discretion regarding the format of the narrative in this section of the report; however, the following format is preferred. Please number each finding for easy reference.

### Finding #1

Begin narrative here

#### *Recommended Corrective Action*

Begin narrative here

---

### Finding #2

Begin narrative here

#### *Recommended Corrective Action*

Begin narrative here

---

### Finding #3

Begin narrative here

#### *Recommended Corrective Action*

Begin narrative here

---

## Loan Exceptions (if applicable)

---

<b>Loan Number</b>	<b>Date of Loan</b>	<b>Original Loan Amt</b>	<b>Outstanding Balance</b>

**Comments:**

---

<b>Loan Number</b>	<b>Date of Loan</b>	<b>Original Loan Amt</b>	<b>Outstanding Balance</b>

**Comments:**

---

<b>Loan Number</b>	<b>Date of Loan</b>	<b>Original Loan Amt</b>	<b>Outstanding Balance</b>

**Comments:**

---

<b>Loan Number</b>	<b>Date of Loan</b>	<b>Original Loan Amt</b>	<b>Outstanding Balance</b>

**Comments:**

---

## Management Responses

---

*Format determined by DOS analyst and Reviewer-in-Charge.*

## Confidential Section

---

**For internal use only. Not for distribution.**

The *Confidential Section* will include comments regarding:

- Products and services provided by the CUSO
- Resolution of unacceptable risk (as applicable)
- Status of opinion audit
- Information on legal opinion (when CUSO was formed and any subsequent changes)
- Information regarding any exit, management, or joint conference held with management or CUSO officials
- Follow-up supervision plans/recommendations
- Information whether SSA staff was involved in the review and if so, which states were involved
- A listing of FCU receiving products or services from the CUSO
- A listing of FISCUs and the state in which they are located for all FISCUs receiving products or services from the CUSO
- Information on any regulatory waivers (by NCUA or SSA)
- Any work papers considered material by the EIC
- Comments regarding management conference results (if held)
- Information outlining work time (Code 29) used by NCUA staff for the review

As an alternative to completing information for all above items in the *Confidential Section*, the RIC can elect to reference in the *Confidential Section* the location of such information if already included in other sections of the review report.

# Template: Draft CUSO Review Report Cover Letter to CUSO

*NOTE: Print on NCUA letterhead*

Date

Mr. John Doe, Board Chairperson  
ABC CUSO  
Address  
City, State Zip

Dear Mr. Doe:

I'm writing to request your review and feedback on the enclosed draft report which outlines the results of our recent review of [CUSO NAME]. This review was completed by NCUA [and the state supervisory authority]; [Name], NCUA DE/PE or Specialist, was in charge of your recent review. We anticipate finalizing your report by approximately [DATE]; the report will have an effective date of [DATE].

Please carefully review the enclosed draft and provide any written comments by [date within 15 days of estimated receipt]; we will consider your feedback as we develop the final report. You can submit your feedback by email by writing to us at [REGIONAL MAILBOX], or you may respond by mail. If we do not receive a response by this date, we will assume you concur with the attached draft.

Once finalized, NCUA [and the state supervisory authority if applicable] will provide a copy of the report, including your responses, to the CUSO board and to any federally insured credit unions that have an ownership in or loan to your organization. Under no circumstances shall any recipient disclose or distribute this draft report. **If you receive a subpoena or other legal process requesting this report, please notify NCUA immediately.**

Thank you in advance for allowing us the opportunity to conduct this review and for your attention to the issues detailed in the enclosed report. If you have any questions about the enclosed draft, please contact our Division of Supervision at [phone number].

Sincerely,

[NAME]  
Regional Director

IV/DOS/DS/JJ:VSB  
SSIC 5060  
FISCU #55555  
Enclosure

cc: SSA  
ARDP  
Field supervisor (supervisory examiner, national field supervisor, or director of special actions)  
Field staff (district examiner, problem case officer, Examiner, or specialized examiner)

# **Template: Draft CUSO Review Report Cover Letter to SSA**

*NOTE: Print on NCUA regional letterhead*

Date

Mr. John Doe, Commissioner

SSA

Address

City, State Zip

Dear Mr. Doe:

I'm writing to request your review and feedback on the enclosed draft report which outlines the results of our recent joint review of [CUSO NAME]. We anticipate sending a finalized report to [CUSO NAME] by approximately [DATE].

Please provide any written comments by [date within 15 days of estimated receipt]; we will consider your feedback as we develop the final report. You can submit your feedback by email by writing to us at [REGIONAL MAILBOX], or you may respond by mail. If we do not receive a response by this date, we will assume you concur with the attached draft.

Thank you in advance for your contributions toward our mutual efforts to maintain a safe and sound credit union system. If you have any questions, please contact our Division of Supervision at [telephone number].

Sincerely,

[NAME]  
Regional Director

IV/DOS/DS/JJ:VSB

SSIC 5060

FISCU #55555

Enclosure

cc: ARDP  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, Examiner, or specialized examiner)

# Template: Final CUSO Review Report Cover Letter to CUSO

*NOTE: Print on NCUA letterhead*

Date

Mr. John Doe, CUSO Official  
ABC CUSO  
Address  
City, State Zip

Dear Mr. Doe:

Enclosed please find a report summarizing NCUA's [and, if applicable, the state supervisory authority's] review of your organization as of [effective date]. This report reflects information gathered from your records, officers, staff, and other sources we believe reliable. Under no circumstances shall any recipient disclose or distribute this report. **If you receive a subpoena or other legal process requesting this report, please notify NCUA immediately.**

Our review focused on risk areas that pose the greatest risk to your organization, credit unions that invest in or loan to your organization, and credit unions served by your organization. In the attached report, you'll find a general discussion of your operations in the review summary. The *Findings and Recommended Corrective Actions* section outlines specific ways to improve areas of concern noted during our contact. Additional support for our conclusions may appear elsewhere in the report. Please act on this report to correct any weaknesses or deficiencies.

***If CUSO responded to draft report with comments:***

Thank you again for taking the time to review and comment on the recently distributed draft of this report. A copy of your response will be included as an attachment to the final report, which will be distributed to federally insured credit unions that have an ownership in or loan to [CUSO Name]. NCUA encourages senior management staff of investor credit unions to review the report as part of their on-going due diligence of [CUSO name].

***OR, if CUSO did not respond to draft report with comments:***

This report is distributed to federally insured credit unions that have an ownership in or loan to [CUSO Name]. NCUA encourages senior management staff of investor credit unions to review the report as part of their on-going due diligence of [CUSO name].

If you disagree with this report, you may request a review by writing to the regional director at the return address provided within 30 days of receiving your final report. Finally, please note that our review and subsequent report do not relieve management of the responsibility to obtain an audit of the CUSO as required under NCUA regulation.<sup>1</sup>

Sincerely,

---

<sup>1</sup> 12 CFR, §712.3

[NAME]  
Regional Director

IV/DOS/DS/JJ:VSB  
SSIC 5060  
FISCU #55555  
Enclosure

cc:     SSA  
        ARDP  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, Examiner, or specialized examiner)

# Template: Final CUSO Review Report Cover Letter to Investors and Lenders

*NOTE: Print on NCUA letterhead*

Date

Board of Directors

XYZ Credit Union

Address

City, State Zip

Dear board members:

NCUA, in partnership with state credit union regulators, periodically conducts on-site reviews of credit union service organizations (CUSOs). I am writing to provide the most recently report of [CUSO name]; our review indicates that you [invest in/loan to] this CUSO.

While this report is provided to all federally insured credit unions that invest in or lend to [CUSO name], it remains the property of NCUA. The law provides penalties for unauthorized disclosure of any of the contents of this report. Under no circumstances shall any recipient of the report make the report, or any portion of it, public. **If you receive a subpoena or other legal process requesting this report, please notify NCUA immediately.**

As part of your due diligence over the CUSO, I encourage you to review the attached report with your senior management staff and discuss the findings and recommended corrective actions. Please note that reviewing the report does not alleviate you of the responsibility to complete periodic safety and soundness analyses and perform additional due diligence.

If you have comments or questions about the enclosed report, please contact NCUA at [phone number].

Sincerely,

[NAME]  
Regional Director

IV/DOS/DS/JJ:VSB

SSIC 5060

FISCU #55555

Enclosure

cc:     SSA  
          ARDP

Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)

Field staff (district examiner, problem case officer, Examiner, or specialized examiner)

# **Template: Final CUSO Review Report Cover Letter to SSA**

*NOTE: Print on NCUA letterhead*

Date

Mr. John Doe, Commissioner

SSA

Address

City, State Zip

Dear Mr. Doe:

Enclosed is a final report on the [CUSO name] review recently completed by NCUA [OR jointly completed by NCUA and your staff] with an effective date of [date].

Thank you once again for your contributions toward our mutual efforts to maintain a safe and sound credit union system. If you have any questions about the enclosed report, please contact our Division of Supervision at [phone number].

Sincerely,

[NAME]  
Regional Director

IV/DOS/DS/JJ:VSB

SSIC 5060

FISCU #55555

Enclosure

cc: ARDP  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, Examiner, or specialized examiner)

## Chapter 8. Derivatives Authority

[NCUA rules and regulations Part 703, Subpart B](#) allows federal credit unions to enter into certain derivatives transactions exclusively for the purpose of reducing interest rate risk. [Section 741.219\(b\)](#) requires federally insured, state-chartered credit unions to notify NCUA 30 days before engaging in derivatives transactions or planning for additional transactions, if already approved to use derivatives.

The standards in this section ensure NCUA maintains consistent documentation for the administrative record. The following templates related to derivatives are provided in this section:

- [Derivatives Information Administration Log \(DIAL\)](#)
- [Acknowledge Interim Application for Derivatives Authority](#)
- [Acknowledge Notification of Readiness \(Final Application for Derivatives Authority\)](#)
- [Respond to Incomplete Application for Derivatives Authority](#)
- [Derivatives Authority Qualitative Review Checklist](#)
- [Approve Derivatives Authority \(Interim\)](#)
- [Approve Derivatives Authority \(Final\)](#)
- [Deny Application for Derivatives Authority](#)
- [NCUA Notification of FISCU Derivatives Activity \(FISCUs only\)](#)
- [Acknowledge Appeal](#)
- [Deny Appeal](#)

---

[NSPM content](#) last updated July 29, 2015

### 1. Roles and Responsibilities

To ensure the quality and consistency of the agency's approval of derivative applications, NCUA staff will perform the responsibilities outlined in this section with regard to the standards established in the NSPM. Staff will maintain administrative records and documents related to applications and notifications for all federal and federally insured, state-chartered credit unions in the [Derivatives Information Administration Log \(DIAL\)](#), which is maintained on SharePoint.

- [Field office responsibilities](#)
- [E&I responsibilities](#)
- [Review panel responsibilities](#)
- [Field office director responsibilities](#)

---

[NSPM content](#) last updated July 29, 2015

## A. E&I Responsibilities

- Assign a senior capital markets specialist (SCMS) to the review panel for each derivatives application from a federal credit union
- Monitor periodic reports to review trends and issues related to derivatives
- Track regional and national trends for consistency and to support the development of future policy

---

[NSPM content](#) last updated July 29, 2015

## B. Field Office Responsibilities

- Ensure credit union applications are processed in accordance with the provisions set forth in the NSPM
- Update and maintain the [Derivatives Information Administration Log \(DIAL\)](#) using the standards set forth in this section, to ensure DIAL reflects accurate information for all:
  - Applications and appeals received from federal credit unions
  - Notifications of derivative activity received from federally insured, state-chartered credit unions (FISCUs)
  - NCUA derivatives approvals granted, revoked, or denied
  - Supporting documentation for approvals and denials
- Acknowledge all credit union applications and appeals submitted to NCUA
- Evaluate eligibility of federal credit unions that apply for derivatives per [§703.108](#) using the [Derivatives Authority Qualitative Review Checklist](#)
- Assign staff to determine the eligibility and completeness of derivatives applications

- Assign staff to evaluate the safety and soundness of federal credit unions that apply for derivatives authority
- Notify federal credit unions of incomplete or ineligible applications
- Notify federal credit unions of application approvals (field director)
- Assign a regional capital markets specialist (RCMS) or capital markets specialist (ONES) to a derivatives application review panel for each application
- Ensure systems and controls are in place to meet the standards of this section

---

*[NSPM content](#) last updated January 27, 2016*

## C. Field Office Director Responsibilities

- Approve only those applications for derivatives authority for federal credit unions that demonstrate they have established sound systems, processes, and personnel to manage such a program effectively and in compliance with [NCUA rules and regulations](#)
- Act on credit union applications in accordance with the policies and procedures set out in related supervisory guidance and in this section

---

*[NSPM content](#) last updated July 29, 2015*

## D. Review Panel Responsibilities

The review panel includes a regional capital market specialist, a ONES capital markets specialist, and an E&I senior capital market specialist. The panel has the following responsibilities:

- Conduct a qualitative review of each assigned derivatives application in collaboration with other panel members
- Document the review using the [Derivatives Authority Qualitative Review Checklist](#)
- Recommend assigned derivatives application be approved, in part or in whole, or denied
- Coordinate with field office upon completion of the review to direct the panel's recommendation to the field office director

---

*[NSPM content](#) last updated July 29, 2015*

## 2. Derivative Application Review Procedures (applies only to federal credit unions)

A federal credit union may seek interim approval to engage in derivatives before it invests in all the systems and requirements that will ultimately be necessary. A credit union that has been granted interim approval must submit a written notice of readiness to NCUA requesting final approval before it can start using derivatives. There is no timeframe for a credit union to submit a final application to the agency; a credit union may submit a notice of readiness concurrently requesting final approval.

NCUA processes both interim and final applications for derivatives authority as described below. The field office will consult with the appropriate field staff (district examiner, problem case officer, examiner, and/or specialized examiner) as necessary to process an application for derivatives authority.

	<b>Application / Notice of Readiness Processing Work-flow</b>	<b>Primary Owner(s)</b>
1.	<a href="#">Log and acknowledge the derivatives application.</a>	Field office
2.	<a href="#">Confirm credit union eligibility, safety and soundness.</a>	Field office
3.	<a href="#">Establish a review panel and assign the application for review.</a>	Field office and E&I director
4.	<a href="#">Review the credit union's derivatives program and make a written recommendation to the field office director.</a>	Review panel
5.	<a href="#">Approve or deny requested derivatives authority and notify credit union.</a>	Field office director

*[NSPM content](#) last updated July 29, 2015*

### A. Step 1: Log and Acknowledge the Derivatives Application (Field Office)

Upon receipt of an application for derivatives authority, the field office will create and maintain the electronic [Derivatives Information Administration Log \(DIAL\)](#) to track the application.

Once an application has been logged, the field office will send a letter to the credit union to acknowledge the application. The field office will acknowledge an application for interim approval with the approved template ([Acknowledge Interim Application for Derivatives Authority](#)). The field will acknowledge an application for final derivatives authority using the [Acknowledge Notification of Readiness \(Final Application for Derivatives Authority\)](#) template. The field office will deliver the acknowledgment using the region's or ONES preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

The director of the field office will coordinate with E&I to establish a derivatives application review panel, made up of:

- One RCMS or ONES CMS (appointed by the field office)
- One SCMS (appointed by E&I)

---

*[NSPM content](#) last updated July 29, 2015*

## **B. Step 2: Confirm Credit Union Eligibility, Safety and Soundness (Field Office)**

Within ten (10) calendar days of receiving an application for derivatives authority, the field office will determine if the applying federal credit union meets the eligibility requirements using the [Qualitative Review Checklist](#). A credit union that has less than \$250 million in assets (as of its most recent Call Report) must provide written documentation that a field director has granted it permission to apply (see [§703.108 \(b\) of NCUA rules and regulations](#)).

The field office will also evaluate the applying federal credit union's safety and soundness using the [Qualitative Review Checklist](#).

If a credit union has submitted an incomplete package, the field office will send it a letter indicating which item(s) are missing from the application (see the [Respond to Incomplete Application for Derivatives Authority](#) template).

If a credit union fails to meet the regulatory eligibility requirements or fails to meet the regulatory requirements for safety and soundness, the field office will deny the application and notify the credit union (see the [Deny Application for Derivatives Authority](#) template). This notice will indicate the specific requirement(s) the credit union failed to meet.

The field director will deliver the appropriate notice using the region or ONES's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

---

*[NSPM content](#) last updated July 29, 2015*

## C. Step 3: Establish Review Panel and Assign Application for Review (Field Office)

For each application submitted by a federal credit union that meets the eligibility criteria, the field office will coordinate with E&I to establish a review panel, and forward the application materials for review. The review panel consists of two members:

Employee	Role	Assigned by
Regional capital markets specialist (RCMS) or capital markets specialist (ONES)	Conducts qualitative review of each assigned derivatives application and makes joint recommendation to approve or deny derivatives authority	Field office or ONES
Senior capital markets specialist (SCMS)		E&I

The field office will provide the review panel with a [Derivatives Authority Qualitative Review Checklist](#) that reflects the completed eligibility review and safety and soundness evaluation.

Upon assigning an application for evaluation by the review panel, the field office will notify the following by email:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

---

*[NSPM content](#) last updated July 29, 2015*

## D. Step 4: Review the Derivatives Application (Review Panel)

The review panel will complete its review of a credit union's application for derivatives authority using an electronic copy of the [Derivatives Authority Qualitative Review Checklist](#), which it will maintain on the derivatives SharePoint site.

All reviews must be accompanied by a completed checklist that supports the panel's recommendation to approve or deny the requested derivatives authority. At a minimum, the panel must assess all the elements required by regulation in accordance with the provisions set forth in this section. The review panel may conduct an on-site visit as a component of an application for final derivatives authority. The panel may contact the credit union directly to request additional material(s) as necessary for review.

If the application is substantively incomplete, the panel is unable to contact the credit union directly, or a credit union is unable to provide requested materials, the panel will coordinate with the field office to send the credit union a notice that the application is incomplete. This notice will list the additional document(s) and/or information required to complete the material for consideration (see the [Respond to Incomplete Application for Derivatives Authority](#) template).

The field office will deliver this notice using the office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)

- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

Each panel member will document his or her review and recommendation to approve or deny the application using the [Derivatives Authority Qualitative Review Checklist](#). Once completed, the panel will coordinate their joint recommendation with the field supervisor and submit it to the field office director. The field office director makes the final determination to approve or deny each application for derivatives authority, in part or in whole.

The timelines for completing the review vary based on the type and complexity of the application a credit union has submitted:

<b>Activity</b>	<b>Application Time Allotment, in Calendar Days</b>		
	<b>Interim Authority</b>	<b>Final Authority following Interim Authority</b>	<b>Final Authority with no Interim Authority</b>
Confirm credit union eligibility and review credit union's safety and soundness (field office)	10 days	10 days	10 days
Conduct and document qualitative review of application; document and route panel recommendation to approve or deny application to field director (review panel)	40 days	40 days	100 days
Make final determination of application approval or denial and notify credit union (field director)	10 days	10 days	10 days
<b>TOTAL</b>	Up to 60 days	Up to 60 days	Up to 120 days

If the review panel determines that additional time is necessary, it will notify the field office. The field office will then provide the credit union the expected completion timeframe. Please note that these timeframes are for NCUA's

internal planning purposes, and do not entitle a credit union to a decision by a specific date.

When reviewing an application for final derivatives authority, the review panel must consider any significant changes between the credit union's operational setup as reported in the interim application and in the final application. When a credit union submits an application for final derivatives authority without first requesting interim authority, the review panel must carefully evaluate the readiness of the credit union.

---

*[NSPM content](#) last updated July 29, 2015*

## **E. Step 5: Approve or Deny Application and Notify Credit Union (Field Office Director)**

After evaluating the recommendation of the review panel, the field director will decide whether to approve or deny a credit union's application for derivatives authority. The field office will try to notify a credit union of the agency's interim and/or final approval or denial for derivatives authority within 10 calendar days of receiving a recommendation from the review panel.

The field office director will send the appropriate notice listed below using the field office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

### **1. NCUA issues interim approval**

The field office director will send the credit union a letter indicating that NCUA has granted interim derivatives authority (see the [Approve Derivatives Authority \(Interim\)](#) template). This notice must:

- Indicate which derivatives product(s) and/or product characteristic(s) have been approved.
- Emphasize that the credit union may not enter into any derivatives transactions until it receives final written approval from an NCUA field director.

## **2. NCUA issues final approval**

The field office director will send the credit union a letter indicating that NCUA has granted final derivatives authority (see the [Approve Derivatives Authority \(Final\)](#) template). This notice must indicate which derivatives product(s) and/or product characteristic(s) have been approved.

## **3. NCUA issues denial**

The field director will send the credit union a letter indicating that NCUA has denied the application for derivatives authority (see the [Deny Application for Derivatives Authority](#) template). This notice must indicate the reason(s) for the denial and inform the credit union of the option to appeal the denial directly to the NCUA Board.

---

*[NSPM content](#) last updated July 29, 2015*

## **3. Derivatives Application Appeal Process**

A federal credit union may submit an appeal to the NCUA Board within 60 calendar days of receiving notification that NCUA has denied derivatives authority. The denial letter provided by NCUA will inform the credit union of its right to appeal the decision directly to the NCUA Board. NCUA staff will not discourage a credit union from filing an appeal.

A credit union must submit an appeal in writing. The request for appeal should address the specific reason(s) NCUA should reconsider its decision, and must include any relevant material previously submitted. [Section 703.111\(d\) of NCUA rules and regulations](#) discusses the appeal.

The field office will create and maintain the [Derivatives Information Administration Log \(DIAL\)](#) of all appeals to maintain accurate records that reflect the actions described in this section.

Once an appeal is logged, the field office will send a letter to the credit union to acknowledge the appeal (see the [Acknowledge Appeal](#) template) and provide a status update.

The field director will provide the Board an analysis of each appeal and recommend a disposition. The NCUA Board will evaluate each appeal and determine the appropriate action. The Board may request an analysis and recommendation regarding the appeal from E&I, review documentation previously provided by a credit union during the application process, and/or consult with

staff when reviewing an appeal. Upon determining the appropriate action, the Board will notify the field office director of its decision.

The field director will send the credit union a notice indicating the NCUA Board's decision. For a denial, the field office will send the credit union a letter indicating that the appeal has been denied (see the [Deny Appeal](#) template). This notice must indicate the reason(s) for the denial.

The field office will send the notice using the field office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or director of special actions)
- Assigned RCMS or ONES CMS

---

[\*NSPM content\*](#) last updated July 29, 2015

## 4. Derivative Notification Procedures (applies only to FISCUs)

NCUA's derivative rule applies specifically to federal credit unions. The process for a federally insured, state-chartered credit union (FISCU) to receive authority to use derivatives varies by state. A FISCU may have derivatives authority under a state parity provision or by following applicable state regulation with permission from the applicable state supervisory authority. State parity provisions are reflected in state regulation or statute, and generally permit a FISCU to operate under the same authority as federally chartered credit unions.

A FISCU must notify NCUA in writing at least 30 days before it begins engaging in derivatives transactions. The [NCUA Notification of FISCU Derivatives Activity \(FISCUs only\)](#) outlines the information a FISCU must report in the notification.

A FISCU can submit the required notification electronically or by hard copy. The director of the applicable field office (typically the Division of Supervision) will coordinate the receipt and processing of notifications of derivatives activity received from a FISCU.

NCUA will log and track each notification it receives from a FISCU. Upon receipt, each notification will be entered into the [Derivatives Information Administration Log \(DIAL\)](#) and assigned a number. The official log will be maintained on SharePoint and organized separately for each field office.

The information reflected in DIAL is NCUA's official record of the FISCUs that have notified NCUA of their intent to engage in derivatives.

---

[NSPM content](#) last updated July 29, 2015

## 5. Derivatives Monitoring and Controls

### A. Field Office Reporting Responsibilities

- Maintain a list of the derivatives authorities granted, revoked, and denied for federal credit unions on SharePoint in the [Derivatives Information Administration Log \(DIAL\)](#). Notifications received from FISCUs will also be logged and maintained in the DIAL on SharePoint.
- Maintain electronic supporting documentation for each approval/denial of derivatives authority and provide reports that track all derivatives authorities as needed.
  - Records must be updated on a monthly basis.

### B. E&I Reporting Responsibilities

- Track national trends each quarter for consistency and to support the development of future policy
- Issue a semi-annual report to field directors of national trends that reflects an analysis of the field office reports
- Conduct quality control by periodically sampling actions taken under this section

---

[NSPM content](#) last updated July 29, 2015

## 6. Templates

- Derivatives Information Administration Log (DIAL)
- Derivatives Authority Qualitative Review Checklist
- Respond to Incomplete Application for Derivatives Authority
- Acknowledge Interim Application for Derivatives Authority

- Approve Derivatives Authority (Interim)
- Acknowledge Notification of Readiness (Final Application for Derivatives Authority)
- Approve Derivatives Authority (Final)
- Deny Application for Derivatives Authority
- NCUA Notification of FISCU Derivatives Activity (FISCUs only)

## **Appeals**

- Acknowledge Appeal
- Deny Appeal

---

*[NSPM content](#) last updated July 29, 2015*

# Derivatives Information Administration Log (DIAL)

Field offices will log and track each application or notification received from a federal credit union or federally insured, state-chartered credit union. Upon receipt, the field office will assign each application or notification a number and enter it in DIAL. Each application and notification will be entered in a separate column.

The official log will be maintained on SharePoint. Access will be granted to the regional owners of data that is entered into the log. Maintaining the log relieves field offices from reporting derivatives data separately to E&I.

E&I will monitor the log on a regular basis, and discuss progress on log activity with regional contacts. E&I will also assist with resourcing and technical issues associated with the log. Data in the log will be used to develop monthly metrics and reporting to management, developed by E&I. DIAL is the official source for tracking credit union derivatives authority.

A sample of the log appears below. E&I will assess the log and make process improvements in consultation with field offices.

Derivatives Information Administration Log ("DIAL")			
Office	Category	Data Element	Sample Entry
Field Office	Credit Union Data	Credit union name	ABC
Field Office		Credit union charter number	1234576
Field Office		Federal Credit Union (FCU) <b>Application</b> or FISCU <b>Notification</b>	FCU Application
Field Office		Derivative log number	Example #1

Field Office	Regional Log Information	Region number or ONES	Region #1
Field Office		Field staff that received the documentation	Abraham Lincoln
Field Office		Date FCU application or FISCU notification received	2/1/14
Field Office		FCU application received for which approval	Interim Approval
Field Office		Date due back to FCU (60 or 120 days)	4/1/14
Field Office		Is this the FCU's first application for derivative authority	YES
Field Office		Date of previous application, if previously declined	N/A
Field Office		Is this an application for additional products	NO
Field Office		Is credit union a pilot program member	NO
Field Office		For FISCU, is this new activity or already approved to use derivatives	New Authority

# Derivatives Information Administration Log (DIAL)

Field Office	FCU Complete-ness	Field office application reviewer:	Mary Todd Lincoln
Field Office		Date field office eligibility review completed (safety and soundness)	2/6/14
Field Office		If final application, is application a follow-up to interim approval	N/A
Field Office		Date of interim approval, if previously approved (if applicable)	N/A
Field Office		Completeness review deadline (10 days)	2/11/14
Field Office		Outcome of field office assessment for eligibility and safety and soundness	Complete - moving to CMSs
Field Office		If incomplete application, date of notification back to credit union	
Field Office			

Field Office	Products Requested	Interest rate swaps	YES
Field Office		Basis swaps	YES
Field Office		Interest rate caps	YES
Field Office		Interest rate floors	YES
Field Office		Interest rate futures	YES
Field Office		Notional amortizations	YES
Field Office		Swap forward start dates	NO

Field Office	CMS Process	RCMS staff assigned (name)	George Washington
Field Office		Date RCMS assigned	2/8/14
E&I		SCMS staff assigned (name)	James Monroe
E&I		Date SCMS assigned (name)	2/8/14
E&I		On-site review date (if applicable)	N/A
Review Panel		Deadline for Review back to FD (60 or 120 days from receipt)	4/1/14
Review Panel		Date review completed and communicated to field director	3/31/14
Review Panel		CMS recommendation	Approved - recommendation

# Derivatives Information Administration Log (DIAL)

Field Office	Documentation Archive	Folder on SharePoint for credit union setup	(Subfolder Name)
Field Office		FCU application documents	(Subfolder Name)
Field Office		FISCU Notification Documents	(Subfolder Name)
Field Office		FCU Field Office Completeness Review	(Subfolder Name)
Field Office		Derivatives Interim Application Acknowledgment	(Subfolder Name)
Field Office		Derivatives Final Application Acknowledgment	(Subfolder Name)
Field Office		Notice of Incomplete Derivatives Application	(Subfolder Name)
Field Office		Notice of Denied Derivatives Application	(Subfolder Name)
Review Panel		FCU CMS Review	(Subfolder Name)
Review Panel		Memo from CMS to field director with recommendation	(Subfolder Name)
Field Office		Field director memo to credit union - notice of interim derivatives approval	(Subfolder Name)
Field Office		Field director memo to credit union - notice of final derivatives approval	(Subfolder Name)
Field Office		Memo to credit union - acknowledgement of derivatives appeal	(Subfolder Name)
Varies		Other documents	(Subfolder Name)

# Derivatives Authority

## Qualitative Review Checklist

Federal Credit Union Information																	
Credit union name																	
Charter number																	
Assets <sup>1</sup> (enter whole dollar number from the most recent quarterly call report)		\$				,	2	5	0	,	0	0	0	,	0	0	0
CAMEL code (composite) (check the number from most recent exam)		<input type="checkbox"/> 1				<input type="checkbox"/> 2				<input type="checkbox"/> 3							
CAMEL code (management) (check the number from most recent exam)		<input type="checkbox"/> 1				<input type="checkbox"/> 2				-N/A-							
Contact Information																	
Contact name																	
Title																	
Email / Phone																	
Requested Approval		<input type="checkbox"/> Interim Approval				<input type="checkbox"/> Final Approval											
Indicate each product / characteristic the credit union has requested approval to use with a checkmark																	
Interest rate swaps		<input type="checkbox"/>															
Basis swaps		<input type="checkbox"/>															
Interest rate caps		<input type="checkbox"/>															
Interest rate floors		<input type="checkbox"/>															
U.S. Treasury note futures		<input type="checkbox"/>															
Amortizing notional		<input type="checkbox"/>															
Forward start swaps		<input type="checkbox"/>															
NCUA USE ONLY																	
Date application received						REGION/ONES											
Review completed by (name)																	
Credit union eligibility (check one)		<input type="checkbox"/> Eligible (standard)				<input type="checkbox"/> Eligible (FD approved) <sup>2</sup>				<input type="checkbox"/> Ineligible							
Limits (check one)		<input type="checkbox"/> Entry limits				<input type="checkbox"/> Standard limits											

<sup>1</sup> If credit union has less than \$250 million in assets, it must submit documentation supporting the Field Director's approval as part of its application for derivatives authority.

# Derivatives Authority

## Qualitative Review Checklist

*After the field office determines if an application is complete and evaluated the safety and soundness of the credit union, the application will be reviewed by a panel from a qualitative perspective. Each member of the panel must complete their respective comment boxes to provide support for the overall assessment of the application.*

### **Derivatives Application Qualitative Review (Interim Approval)**

As part of the initial application process, after regions have determined completeness of the package submitted, a secondary review is to be done from a qualitative perspective. All members of the panel (Field staff, Field CMS, and SCMS) will complete their respective comment boxes to provide support for their overall assessment.

#### **Interim Application Review**

		Field Staff Comments	Field CMS Comments	SCMS Comments
<b>Safety and Soundness (Field Staff Only)</b>				
#	A credit union that plans to engage in derivatives activity is expected to be operated in a safe and sound manner. A preliminary review of the credit union's examination and supervision history and an evaluation of the status of any outstanding material supervisory concerns are essential to determining whether a credit union should be granted derivatives authority.			
1	Does the credit union's asset size and CAMEL code meet the minimum qualifications to apply for derivative authority?			
2	Review current FPR and discuss the strength of the current financial condition and trends.			
3	Review most recent examination and/or supervision contact reports; discuss current CAMEL code, risk ratings and any outstanding material DOR or examiners findings.			
4	Review most recent Quality Control Review, Supervisory Evaluation Form and RATE review. Discuss any material issues identified in these reviews.			

# Derivatives Authority

## Qualitative Review Checklist

<b>Derivative Transaction and Limit Compliance</b>			
Understanding what products and hedging strategies to be implemented by the credit union is a critical part of the application. The credit union must demonstrate what products and characteristics are being used in the application. Product descriptions should be clear and referenced to the permissible derivatives subsection of the rule 703.102. The application should articulate what the hedging strategy will be in mitigating interest rate risks and how they will measure and monitor the positions against the prescribed limits.			
5	<i>Products (§703.102)</i> Application indicates what products the credit union plans on using and what the hedging objectives are. This should include what balance sheet characteristics are contributing to the interest rate risk, and how derivatives will reduce this risk.		
6	<i>Transaction Characteristics (§703.102)</i> If applicable, application indicates if credit union will use notational amortization or forward start date features, and what the credit union's hedging objectives are.		
7	<i>Limits Authority (§703.103)</i> Credit union recognizes the risk limits associated with the program and indicates how it will comply with them. This is required whether credit union applies with or without prior derivatives experience.		
<b>External Service Providers (including trade counterparties)</b> External Service Providers (ESPs), including transaction counterparties, are a critical component of operating a derivatives program. For transactions; the execution of transactions, the servicing of margin calls, the custodial duties of managing collateral, and in most cases providing current valuations of the transactions. For <i>operational support functions</i> , ESPs are a source of generic ALM functions used at many credit unions. For <i>transactions</i> , the type of agreement needed will vary based on the products the credit union has applied for and whether the credit union will use exchanges or use bilateral agreements will determine. For each product, the application should indicate the credit union's approach is and how it plans on supporting the agreement. For <i>support functions</i> , the application should be clear on what functions will be supported by an ESP, how each function will integrate back into the credit unions' operations, and how the credit union will control this process.			
8	<i>Trade Counterparties (§703.104)</i> Application includes a list of counterparties the credit union plans on using and indicates whether transactions will be cleared, non-cleared, or exchange cleared.		

# Derivatives Authority

## Qualitative Review Checklist

9	<p><i>Collateral and Margining (§703.104)</i> Application indicates how credit union will support the collateral and margining requirements detailed in the rule.</p>		
10	<p><i>Support Functions (§703.107)</i> Application indicates which ESP(s) credit union will use to support derivatives, what functions the ESP(s) will perform, and how supported functions will be integrated into the credit union's operations.</p>		
11	<p><i>Support Functions (§703.107)</i> Credit union must demonstrate how it will support the ALM and liquidity management functions internally and independently.</p>		
12	<p><i>Legal Documents (§703.106)</i> Depending on the approach to ESPs, credit union has indicated what contractual agreements it plans on executing.</p>		
<p><b>Management Reporting</b></p> <p>Ensuring that a credit union's business plan supports its interest rate risk mitigation plans is a critical part of ALM. Similar to the topics above, the credit union's understanding of the hedging strategy as part of its overall balance sheet management should be documented. For internal management reporting, the credit union should have the relevant reporting to indicate the current risks, positions and hedge effectiveness.</p>			
13	<p><i>Risk Mitigation Plan (§703.110)</i> Application includes plan on how credit union will monitor interest rate risk using derivatives, and analysis of using other balance sheet options, and how new instruments will be incorporated into existing risk reporting.</p>		
14	<p><i>Risk Mitigation Plan (§703.110)</i> Credit union indicates what analytical modeling it has done to understand the risk sensitivity of the proposed derivative positions and how effective the hedge will be.</p>		
15	<p><i>Internal Reporting (§703.105)</i> Application describes how the credit union will modify or develop internal reporting to include derivatives, and report to the Board and senior executive officers as required by the rule.</p>		

# Derivatives Authority

## Qualitative Review Checklist

<b>Operational Requirements</b> How a credit union supports and monitors the oversight of a hedging program is critical to its success. The governance and management of ALM activities, including derivatives, requires a greater level of sophistication. In this section, assess how management is conducting activities to support a hedging program and how the internal control framework is supporting those activities. Proper separation of duties, a robust internal control framework and the compliance with GAAP for accounting results are the core attributes for this section.			
16	<p><i>Board Resolution (§703.106)</i> Application includes a resolution from the credit union board of directors or approval in board minutes.</p>		
17	<p><i>Senior Executive Officer Oversight (§703.106)</i> Application describes how the executive officers will oversee the safety and soundness of the derivatives program.</p>		
18	<p><i>ALM Oversight (§703.106)</i> Application details what procedures or plans the credit union will develop or amend on how it will conduct risk oversight of derivatives and integrate derivatives into the overall ALM framework.</p>		
19	<p><i>Accounting (§703.106)</i> Credit union indicates what accounting designation it plans on using and how it will comply with GAAP, as part of the execution strategy.</p>		
20	<p><i>Financial Statement Audit (§703.106)</i> Application acknowledges that the credit union is planning to contract with an independent auditor for a year-end financial statement audit.</p>		
21	<p><i>Internal Controls (§703.106)</i> Application acknowledges that an independent (external or internal) review of derivative internal controls for the first two years of the program.</p>		
22	<p><i>Process Framework (§703.106)</i> Application indicates that a documented plan on the process flow will be produced for the final review; the plan should include roles and responsibilities for each of the major functions in supporting derivatives.</p>		

# Derivatives Authority

## Qualitative Review Checklist

23	<i>Separation of Duties (§703.106)</i> Process framework indicates how the credit union will comply with the required separation of duties.			
----	--	--	--	--

<b>Application Assessment Conclusion and Recommendation (Interim Approval)</b>				
24	Are the application content and business plans sufficient enough to make an assessment?			
25	What part(s) of the application would need more information if the credit union pursues final" derivatives authority?			
26	Given the information that has been presented to me, and in consultation with the other panel member and field office staff, I recommend to <b>approve/decline</b> this application.			
27	<b>Joint panel recommendation for interim authority (approve or decline)</b>			

### Derivatives Application Qualitative Review (Final Approval)

As part of the initial application process, after regions have determined completeness of the package submitted, a secondary review is to be done from a qualitative perspective. All members of the panel (Field staff, Field CMS, and SCMS) will complete their respective comment boxes to provide support for their overall assessment.

### Final Application Review

		Field Staff Comments	Field CMS Comments	SCMS Comments
<b>Safety and Soundness (Field Staff Only)</b>				
#	A credit union that plans to engage in derivatives activity is expected to be operated in a safe and sound manner. A preliminary review of the credit union's examination and supervision history and an evaluation of the status of any outstanding material supervisory concerns are essential to determining whether a credit union should be granted derivatives authority.			
1	Does the credit union's asset size and CAMEL code still meet the minimum qualifications to apply for derivative authority?			
2	If a new call report cycle has closed since the interim approval, review the FPR. Discuss any changes to financial condition or trends since interim approval, if applicable.			

# Derivatives Authority

## Qualitative Review Checklist

3	If a supervision or examination report has been uploaded since the interim review, evaluate if any changes were identified or material issues have emerged, if applicable.		
4	If a new Quality Control Review, Supervisory Evaluation Form, or RATE has been approved since the interim approval, review and comment on any material issues, if applicable.		
<b>Derivative Transaction and Limit Compliance</b>			
Understanding what products and hedging strategies to be implemented by the credit union is a critical part of the application. The credit union must demonstrate what products and characteristics are being used in the application. Product descriptions should be clear and referenced to the permissible derivatives subsection of the rule 703.102. The application should articulate what the hedging strategy will be in mitigating interest rate risks and how they will measure and monitor the positions against the prescribed limits. <b>For the final review assessment, the credit union must include a document of policies and procedures to support the limits monitoring.</b>			
5	<i>Products (§703.102)</i> If following up on an interim approval, product strategy is consistent and use strategy is very clear on how credit union will use products.		
6	<i>Products (§703.102)</i> Application demonstrates the benefit and goal of using each product and what interest rate hedging objectives are being met.		
7	<i>Transaction Characteristics (§703.102)</i> Requests for product characteristics are consistent with application for interim approval, if applicable.		
8	<i>Transaction Characteristics (§703.102)</i> Application demonstrates the benefit and goal of using each characteristic and what interest rate hedging objectives are being met.		
9	<i>Limits Authority (§703.103)</i> Credit union acknowledges the rule limits, the calculations as per the rule, and identifies what processes and reporting have been developed to monitor the limits.		
10	<i>Limits Authority (§703.103)</i> Credit union has provided report prototypes that demonstrate how it will monitor limits.		

# Derivatives Authority

## Qualitative Review Checklist

	<i>Limits Authority (§703.103)</i> Credit union has provided procedures which will ensure that valuations and positions are reconciled with the counterpart, and that the fair value limit is consistent with this.		
11	<i>Limits Authority (§703.103)</i> Determine whether program qualifies for <i>entry or standard</i> limits using the rule requirements.		
12	<b>External Service Providers (including trade counterparties)</b> External Service Providers (ESPs), including transaction counterparties, are a critical component of operating a derivatives program. For transactions; the execution of transactions, the servicing of margin calls, the custodial duties of managing collateral, and in most cases providing current valuations of the transactions. For <i>operational support functions</i> , ESPs are a source of generic ALM functions used at many credit unions. For <i>transactions</i> , the type of agreement needed will vary based on the products the credit union has applied for and whether the credit union will use exchanges or use bilateral agreements will determine. For each product, the application should indicate the credit union's approach is and how it plans on supporting the agreement. For <i>support functions</i> , the application should be clear on what functions will be supported by an ESP, how each function will integrate back into the credit unions' operations, and how the credit union will control this process. <b>Policies and procedures must be included for the final review assessment.</b>		
13	<i>Trade Counterparties (§703.104)</i> Application details what counterparties the credit union will use to execute transactions.		
14	<i>Trade Counterparties (§703.104)</i> Application details what swap dealer, futures commission merchants (FCM), or introducing brokers have been contracted and whether they are clearing or using a bilateral agreement. Contract discloses that only certain contracts can be done, consistent with the application of products.		
15	<i>Collateral and Margining (§703.104)</i> Assess the qualifications of the staff that will be supporting this function.		
16	<i>Collateral and Margining (§703.104)</i> Guidelines in the counterparty agreement(s) detail the eligible collateral and margining requirements are compliant with the rule.		
17	<i>Collateral and Margining (§703.104)</i> Evidence that the credit union has the systems, procedures and trigger notifications to support margin calls.		

# Derivatives Authority

## Qualitative Review Checklist

18	<i>Collateral and Margining (§703.104)</i> Review the reporting that shows the counterparty risk and how the credit union is compliant with the minimum transfer or FCM margin requirements.		
19	<i>Support Functions (§703.107)</i> Review documents on what ESP(s) the credit union is using to support or integrate derivatives, and in what capacity they are being used.		
20	<i>Support Functions (§703.107)</i> Application contains reports that will be used for risk, position, and fair value gain (loss).		
21	<i>Support Functions (§703.107)</i> Confirm that service providers for support functions are not derivative counterparties (which is not allowed by the rule).		
22	<i>Support Functions (§703.107)</i> Credit union has demonstrated that it is capable of overseeing and managing an ESP, and has the resources to do so, where the ESP is providing interest rate risk measurement models and/or liquidity measurement and support functions.		
23	<i>Support Functions (§703.107)</i> Credit union has documented how it is controlling the data and process flow integration points using a service provider.		
24	<i>Legal Documents (§703.106)</i> Credit union has provided signed agreements with all service providers to execute transactions, support margining, and all other operational support.		
<b>Management Reporting</b> Ensuring that a credit union's business plan supports its interest rate risk mitigation plans is a critical part of ALM. Similar to the topics above, the credit union's understanding of the hedging strategy as part of its overall balance sheet management should be documented. For internal management reporting, the credit union should have the relevant reporting to indicate the current risks, positions and hedge effectiveness. <b>Policies and procedures must be included for final review assessment.</b>			

# Derivatives Authority

## Qualitative Review Checklist

25	<i>Risk Mitigation Plan (§703.110)</i> Credit union has provided a detailed plan on the hedging objectives using derivatives, how other interest rate options were considered, and what the economic benefits will be and how the program is reducing or has the potential to reduce interest rate risk.		
26	<i>Risk Mitigation Plan (§703.110)</i> Credit union's risk mitigation plan considers how derivatives can be an alternative to other interest rate mitigation strategies; credit union demonstrates that it has done a cost/benefit analysis.		
27	<i>Risk Mitigation Plan (§703.110)</i> Credit union outlines what analytical modeling was done to understand the risk sensitivity of the derivative positions and how effective the hedge will be. Check for improvements or changes to the material provided for interim review, if applicable.		
28	<i>Risk Mitigation Plan (§703.110)</i> Credit union uses the forward interest rate curve to estimate its cost of funds over the next five years.		
29	<i>Risk Mitigation Plan (§703.110)</i> Credit union reports NEV and income simulations with and without derivatives.		
30	<i>Risk Mitigation Plan (§703.110)</i> Credit union includes both parallel and non-parallel changes in rates over the maturity spectrum (both flattening and steepening of the yield curve).		
31	<i>Internal Reporting (§703.105)</i> Ensure the proposed reporting complies with the requirements for a comprehensive derivatives report outlined in the rule.		
32	<i>Internal Reporting (§703.105)</i> Confirm the distribution and frequency of internal reporting.		

# Derivatives Authority

## Qualitative Review Checklist

<b>Operational Requirements</b> How a credit union supports and monitors the oversight of a hedging program is critical to its success. The governance and management of ALM activities, including derivatives, requires a greater level of sophistication. In this section, assess how management is conducting activities to support a hedging program and how the internal control framework is supporting those activities. Proper separation of duties, a robust internal control framework and the compliance with GAAP for accounting results are the core attributes for this section.			
33	<i>Board Resolution (\$703.106)</i> Review and confirm the board's approval to use derivatives to hedge interest rate risk.		
34	<i>Board Resolution (\$703.106)</i> Confirm the approach and method to how both the board and senior executives will receive training.		
35	<i>Senior Executive Officer Oversight (\$703.106)</i> Credit union has provided documentation that the senior executive officers will oversee with roles and functional responsibilities in supporting all derivative activities.		
36	<i>ALM Oversight (\$703.106)</i> Credit union demonstrates how transactions will be monitored and how the effectiveness of derivative activities is mitigating interest rate risk. Credit union clearly indicates what reporting, systems and functions are being performed, and what sensitivity analysis is being performed, not only for derivatives, but in the context of the overall ALM. Credit union has clearly demonstrated the quality of the reporting and personnel who support these activities.		
37	<i>ALM Oversight (\$703.106)</i> Assess the qualifications of the staff that will be supporting derivatives.		
38	<i>ALM Oversight (\$703.106)</i> Credit union indicates what reporting and functions are being performed, and what systems are being used.		

## Derivatives Authority

### Qualitative Review Checklist

39	<p><i>ALM Oversight (§703.106)</i> Credit union indicates what sensitivity analysis is being performed, not only for derivatives, but in the context of the overall ALM. Assess the quality of the reporting and personnel who support ALM activities.</p>		
40	<p><i>Accounting (§703.106)</i> Credit union demonstrates what accounting approach it will use and how it will monitor results over the life of the transactions.</p>		
41	<p><i>Accounting (§703.106)</i> Assess the qualifications of the staff what will be supporting this function.</p>		
42	<p><i>Accounting (§703.106)</i> Credit union demonstrates that hedge accounting results will be continually tested for effectiveness, secure required documentation, and record appropriate accounting using an approach that is consistent with its hedging strategy. Review the policies and procedures for this.</p>		
43	<p><i>Accounting (§703.106)</i> Review the policies and procedures provided by the credit union to confirm that the suggested accounting approach is consistent with the hedging strategy.</p>		
44	<p><i>Financial Statement Audit (§703.106)</i> Credit union demonstrates that a year-end financial statement audit will be performed inclusive of all derivatives activities.</p>		
45	<p><i>Internal Controls (§703.106)</i> Credit union confirms that an independent assessment of internal controls will be conducted for the first two years of the program, and provides a confirmation from the internal audit group or auditors.</p>		
46	<p><i>Process Framework (§703.106)</i> Credit union's internal control framework documents the roles and responsibilities for all the activities needed to support derivative activities, including the separation of duties.</p>		

## Derivatives Authority

### Qualitative Review Checklist

	<i>Process Framework (§703.106)</i> Analyze the depth and robustness of the roles, personnel and controls as the focus of this review.		
47	<i>Separation of Duties (§703.106)</i> Credit union's internal control framework documents the roles and responsibilities for all the activities needed to support derivative activities, including the separation of duties.		
<b>Application Assessment Conclusion and Recommendation (Final Approval)</b>			
49	Is the application content and business plan sufficient enough to determine that the credit union could control a derivatives program?		
50	Given the information that has been presented to me, and in consultation with the other panel member and field office staff, I recommend to <b>approve/decline</b> this application.		
51	<b>Joint panel recommendation for final authority (approve or decline)</b>		

# **Template: Respond to Incomplete Application for Derivatives Authority**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We have reviewed your request for derivatives authority pursuant to Part 703, Subpart B of NCUA's rules and regulations. I am writing to inform you that the documentation we received on Month XX, 20XX is not sufficient to perform an adequate review and make an informed decision.

We have deferred your request for derivatives authority pending a complete application. You can complete your application by submitting the following items:

1. Item (describe each item in full)
2. Item (add lines as needed)

Please contact Regional Capital Markets Specialist [RCMS name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]  
Field Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# **Template: Acknowledge Interim Application for Derivatives Authority**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I received your application for interim approval of derivatives authority for [CU NAME] on [date], and am writing to notify you that your application is currently being reviewed. We will contact you if we need additional information to complete your application, and estimate that the review may take up to 60 days.

If you have any questions, please contact Regional Capital Markets Specialist [RCMS Name] at [PHONE NUMBER].

Sincerely,

[DIRECTOR NAME]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# **Template: Approve Derivatives Authority (Interim)**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I am writing to notify you that CREDIT UNION's request for interim derivatives authority has been approved.

- List each approved derivatives product and/or product characteristic

CREDIT UNION may not enter into derivatives transactions until it has received final authority from NCUA.

To request final derivatives authority, please refer to §703.111 (b)(c), which indicates what information you must provide to NCUA. You can contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]  
Field Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# **Template: Acknowledge Notification of Readiness (Final Application for Derivatives Authority )**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I have received your notification of readiness on [date], indicating that [CU NAME] is requesting final approval of derivatives authority. Your application is currently being reviewed, and we estimate that the review may take up to 60 days [if following a previous interim approval] / 120 days [if this is a first-time application, with no previous interim approval].

We will contact you if we need additional information to complete our review. If we determine that an on-site visit is necessary as part of the review, we will contact you to coordinate as soon as possible.

If you have any questions, please contact your Regional Capital Markets Specialist [RCMS name] at [phone number].

Sincerely,

[DIRECTOR NAME]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# **Template: Approve Derivatives Authority (Final)**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I am writing to notify you that CREDIT UNION's request for derivatives authority has been formally approved. CREDIT UNION may immediately enter into the following derivatives transactions:

- List each approved derivative authority

Your derivatives activities must be within the approved authority limits (INDICATE LIMITS), and the regulatory requirements detailed in Part 703, Subpart B for derivatives.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]  
Field Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# Template: Deny Application for Derivatives Authority

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I am writing to notify you that I have reviewed CREDIT UNION's request for derivatives authority pursuant to Part 703, Subpart B of NCUA rules and regulations. Based on a review of the application and supporting documentation provided, CREDIT UNION has not been approved for derivatives authority. Specifically:

- Indicate reason(s) for denial (ineligible, safety and soundness, etc.)
- Describe reasons in full

We recognize CREDIT UNION's commitment to reducing interest rate risk, and commend your efforts in developing a strategic plan to enter into the derivatives market. However, your goals and objectives must be supported by reasonable assumptions, projections, and data.

You may appeal this decision to the NCUA Board through this office. If you choose to appeal, you must submit a request, in writing, within 60 days. Your appeal should address the above items. Please see Section 703.111(d) of the regulations for details about the appeals process, or contact examiner [EXAMINER NAME] at [PHONE NUMBER].

Sincerely,

[Field DIRECTOR NAME]  
Field Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)

Assigned RCMS

# NCUA Notification of FISCU Derivatives Activity

*FISCU use only*

Federally Insured, State-Chartered Credit Union (FISCU) Information		
Credit union name		
Charter number		
Contact Information		
Contact name		
Title		
Email / Phone		
Derivative Products FISCU intends to use / already uses (optional)		
Interest rate swaps	<input type="checkbox"/>	
Basis swaps	<input type="checkbox"/>	
Interest rate caps	<input type="checkbox"/>	
Interest rate floors	<input type="checkbox"/>	
U.S. Treasury note futures	<input type="checkbox"/>	
Amortizing notional	<input type="checkbox"/>	
Forward start swaps	<input type="checkbox"/>	
Other (List) _____	<input type="checkbox"/>	
NCUA USE ONLY		
Date notification received	REGION	
Notification received by ( <i>name</i> )		
Derivative program use	<input type="checkbox"/> New activity	<input type="checkbox"/> Existing activity

# **Template: Acknowledge Appeal of Derivatives Authority**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

The NCUA board has received your appeal of DESCRIBE, which is being reviewed now. We will contact you if we need additional information, and will respond to your request as soon as possible.

If you have any questions, please contact examiner [examiner name] at [phone number].

Sincerely,

[DIRECTOR NAME]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

# **Template: Deny Appeal for Derivatives Authority**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On behalf of the NCUA board we are notifying you that I have reviewed CREDIT UNION's appeal of DESCRIBE. Based upon a review of the application and supporting documentation provided, NCUA is maintaining denial for derivatives authority at this time.

We recognize CREDIT UNION's commitment to reducing interest rate risk, and commend your efforts in developing a strategic plan to enter into the derivatives market. However, your goals and objectives must be supported by reasonable assumptions, projections, and data.

You can contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]  
Field Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: E&I (Assigned SCMS)  
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)  
Field staff (district examiner, problem case officer, examiner, or specialized examiner)  
Assigned RCMS

## Chapter 9. Dishonesty, Fraud, and Insider Dealings

Field staff have four primary responsibilities with respect to fraud:

1. Conduct defined scope and risk-focused examinations in accordance with agency policy.
2. Recognize, document, and investigate the red flags that can indicate the presence of, or opportunity for, fraud.
3. Report suspected fraud to their supervisor immediately. Examiners should trust their instincts and consult with their supervisor when fraud is suspected.
4. Follow agency policy if fraud is confirmed or highly suspected.

The Examiner's Guide contains guidance regarding red flags, fraud detection techniques, and investigating fraud.

---

*[NSPM content](#) last updated January 22, 2018*

### 1. When Fraud is Confirmed or Highly Suspected

As part of the normal supervision process, field staff may become aware of fraud that does not pose a threat to the institution and has been identified and addressed by the credit union. In these instances, field staff will ensure the credit union appropriately handled the fraud.<sup>1</sup> Field staff will notify their supervisor if they have concerns with how credit union management handled the fraud.

For any fraud in which field staff are involved in the detection and investigation of, either through the normal supervision process or as a result of a tip from a third party (including fraud that has been identified by the credit union, but was not properly resolved), field staff will complete the [Fraud Report](#).<sup>2</sup>

---

<sup>1</sup>The extent of the review will depend upon the situation. For example, in a large credit union that identified a small teller fraud, field staff may review internal audit reports to ensure the situation was appropriately handled. Alternatively, in a smaller credit union, field staff may need to discuss the matter with management or the Supervisory Committee to ensure appropriate action was taken.

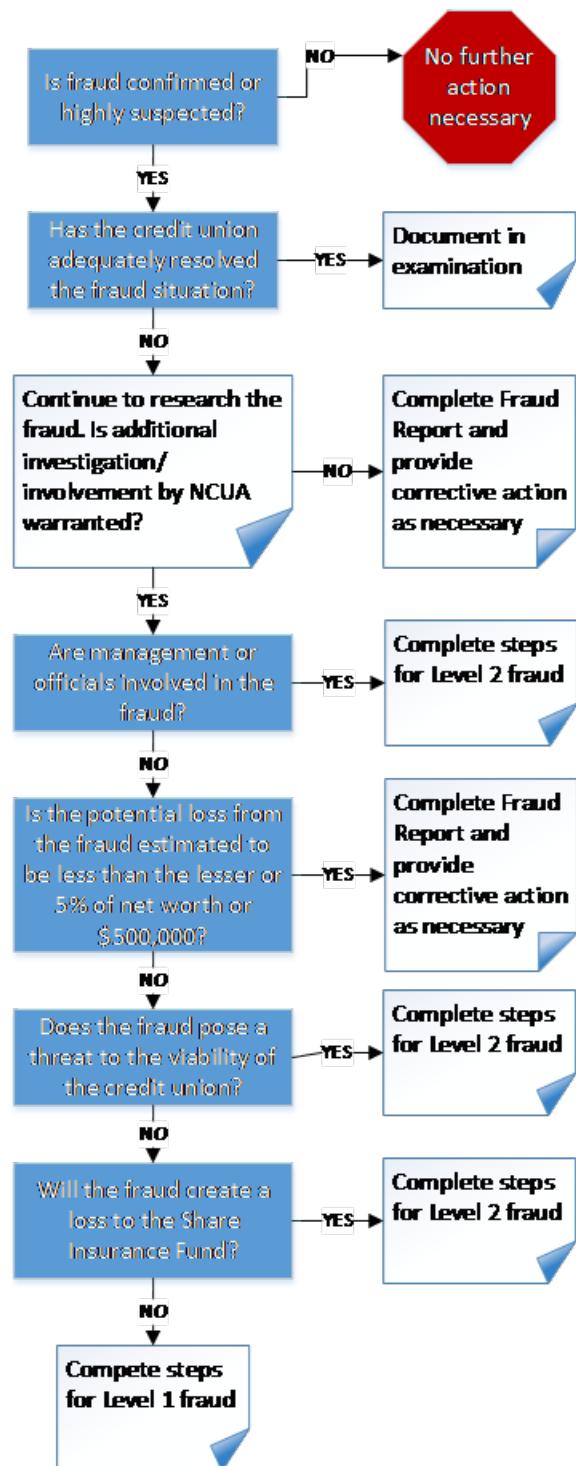
<sup>2</sup>The Fraud Report will be uploaded as part of the Exam Directory in AIRES.

Next steps will vary depending on the extent of the fraud and the individual(s) involved. Field staff will follow the appropriate NCUA policy depending on whether the fraud is classified as [Level 1](#) or [Level 2](#). The following decision tree will help field staff identify next steps when fraud is discovered.

The [Fraud Discovery Checklist for Examiners](#) provides guidance to examiners through the fraud discovery process.

## A. Fraud Decision Tree

The following decision tree will help field staff identify what actions to take when fraud has been identified or is highly suspected.



## B. Level 1 Fraud

Fraud is categorized as Level 1 if it does not pose a threat to the viability of a credit union or a loss to the Share Insurance Fund, is isolated to one individual or incident and if field staff are relatively certain that credit union management and/or officials are not directly involved. Generally, fraud will be considered a Level 1 fraud if the actual or potential loss exceeds the lesser of five percent of the credit union's net worth or \$500,000.<sup>1</sup>

The supervisory examiner will consult with the ARD on the extent of NCUA's involvement, including whether to involve E&I's Fraud and Risk Analysis Specialist and/or OGC.

For a Level 1 fraud, examiners will:

- Notify the supervisory examiner, who will consult with the ARD to determine if a WCC 90 or WCC 91 contact is warranted or if the supervision schedule should be accelerated. If onsite, open a concurrent WCC 90 or WCC 91 to document the fraud investigation.
- Document the facts in the [Fraud Chronology](#) and include it in the AIRES upload.<sup>2</sup> The Fraud Chronology should document all individuals known or suspected to be involved in the fraud.
- Discuss with the supervisory examiner whether to request a personal database search through DOS on the individual(s) suspected to be involved in the fraud.<sup>3</sup> DOS will complete the E&I [Database Search Request Form](#) on NCUA's [Anti-Fraud SharePoint Site](#).
- Discuss with the supervisory examiner whether the scope of the current and/or future examination should be expanded to include a review of internal controls and any other areas relevant to the suspected or

---

<sup>1</sup>While not required, on a case-by-case basis supervisors may require examiners to follow Level 1 fraud procedures even if the actual or potential loss is less than the lesser of five percent of the credit union's net worth or \$500,000.

<sup>2</sup>If the fraud is identified during an offsite review or through notification by a third party, the examiner will upload the Fraud Chronology as part of the WCC 90 or WCC 91.

<sup>3</sup>More information about Personal Database Searches and instructions for requesting searches are outlined in the Procedures for Requesting Personal Database Search Memo.

identified fraud. For example, if the fraud was theft from a teller drawer, the examiner should review the credit union's cash handling procedures and internal controls.

- Work with the supervisory examiner to notify credit union management, the board of directors, and the Supervisory Committee of the identified or suspected fraud. Field staff should encourage the board of directors to obtain legal counsel and provide the [Fraud Discovery Checklist for Board of Directors](#) as a resource. Examiners should include corrective action plans for the Supervisory Committee to expand their internal control reviews, as necessary.
- Ensure the officials notify the bonding company and law enforcement and file a Suspicious Activity Report. Follow up with the officials to obtain confirmation that a SAR was filed. Include the confirmation in the WCC 90 or WCC 91 upload.

Field staff should remind credit union management that the filing of any SAR is confidential and should not be disclosed to credit union personnel named in the filing.

If credit union management or officials fail to take proper corrective action, which includes notifying the bonding company or filing a SAR, field staff will notify their supervisor to determine if further action is necessary.

If a Level 1 fraud is subsequently identified as a Level 2 fraud or fraud that involves management or officials, field staff will follow the procedures for a [Level 2 fraud](#).

## C. Level 2 Fraud

Fraud is categorized as Level 2 when it threatens the viability of a credit, will cause a loss to the Share Insurance Fund, or management or officials are likely involved.

For example, if a CEO misuses a corporate credit card for personal expenses, the dollar amount may not threaten the viability of the credit union, but it shows the CEO is willing and able to commit a dishonest act. This could indicate additional, yet uncovered fraud, and at a minimum may threaten future bond claims or the CEO's ability to be bonded. A fraud that is potentially pervasive to the institution should also be treated as a Level 2 fraud.

If a potential Level 2 fraud is detected during an offsite review or through notification by a third party (for example, credit union employee, state supervisory authority), field staff will immediately notify the supervisory examiner. Field staff will schedule an onsite fraud contact (WCC 90 or 91) within three business days of the detection or notification.

If an examiner identifies a potential Level 2 fraud during an onsite contact, they will immediately notify the supervisory examiner and open a concurrent WCC 90 or WCC 91 to document the fraud investigation.

When a Level 2 fraud or fraud involving management or officials is suspected or confirmed:

- The ARD will ensure the onsite contact is staffed with examiners and/or specialists who are have experience addressing internal credit union fraud or the subject area of the suspected fraud.
- Within one business day of determining a probable fraud is occurring, the regional office will notify E&I's Fraud and Risk Analysis Specialist, AMAC, and OGC. E&I and/or OGC can provide additional resources to staff the onsite contact, if necessary. In addition, OGC may pursue an order of investigation that empowers the NCUA to issue subpoenas for documents and take depositions from sources inside and outside the institution if individuals are uncooperative.
- Field staff will maintain the [Fraud Chronology](#) and establish the administrative record related to the case.
- The supervisory examiner will work with DOS to ensure all offsite resources (for example, FinCEN database searches, personal database searches) are used to research individuals or third parties suspected in the fraud. If a personal database search is necessary, DOS will complete the E&I [Database Search Request Form](#) on NCUA's [Anti-Fraud SharePoint Site](#). Supervisors will discuss with the regional office how and when to notify law enforcement and other authorities as warranted (IRS, etc). Before contacting law enforcement or other authorities, the regional office will consult with E&I's Fraud and Risk Analysis Specialist and OGC.
- The regional office will consult with OGC regarding filing a prohibition order against the individual(s) involved.

- If field staff believe credit union officials are involved in fraud, the supervisor will consult with the ARD to determine who will notify the bonding company and file a SAR.
- If there is reasonable assurance that officials are not involved, field staff and their supervisor will notify the credit union's board of the fraud. Field staff can provide the [Fraud Discovery Checklist for Board of Directors](#) as a resource. Field staff will encourage the board of directors to obtain advice of legal counsel and to consider the following actions:
  - Suspend the personnel involved with pay
  - Control involved personnel's access to the credit union
  - Fill the operational void caused by any suspension
  - Contract to obtain a fraud audit
  - Notify surety (bonding company) immediately, as appropriate
  - Complete and file a SAR

Field staff cannot direct or require a credit union to terminate or suspend an employee and should ensure that management understands that it is their choice on the appropriate action to take.

Field staff should remind credit union management that the filing of any SAR is confidential and should not be disclosed to credit union personnel named in the filing.

Depending on the extent and individuals involved (or suspected to be involved) in the fraud, additional enforcement action such as conservatorship or liquidation may be necessary. Field staff will work with the regional office if additional enforcement action is necessary and follow existing policy regarding enforcement actions.

Examiners should refer to the Responding to Fraud section of the [Examiner's Guide](#) for guidance on investigating suspected or confirmed fraud.

---

*[NSPM content](#) last updated July 31, 2018*

## 2. Fraud Indicator Report

The Fraud Indicator Report uses credit union financial performance data and other available information to identify characteristics indicating internal fraud

may be present.<sup>1</sup> The report flags credit unions based on:

- Irregular financial patterns or extreme outliers for specific financial metrics from the 5300 Call Report compared to assets and/or peer. Credit unions are flagged if they exhibit financial indicators that are more than two standard deviations from the mean.
- Unresolved DOR items related to recordkeeping and internal controls.
- Data gathered from the U.S. Treasury Department's FinCEN SAR database. SARs are filed by a regulator or financial institution to report on either credit union personnel or the credit union itself when there are indications of unusual transactions within a credit union's accounts. The Fraud Indicator Report flags a credit union if there was at least one SAR filed on the credit union or credit union personnel within the last twelve months.
- The Federal Reserve Bank Payment Analysis and Screening System (PASS) data. This data is used to identify the possibility of fraudulent activity occurring with the credit union's Automated Clearing House, wire transfer, and currency activity. The Fraud Indicator Report flags credit unions that show irregularities with the volume of transactions based on asset size and significant increases in transaction activity.

## A. Offsite Review Policy

Each quarter, E&I will post the Fraud Indicator Report to the NCUA's internal [Anti-Fraud SharePoint Site](#) and notify field staff of its availability.<sup>2</sup> Field staff will use the Fraud Risk Indicator Report as part of the offsite monitoring and examination scoping process.

## B. Onsite Review Policy

Each quarter, E&I will review the Fraud Indicator Report and conduct further reviews on credit unions with six or more indicators, or on a case by case basis

---

<sup>1</sup>The NCUA is prohibited from sharing SAR or PASS data with any external parties, including SSAs, in accordance with the outstanding Memorandums of Understanding between the NCUA and FinCEN and the Federal Reserve. However, the Regional Director may share the fraud indicator report flags from 5300 Call Report data with the respective SSA.

<sup>2</sup>To ensure data integrity, the Fraud Indicator Report will use final scrubbed Call Report data; the report will have a one-quarter lag. For example, E&I will post the first quarter report by the end of the second quarter.

when conditions indicate elevated risk and determine if any credit unions warrant an onsite fraud contact. E&I will send a memo to the Regional Director detailing the credit unions that require an onsite fraud contact.<sup>1</sup> The memo will outline the specific fraud indicators identified for each credit union.<sup>2</sup>

Upon receipt of the E&I memo, the Regional Director will assign field staff with appropriate expertise to complete the onsite fraud contact.<sup>3</sup> The region has 120 days from receipt of the memo to begin the onsite fraud contact, during which field staff will:

- Use WCC 90 or WCC 91 to document the onsite fraud contact.
- Document their review of the flagged fraud indicators in the Scope Module. See the Fraud Indicator Report Onsite Contact Review Procedures document on the NCUA's [Anti-Fraud SharePoint Site](#) for the most current review procedures for each flag.
- Complete the applicable tabs of the Fraud Workbook.
- Follow up on outstanding DOR items related to triggers in the Fraud Indicator Report.
- Comply with the NSPM requirements for onsite contacts for a [federal credit union or FISCU](#).<sup>4</sup>
- Include all documentation necessary to support the administrative record.

Due to the sensitive nature of fraud reviews, field staff should not notify the credit union of the purpose for the onsite contact.

---

[NSPM content](#) last updated January 22, 2018

---

<sup>1</sup>Not all credit unions with six or more indicators will require an onsite contact.

<sup>2</sup>When coordinating onsite contacts in FISCUs, the NCUA may not disclose to the SSA that the contact is a result of FinCEN or PASS data flagged on the Fraud Indicator Report.

<sup>3</sup>"Appropriate expertise" generally means a Record Keeping and Internal Controls Subject Matter Examiner or an examiner with a Certified Fraud Examiner (CFE) designation. Regional Directors should consider assigning staff other than the assigned district examiner to complete the onsite contact when necessary.

<sup>4</sup>For WCC 90 or WCC 91 contacts, field staff are not required to comply with NSPM credit union notification timeframes.

### 3. Fraud Hotline Investigations

The Office of General Counsel monitors the toll free NCUA Fraud Hotline (800-827-9650). Upon receiving a report of suspected fraud or other irregularities, OGC will forward a Fraud Hotline Report to the appropriate Regional Director for review, with a copy sent to the E&I Fraud and Risk Analysis Specialist.

Upon receipt of the complaint, the regional office will send a copy of the Fraud Hotline complaint and any supporting documents to the appropriate supervisor, and provide field staff a copy.

Field staff will review the fraud complaint and supporting documentation and discuss with their supervisor. The supervisor will determine if an onsite fraud contact (WCC 90 or WCC 91) is necessary and the timeframe for completing the contact. Field staff will complete and upload the [Fraud Report](#), along with any other documentation necessary to support the administrative record.

When conducting an onsite fraud contact, examiners will keep the names of parties filing the complaint confidential. When field staff determined allegations of fraud or improper conduct are substantiated, supervisors are responsible for ensuring appropriate corrective action is initiated at the field level. If the fraud is substantiated examiner should follow agency policy for a [Level 1](#) or [Level 2](#) fraud.

When it is determined an onsite fraud contact is not warranted, the regional office will provide OGC a justification to support their decision.

---

[NSPM content](#) last updated January 22, 2018

### 4. Templates

- Fraud Discovery Checklist for Board of Directors
- Fraud Discovery Checklist for Examiners
- Fraud Chronology
- Fraud Report

---

[NSPM content](#) last updated January 22, 2018

# Fraud Discovery Checklist for Credit Union Board of Directors

Fraud can be committed in any department of the credit union and by anyone from a teller to a board member, or even collusion between a group of employees or board members. Officials should keep this in mind as they begin to act on a suspicion of fraud. The following checklist will assist officials upon discovery of a fraud. This checklist is provided for guidance only and should not be construed as all-encompassing for actions needed on the part of Credit Union Officials upon fraud discovery. Prior to beginning the outlined tasks read the entire checklist.

Tasks	Initials	Date	Comments
1. Contact the credit union's legal counsel for advice on how to proceed.			
2. Contact the credit union's NCUA examiner and state regulator, if applicable.			
3. Control access of the involved personnel: <sup>1</sup>			
a. Obtain keys and passwords from the individual(s). Request Fed tokens, security codes, user names and passwords, and vendor contact information. If the individual(s) is not cooperative, void authorization access. <sup>2</sup>			
b. Revoke remote access to credit union systems.			
c. Re-key locks on doors, disable electronic badge access, and change alarm and camera codes. If the building is leased, notify the			

<sup>1</sup> Access restriction should occur prior to placing the individual on administrative leave.

<sup>2</sup> Obtain user names and passwords for all systems such as web-based applications, third party services, and credit union email.

building management of re-keyed door locks.			
d. Change computer system passwords.			
e. Change signatories and wire authority on bank, Federal Reserve, investment, safekeeping documents, custodian accounts and corporate credit union accounts, etc. <sup>3</sup>			
f. Obtain total control of any post office or mailboxes, night drops, ATMs, vault, teller drawers, etc. <sup>4</sup>			
g. Notify third party vendors of the change in personnel. Vendors to include initially: ACH service provider, online banking provider, CUSO to support any electronic payment activity, post office box, security system provider, core system provider, and ATM network.			
h. Ensure any saved footage from security cameras is secured and not subject to being overwritten.			
i. Secure credit union owned assets (for example, cell phone, laptop, vehicle) from the individual including items maintained offsite.			
4. After consulting with the credit union's legal counsel, restrict access to involved			

<sup>3</sup> Financial institutions normally require identification of new signatories. This process will be facilitated if current signers assist in the change. As different institutions will have varying procedures to make this change, the Board should contact the individual institution for further guidance on how to make the change as soon as possible.

<sup>4</sup> This includes collecting all keys (such as cash drawers, mailboxes, desk drawers) from the individual and changing combinations where applicable (for example, vault, ATM, night deposit).

personnel's credit union accounts including:			
a. Freezing accounts (primary and joint).			
b. Closing charge cards (personal and corporate).			
c. Restricting access to safe deposit boxes.			
5. Perform review procedures to determine cash differences:			
a. Perform cash, vault, and ATM cash counts, under dual control.			
b. Account for teller/cashier checks, money orders, and negotiable instruments.			
6. Contact involved personnel:			
a. Interview the individual(s) to determine the information they will share. You may want to have legal counsel present for the interview. Be vague on the information found. Do not give a possible dollar loss to involved personnel. <sup>5</sup>			
b. Suspend the personnel involved with pay until an investigation can be completed. Determine if other employees should be suspended during the investigation. <sup>6</sup>			
c. Escort involved individual(s) out the door. Do not leave involved personnel alone. Advise them their personal possessions will be			

<sup>5</sup> At least two officials should be present during the interview.

<sup>6</sup>Credit union officials should consult with their human resources department and attorney during this step.

inventoried and boxed up, and they will be contacted for pick up. <sup>7</sup>			
7. Isolate and preserve all hard copy evidence. Ensure originals are in "as-is" condition (do not write on or alter originals).			
8. Depending on the individual's involvement in the credit union's operations, fill the operational void caused by the suspension.			
9. Contract a third party to complete a mirror image of affected computers and computer systems. <sup>8</sup>			
10. Review bond contract to determine notification deadlines and notify bonding company of potential fraud. <sup>9</sup>			
11. Contact law enforcement.			
12. Determine if a forensic audit is needed.			
13. Assign a media contact person and develop a message to address media questions.			
14. Inform staff. Messaging to staff should include, at minimum, an emphasis on business as usual, how to respond to member questions, maintaining confidentiality and no comments on social media.			
15. If member accounts are involved in the fraud, a verification of member accounts should be performed.			

<sup>7</sup>This step does not include maintaining car keys, wallet, etc. If the individual(s) leaves with a briefcase or bag, officials should check contents for credit union possessions or evidence of the fraud prior to the individual(s) exiting the credit union.

<sup>8</sup>Mirroring makes an exact copy of the storage media on the computer that is precisely the same as the original both physically and logically. The purpose of mirroring is evidence preservation.

<sup>9</sup>The credit union officials should consider consulting with an attorney to ensure notifications deadlines are met.

16. File a bond claim after all facts are known and per the bond contract deadlines. (The forensic CPA may be able to assist you in filing the bond claim.)			
17. Once the fraud is confirmed, consult with attorney to formally notify the individual(s) of termination and to determine pay due to involved individual(s). The acceptance of a resignation letter containing a "Hold Harmless" clause will be detrimental in pursuing any restitution. You should consult with your attorney before accepting any resignation letter and ensure any termination letters does NOT contain a "Hold Harmless" clause.			
18. Complete a Suspicious Activity Report (SAR) per regulatory requirements.			

## Fraud Discovery Checklist for Examiners

Fraud can be committed in any department of the credit union and by anyone from a teller to a board member, or even collusion between a group of employees or board members. Examiners should keep this in mind as they begin to act on a suspicion of fraud.

This checklist provides guidance to examiners through the fraud discovery process. Fraud discovery is a fluid process and every fraud discovery process is different; therefore, examiners should use their judgement when completing the checklist.

Task	Initials/ Date	Comments
<b>Notification</b>		
1. Notify your supervisor as soon as fraud is suspected. Keep your supervisor updated regularly.		
2. Determine who is involved in the fraud. Discuss with your supervisory examiner whether to request a personal database search through DOS.		
3. If the fraud is considered a <a href="#">Level 1 Fraud</a> discuss with your supervisor how and when to notify management, the board of directors, and the supervisor committee of the fraud. Use the following tips to communicate with the credit union officials. <ul style="list-style-type: none"><li>• Clearly present the evidence of the fraud.</li><li>• Explain the board's fiduciary responsibility to the members and that failure to act may result in release of surety from liability for any future fraud losses.</li><li>• Request that the officials contact an attorney.</li></ul>		

<ul style="list-style-type: none"> <li>• Request that the officials notify law enforcement.</li> </ul>		
4. If the fraud is a <a href="#">Level 2 Fraud</a> , examiners should contact their supervisor, who will consult with the ARD.		
<b>Evidence Collection and Preservation</b>		
1. Begin the <a href="#">Fraud Chronology</a> . This is where you will document the tasks performed leading up to the discovery of the fraud and going forward as you investigate the fraud.		
2. Obtain a list of credit union employees and their contact information.		
3. Protect original documents from destruction, loss, being altered, etc. Make two sets of copies of documents or scan the documents. You may write on one set while the other set is maintained for law enforcement. Obtain a receipt for any documents provided to law enforcement.		
a. Organize your information and documents. Label, date, and index all documentation <u>without</u> writing on document originals or clean copies. Original documents generally must remain in the credit union. Refer to the latest version of Instruction 13500.09, <a href="#">Security of Sensitive Information</a> .		
b. Use the Document Security Log included as Appendix A to NCUA Instruction 13500.09, <a href="#">Security of Sensitive Information</a> . Describe how each document		

is relevant to the fraud or fraud investigation.		
c. Develop a chain of custody via the Document Security Log that documents the time of receipt and return of documents or records and the names and title of the person from or to whom it was obtained or returned.		
d. Copy both sides of records such as checks, notes, and general ledger tickets and copy documents such loan files, policies, etc., in their entirety.		
e. Make sure copies of documents and records are readable. Maintain originals and copies in a secure area.		
f. Digitalize (scan, take pictures or videos with your agency issued i-Phone) documents and records in accordance with agency policy.		
4. Take pictures to document the credit union (for example, offices) and evidence (such as cash stashed in a drawer). This will assist in a potential prosecution and can be used by AMAC in the event of liquidation.		
5. Document the flow of the money. If it is leaving the credit union, how is it leaving (for example, ACH, wire, cash)?		
6. Document whether and how the insider's activities deviated from the credit union's established policies, procedures, and practices. Maintain		

full copies of the applicable policies, procedures, and practices.		
7. Document how the fraud will impact the credit union (for example, failure) and what the potential outcome will be for the membership (such as loss of financial services).		
8. Verify the officials contracted with a third party to complete a mirror image of affected computers and computer systems.		
<b>Other</b>		
1. Verify the actions taken by the officials. The <a href="#"><u>Credit Union Board of Director Fraud Discovery Checklist</u></a> will assist you and the officials with tasks that need to be performed to protect credit union assets.		
2. Contact the regional office and verify the officials filed a SAR. If the officials refuse to file the SAR, the regional office should contact OGC and E&I's Fraud and Risk Analysis Specialist to receive guidance on how to proceed.		
3. Obtain a list of third party vendors.		
4. Determine the financial impact of the fraud on operations (for example, liquidity, net worth).		
5. Complete the Fraud Report.		

# Database Search Request Form

(One form per subject)

**\*\*\* DO NOT INCLUDE SSN OR DOB INFORMATION \*\*\***

<i>Today's Date</i>			
<i>Region</i>			
<i>Examiner's Name</i>		<i>Examiner's Email</i>	
<i>Supervisor's Name</i>		<i>Supervisor's Email</i>	
<b>Credit Union</b>			
<i>Name of Credit Union</i>			
<i>Charter Number</i>			
<b>Subject Information</b>			
<i>Name (Last, First, MI)/Business Name</i>			
<i>Alternative Name(s)</i>			
<i>Address (at a minimum – city and state)</i>			
<i>Any Additional Information:</i>			
<b>Justification for Search:</b>			

## Fraud Chronology

CU Name		Region	
City, State		DSA/SE:	
Charter #		PCO/EX:	
FOM		Assets	
Net Worth (%)		Net Worth (\$)	
CAMEL		Admin. Action(s)	
Date of Suspected Fraud		Fraud Suspects	
Estimated Loss (\$ Amount)		Law Enforcement Notified	

Include activities that lead to the fraud discovery, in-person and telephone conversations, written correspondence (email, letters, texts), etc. Note the date and time for each activity you log. Include names of those participating in meetings, etc. along with details.

---

**12/21/2016 1:30 PM**

**PCO Smith**

**Interview**

I conducted an interview of the Board Chair Jackson and the Supervisory Committee Chair Brown with examiner Jones to discuss action taken by the board to date in response to the fraud. The Board Chair reviewed the items completed so far on the checklist. In consult with the credit union's attorney, the CEO has been put on leave with pay during the investigation.

# Fraud Report

CU Name		Region	
City, State		DSA/SE:	
Charter #		PCO/EX:	
FOM		Most Recent Onsite	
Net Worth (%)		Admin. Action(s)	
CAMEL		Assets	

## Fraud Details

**How was the fraud discovered? If by tip, who provided the tip? Who found the fraud?**

**If notification of fraud came from the Fraud Hotline was it substantiated? If fraud was confirmed, complete the remainder of this report. If not, provide a summary below.**

**Who is involved in the fraud? Include names and titles.**

**What type(s) of fraud was conducted?**

**How was the fraud being perpetrated?**

**How much do you anticipate the fraud to be in dollars and as a percentage of net worth?**

**Fraud Loss (\$):**

**Fraud Loss (% of NW):**

**What time period does the fraud cover?**

**Date started (if known):**

**Date discovered:**

**Was the hard drive imaged? Provide the imaging vendor's name and contact information. Was a chain of custody established for the imaged hard drive? If so, include the chain of custody.**

**Provide any general ledger or member accounts involved in the fraud.**

**Provide a list of any seized or confiscated items and their location.**

**Is the credit union solvent? Do you expect the amount of the fraud to cause the credit union to be insolvent?**

**Has the bonding company been formally notified in writing? If so, when? If not, why?**

**Has a bond claim been filed? If so, for how much? If not, when is the deadline? What is the bond limit?**

**Has a fraud audit been scheduled or completed?**

**A. If so, when will it be completed?**

**a. Do you have a final report? If not, when do you expect it?**

**b. Provide the auditor's names, phone number and email.**

**B. If no audit has been scheduled, why not?**

**C. What is the maximum amount the bond company will pay for the fraud audit?**

**Has (have) the suspect(s) been removed/suspended from the credit union? If not, why?  
If so, was credit union access removed (for example, keys and permissions).**

**Have the credit union officials contacted a labor attorney regarding suspension of the perpetrator and handling of accounts? If so, list the name, phone number and email. If not, why?**

**Has (have) a Suspicious Activity Report(s) been filed? If so, when? Will a revised report be needed? If no SAR was filed, why?**

**Has (have) law enforcement been contacted? If so, provide the name(s), phone number(s) and email(s).**

**Was confiscated items or documents turned over to law enforcement? If so, include the inventory of all items and documents provided to law enforcement.**

**Has (have) the fraud been admitted to by a signed, written confession(s)?**



# Chapter 10. District Management

District management encompasses the comprehensive objective of managing and maintaining continuous and detailed knowledge of an assigned district of credit unions. This includes ongoing financial analysis, knowledge of local economic condition, knowledge of current events affecting assigned credit unions, identification of emerging risks, and the routine reporting to management on these issues. The ongoing reevaluation of supervision plans based on this analysis is needed to effectively match resources to risks.

District management also includes the scheduling, the prioritizing, and the administrative tasks associated with the examiner position. Examiners are responsible for effectively managing risk within their districts by scheduling examinations/supervision contacts based on current and emerging risks. Examiners will document supervision and keep their supervisor apprised of any significant issues affecting their ability to provide adequate supervision to assigned credit unions. Effective district management includes the collaboration of examiners, supervisors, regional offices, and the central office to provide risk-focused supervision and mitigate losses to the National Credit Union Share Insurance Fund (share insurance fund).

---

*[NSPM content](#) last updated July 29, 2015*

## 1. General Supervision Responsibilities

"Supervision" encompasses all examinations, onsite contacts, and offsite contacts performed at credit unions, as well as the documentation of an administrative record. Specific responsibilities are outlined in more detail in the following sections:

- [E&I responsibilities](#)
- [Regional Director responsibilities](#)
- [Supervisor responsibilities](#)
- [Field staff responsibilities](#)

---

*[NSPM content](#) last updated July 29, 2015*

## A. E&I Responsibilities

E&I will monitor national status and trends based on quarterly reports prepared by the regional offices. E&I is also responsible for:

- Establishing the national examination scope with regional input
- Evaluating the quality of the credit union examination program
- Collecting and monitoring information on emerging risks, resources, and program quality
- Establishing new examination and quality assurance procedures
- Monitoring overall national trends to ensure a high quality examination program with the objective of minimizing risk to the share insurance fund

E&I is responsible for the overall adherence to established standards outlined in this manual, the *Examiner's Guide*, and other national issuances including CAMEL and risk ratings. E&I will also monitor the national status and trends of supervision efforts. E&I will use this information to evaluate risk mitigation and control, identify weaknesses in the supervision processes, and develop and deploy (with regional input) revised supervision policies and procedures.

---

*[NSPM content](#)* last updated January 27, 2016

## B. Regional Director Responsibilities

Regional Directors are responsible for mitigating losses to the share insurance fund, identifying emerging risk trends, and taking proactive steps to correct problems. In addition, Regional Directors are responsible for measuring and monitoring the regional examination program for quality and completeness, as well as adherence to established standards including CAMEL and risk ratings. They will work with supervisors to ensure appropriate specialized resources are provided for institutions representing a significant risk to the share insurance fund. Regional Directors will report quarterly to E&I regarding the status of their examination programs including adherence to examination and supervision standards.<sup>1</sup>

---

<sup>1</sup>Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions should ensure their current systems capture the requested information.

The Regional Director is also responsible for monitoring and evaluating overall supervision efficiency, effectiveness, and timeliness. The Regional Director will monitor supervision efforts through the quality control review process and various available reporting tools, including self-designed monitoring reports. He or she will report on their high-risk credit unions via the monthly management report, [High Risk Credit Union Pipeline Reports](#) (see NCUA Instruction 4001), and other methods as they become available.

---

*[NSPM content](#) last updated July 29, 2015*

## C. Supervisor Responsibilities

Supervisors are responsible for managing risks within their groups and mitigating losses to the share insurance fund. Supervisors must ensure examination/supervision contact reports are high quality, results oriented work products that:

- Properly identify and rate significant risks
- Assign appropriate CAMEL and risk ratings
- Reflect a complete administrative record
- Develop appropriate plans to correct major problems

Supervisors are responsible for ensuring examinations/supervision contacts are scheduled, conducted, and completed appropriately. Supervisors will facilitate scheduling for team examinations and request appropriate specialized resources are provided for institutions representing a significant risk to the share insurance fund.

Supervisors are also responsible for ensuring examiners complete results-driven supervision and provide the proper level and type of supervision for each credit union. Supervisors will ensure examiners properly schedule supervision contacts, within the appropriate timeframes given the conditions unique to each credit union. Supervisors will ensure extension requests are reasonable and justifiable and will not unduly jeopardize credit union operations or risk to the share insurance fund.

Supervisors will use a variety of tools (including but not limited to: MARS, risk reports, Call Reports, and regional reports) to ensure assigned credit unions receive the proper results-oriented supervision on a timely basis. Supervisors will be responsible for reporting on the highest risk credit unions in their group to their regional office on a regular predefined interval using established

forms, methodologies, and systems (for example, [High Risk Credit Union Pipeline Reports](#), critical cases, etc.).

---

*[NSPM content](#) last updated July 29, 2015*

## D. Field Staff Responsibilities

Examiners are responsible for effectively managing risk within their districts and mitigating losses to the share insurance fund. Examiners will schedule examinations and supervision contacts based on identified and emerging risks and in accordance with this manual. Examiners will complete examinations/supervision contacts according to standards established in this manual, within the [AIRES 2005 User's Manual](#), the [Examiner's Guide](#), and other applicable references including CAMEL and risk ratings with the focus on timely correction of identified problems. For corporate credit union examinations, refer to the Corporate Exam Work Center Manual.

Examiners will utilize all tools available to identify current and emerging risks in credit unions. These tools include, but are not limited to:

- [Examiner's Guide](#)
- [NCUA SharePoint sites](#)
- Letters to Credit Unions
- Regulatory and Risk Alerts
- NCUA Legal Opinions
- Financial Performance Reports (FPRs)
- Risk reports
- Whitepapers
- [FFIEC](#) guidance
- NCUA Supervisory Letters

Examiners are also responsible for completing results-driven supervision and ensuring compliance with the supervision and reporting requirements of this section of the NSPM which include, but are not limited to, effectively, efficiently, and timely scheduling onsite and offsite contacts for their assigned credit unions. Examiners will keep their supervisor apprised of any significant issues affecting their ability to conduct adequate and proper supervision of their assigned credit unions. Examiners will be responsible for reporting to their

supervisor and/or other offices (as needed) their supervision and oversight efforts.

Examiners are responsible for supervising assigned credit unions through:

- Conducting ongoing, results-oriented examination and supervision contacts
- Writing 5300 Call Report Risk Reviews based on national risk reports
- Analyzing Financial Performance Reports (FPRs)
- Communicating with officials and management in an ongoing manner
- Maintaining a [Supervision Chronology Report](#) (see the [Supervision Chronology Report section of the NSPM](#) for more info), commonly referred to as a "chronology," for:
  - CAMEL 3 credit unions that have more than \$250 million in assets
  - All CAMEL 4/5 credit unions
  - Credit unions that require a 90-day follow up for significant record-keeping concerns

---

[NSPM content](#) last updated February 9, 2017

## 2. Budgeting and Scheduling Examination Work

Budgeting and scheduling of examination work is critical to effectively manage resources and ensure timely examinations/supervision contacts. Appropriate scheduling ensures resource allocation can be directed to the credit unions of regional and national significance as needs arise and helps to ensure the NCUA achieves its mission.

---

[NSPM content](#) last updated July 29, 2015

### A. Budgeting Process

#### 1. Examiner

The budgeting process begins with examiners. Examiners are responsible and accountable for using historical knowledge of the credit union, Management Automated Resource System (MARS), and/or the "Plans and Budget" tab in the Scope module to view previously recommended examination/supervision hours for each district credit union. For a corporate credit union, examiners will

use the most recent Agreed Upon Supervision Plan (AUSP) or other historical information.

Based on this information, examiners will submit recommended estimated hours to their supervisor during the annual resource planning process using the credit union resource allocation module in MARS online ( E&I provides instructions for this process annually).

Additionally, examiners will recommend specialized resources in consultation with their supervisor when the size, complexity, or potential risk to the share insurance fund warrants the use of specialized expertise (for example, regional office/ONES staff, central office staff, AMAC, outside contractors). Examiners will consult with their supervisor during the year if conditions warrant changes to the examination budget.

## ***2. Supervisor***

Supervisors are responsible and accountable for:

- Managing resources on an ongoing basis throughout the year to ensure the proper development of examiners and completion of program including the resolution of risk areas
- Managing resources to effectively examine large, complex, and problematic institutions
- Evaluating the annual budget recommendation for the group after consulting with district examiners
- Monitoring and reconciling group budgets monthly using the MARS online system and according to associate regional director of programs (ARDP) direction
- Reporting the group program status, variances, and shortfalls to the ARDP monthly, adjust budgets, or request assistance when group resources are not sufficient to complete the examination program or as conditions warrant

## ***3. Regional Director / ARDP***

ARDPs are responsible and accountable for managing the regional resources budget and keeping the Regional Directors informed of the status of regional examination/supervision programs. ARDPs will reallocate regional resources and coordinate with associate regional director of operations

(ARDO)/ARDPs/Regional Director to secure assistance when group resources are not sufficient. ARDPs will ensure all workload budgets are reconciled by the 15th of each month. Regional Directors will provide quarterly reports to E&I noting the region's examination program, workload budget, and the status of any shortfalls and/or the identification of any assistance needed.

#### **4. E&I**

E&I is responsible and accountable for monitoring the successful completion of the national examination and supervision program. E&I will:

- Periodically and routinely request reports from the regions, allowing sufficient time for regional responses
- Review the status of regional and national program completion and emerging needs
- Assist with resource needs where necessary
- Establish national priorities when conditions warrant ensuring completion of national program goals
- Identify national trends and resource priorities by monitoring appropriate MARS reports and specialized reports, as well as evaluating quarterly regional workload reports

---

[NSPM content](#) last updated July 29, 2015

### **B. Scheduling Examinations and Supervision Contacts**

The timing of examinations/supervision contacts is important from both a risk management and resource management perspective. Examinations will be scheduled in accordance with NCUA's Examination Scheduling Program.

---

[NSPM content](#) last updated July 29, 2015

### **C. NCUA Examination Scheduling Program**

NCUA's examination scheduling program incorporates an extended examination cycle for eligible credit unions. The examination cycle does not limit NCUA's authority to examine any federally insured credit union as frequently as the agency deems necessary. NCUA will consider financial trends, risks, and other facts or circumstances to determine if a more frequent examination or supervision contact is required.

The **start date for an exam** is the first date an examiner charges time to WCC 10 or WCC 11. An exam start date will coincide with the first date that exam work is conducted onsite or offsite. Examiners must ensure the AIRES start date is consistent with this definition.

## **5. Federal Credit Unions**

Examinations for federal credit unions eligible for an extended cycle will begin between 14 and 20 months from the prior examination completion date. Examinations for all other federal credit unions will begin between 8 and 12 months from the prior examination completion date. A federal credit union is eligible for an extended examination cycle if it meets all of the following criteria:

- CAMEL code 1 or 2, both in composite and management rating components
- Assets less than \$1 billion
- “Well capitalized” per prompt corrective action regulations
- No outstanding documents of resolution items related to significant record-keeping deficiencies, and
- Not operating under a formal or informal enforcement or administrative order, such as a cease and desist order, letter of understanding and agreement, preliminary warning letter, or PCA directive

Small credit unions with limited segregation of duties that are otherwise eligible for an extended exam cycle may receive more frequent examinations on a random sample basis.

The CAMEL criteria is based on the CAMEL rating in effect at budget time. The criteria for asset size is based on the March 31st Call Report in the preceding calendar year.

## **6. Federally Insured, State-Chartered Credit Unions**

Federally insured, state-chartered credit unions meeting any one of the following criteria will receive NCUA exams that will begin between 8 and 12 months from the prior exam completion date:

- Assets greater than \$1 billion
- Composite NCUA CAMEL code 4 or 5 with assets greater than \$50 million, or
- Composite NCUA CAMEL code 3 with assets greater than \$250 million

All other federally insured, state-chartered credit unions will receive an NCUA examination based on risk and emerging trends, including small credit unions with internal control weaknesses, or on a sample basis as part of the agency's overall due diligence.

NCUA will make every effort to conduct examinations of federally insured, state-chartered credit unions jointly with the appropriate state supervisory authority, as long as the time between examinations does not exceed NCUA's needs as insurer. NCUA will only conduct an independent insurance review when a joint examination cannot be coordinated with the state supervisory authority.

## **7. Corporate Credit Unions**

All corporate credit unions must be examined once each calendar year, regardless of asset size. For corporate credit unions, the maximum time between completion dates is 12 months unless the deputy director approves an extension.

---

*[NSPM content](#) last updated December 30, 2016*

### **1. Examiners**

<b>Topic</b>	<b>Responsibilities</b>
Scheduling	<p>NCUA will schedule examinations based on the criteria established in the <a href="#">NCUA Examination Scheduling Program</a> section of the NSPM, or more frequently when warranted.</p> <p>To request any variance from the examination scheduling program, examiners will submit a written justification to the supervisory examiner for consideration. Examiners will document their justification for any variance request and any related approval or denial in the AIRES Confidential section.</p>

Budgeting	Examiners will determine their plans for examining and supervising federally insured credit unions scheduled for an examination in each calendar year. During the annual resource budgeting process (or more frequently, based on Call Report and other information), examiners will re-evaluate and affirm their plans for each credit union for the following year. The information will be submitted to the assigned supervisory examiner for inclusion in the resource budget.
Monitoring	Examiners will monitor and supervise federally insured credit unions consistent with their size, complexity, condition and timing of the next examination.
Changes	Examiners may change their exam and supervision plans at any time if circumstances warrant. Changes will be made through the assigned supervisory examiner.

## **2. Supervisors**

<b>Topic</b>	<b>Responsibilities</b>
Oversight	Supervisory examiners will monitor their examiners' resource allocation plans for appropriateness and consistency with the appropriate scheduling program. They will evaluate scheduling changes throughout the year to ensure they meet budgetary goals and maintain a results oriented examination program.
Budgeting	Supervisory examiners will develop the annual resource budget for their assigned credit unions using the information provided by examiners. The process will include an analysis of the level of supervision, timing of examinations, balancing of the year-to-year workload, and coordination with the state supervisors for FISCUs (to the extent possible).
Reporting	Supervisory examiners will record and report the scheduling information for their assigned credit unions during the budget process and as changes are made during the year.

Exceptions	Supervisory examiners will review all requests for variances in completion timeframes (examining a credit union more or less frequently than required by the criteria established in the <a href="#">NCUA Examination Scheduling Program</a> section of the NSPM), and will either deny the request and notify the examiner in writing, or forward the request to the ARDP for consideration.
------------	---

### **3. ARDPs**

<b>Topic</b>	<b>Responsibilities</b>
Oversight	ARDPs will evaluate the information submitted by the supervisory examiners for reasonableness and ensure it accurately reflects the region's examination scheduling needs and risk profile.
Exceptions	ARDPs will monitor the activities performed by supervisory examiners. They are responsible for monitoring examination timeframe exceptions, and reporting of their region's examination scheduling program.  ARDPs must approve, in writing, any variance of the examination timeframes required by the criteria established in the <a href="#">NCUA Examination Scheduling Program</a> section of the NSPM.

### **4. Regional Directors**

Regional directors are responsible for monitoring exceptions and variances in the program to ensure they are reasonable. They are also responsible for program completion.

### **5. E&I**

E&I will oversee the program for consistency and quality. Oversight will include monitoring of examination completion averages, analysis of examinations completed outside of the minimum and maximum parameters, and review of scheduling information submitted by the region.

---

[NSPM content](#) last updated September 15, 2017

### **3. Administrative Record**

Examiners will ensure the administrative record documents their concerns about the credit union. Examiners must compile the administrative record through AIRES examination/supervision contact reports or other written communications to the officials. The administrative record is the total collection of information needed for decision-making purposes. The administrative record must present a complete, factual, and fully documented history of the credit union's problems. The administrative record should also clearly document the efforts taken (or not taken) by both the credit union officials and NCUA to resolve those problems.

---

*[NSPM content](#) last updated July 29, 2015*

### **4. Supervision Chronology Report**

At a minimum, Supervision Chronology Reports are required for CAMEL 3 Federally Insured Credit Unions (FICUs) with assets \$250 million and greater, CAMEL 4 or 5 FICUs, and credit unions requiring a 60 day follow-up for significant recordkeeping concerns. Field staff should document a detailed historical sequence of all issues relating to the supervision of the credit union in the [Supervision Chronology Report](#) and include the report in each subsequent upload until it is no longer required. Such items include:

- All contacts performed at the credit union (for example, examinations, insurance reviews, follow-up examinations, offsite supervision, etc.) subsequent to the credit union triggering a required chronology report
- Correspondence sent to or received from the credit union
- Telephone calls or email correspondence to and from the credit union
- Any significant conversation which could later be important to the administrative record
- Ongoing correspondence for credit unions with identified recordkeeping issues

Field staff will maintain the Supervision Chronology Report and send to their SE and/or regional office as requested by the SE or regional office. The Supervision Chronology Report is in addition to other reports which may be required to build an administrative record.

When a supervision chronology report is required, field staff must complete the report when upgrading a credit union from a CAMEL 4 or 5, or removing an LUA.

[NSPM content](#) last updated March 24, 2017

## 5. Administrative Actions for Troubled Credit Unions

Regions will issue a PWL or LUA to all CAMEL 4 and 5 credit unions unless a more formal administrative action is approved (see Supervisory Letter 10-4, [Administrative Remedies](#), for more information). Examiners will work through their supervisor and regional office for LUAs, PWLs, or other administrative actions as described in [the Administrative Remedies section of the NSPM](#).

The ARDP or ARDO documents, in writing, why a PWL or LUA is otherwise unnecessary; this documentation is included in the administrative record. Examiners will document their recommendation regarding the need for a PWL or LUA in the Confidential Section, as well as the ARDP/ARDO decision.

Regions may use enforcement actions as warranted to prevent material concerns from threatening the viability of credit unions coded a CAMEL 1, 2, or 3.

[NSPM content](#) last updated January 27, 2016

## 6. Notice of Troubled Condition

Examiners must notify a federal credit union which has been newly downgraded to a CAMEL 4 or 5 of the credit union's troubled status. The examiner may choose to include the forms referenced in the required language below in the exam report, or provide the credit union with the [specific location of the forms on the NCUA public website](#) as necessary. The examiner will include the following text in the open section of the report:

"Your credit union is coded CAMEL 4 [or 5] as a result of this examination (or onsite supervision contact). Therefore, the (Credit Union's Name) Federal Credit Union is now designated in "troubled condition" per Section 212(f) of the [Federal Credit Union Act](#) and [§701.14 of NCUA rules and regulations](#). You must obtain NCUA approval for changes of officials and senior executive officers at least 30 days prior to the effective date of the change, or within 48 hours of election at an annual membership meeting. You can find this information on

NCUA's website. The procedures remain in effect until the credit union is upgraded to a CAMEL 3 or better."

Examiners must notify an FCU which has been newly upgraded from a CAMEL 4 or 5 to a 3 or better that the credit union is no longer considered in troubled condition. This is done by including the following excerpt in the open section of the report:

"Previously, your credit union received notification it was subject to requirements under [§701.14](#) of [NCUA rules and regulations](#). As a result of your credit union's CAMEL rating upgrade to a CAMEL [enter CAMEL rating of 3, 2, or 1] rating and removal from "troubled" status, you are no longer required to obtain NCUA approval for changes of officials and senior executive officers."

---

*[NSPM content](#) last updated July 29, 2015*

## A. Federally Insured, State-Chartered Credit Unions

NCUA will not designate a FISCU to be in "troubled condition" without first making an onsite contact at the credit union. A FISCU that has been assigned a 4 or 5 CAMEL composite rating by either NCUA, after an on-site contact, or its state supervisor, must be notified of its troubled status.

- NCUA examiners must notify a FISCU which has been newly downgraded to a CAMEL 4 or 5 by NCUA during a joint examination, onsite contact, or insurance review of the credit union's troubled status
  - NCUA examiners will include the following language at the top of the FISCU CAMEL Evaluation Form in AIRES: "Your credit union is coded CAMEL 4 [or 5] by NCUA as a result of this examination (or onsite supervision contact). Therefore, the (Credit Union's Name) Credit Union is now designated in 'troubled condition' per Section 212(f) of the [Federal Credit Union Act](#) and [§701.14](#) of [NCUA rules and regulations](#). You must obtain approval from your state supervisor and NCUA for changes of officials and senior executive officers at least 30 days prior to the effective date of the change, or within 48 hours of election at an annual membership meeting. You can find this information on NCUA's website. The procedures remain in effect until the credit union is upgraded to a CAMEL 3 or better."
- A FISCU which has been newly downgraded to a CAMEL 4 or 5 as a result of the state supervisor's rating must be notified of its troubled status. This situation will generally occur when NCUA does not participate on the

examination and the state's CAMEL rating is a 4 or 5 (regardless of NCUA's CAMEL rating on the WCC 26 review); or if NCUA's CAMEL rating during a joint examination is a 3 or better while the state's CAMEL rating is a 4 or 5. In situations where NCUA did not participate and concludes a FISCUs CAMEL rating is a 4 or 5 during the WCC 26 review (and the state rating is a 3 or better), an onsite contact is required to be completed within 60 days. In such instances, the FISCU will be notified of their troubled status on the CAMEL disclosure issued during the onsite contact and not before.

- During the [required WCC 26 review](#), NCUA examiners will determine if the FISCU received written notification of its troubled condition by the state supervisor via the examination report, separate letter, or otherwise.
- If notification by the state supervisor cannot be confirmed, the NCUA examiner will draft a letter notifying the FISCU of its troubled status using the [Notify FISCU of Troubled Condition](#) template. Once prepared, the letter will be processed for the Regional Director's signature through the examiner's supervisor, and the regional office.
- When both the state supervisor and NCUA have newly upgraded a FISCU to a CAMEL 3 or better, NCUA examiners must notify the FISCU that the credit union is no longer considered in troubled condition. FISCUs are considered 'troubled' based on the CAMEL composite rating by either the state supervisor or NCUA; this status can only be removed when both the state supervisor and NCUA upgrade a FISCU's CAMEL composite rating to a 3 or better as a result of an examination or onsite contact.
  - NCUA examiners will notify the FISCU by including the following excerpt at the top of the FISCU CAMEL Evaluation Form: "Previously, your credit union received notification it was subject to requirements under [§701.14 of NCUA rules and regulations](#). As a result of your credit union's CAMEL rating upgrade to a CAMEL [enter CAMEL rating of 3, 2, or 1] rating and removal from "troubled" status, you are no longer required to obtain NCUA's approval for changes of officials and senior executive officers. Please consult with your state regulator to determine whether you must continue to notify their office of any changes of officials and senior executive officers."
- In instances where the state regulator is the last to upgrade a FISCU from "troubled condition" to a CAMEL composite 3 or better and NCUA does not participate on the examination/contact resulting in the upgrade by the

state, NCUA examiners will attempt to verify whether the state supervisor provided the FISCU with written notification of the removal of their “troubled status” via the examination report, separate letter, or otherwise.

- If notification by the state supervisor cannot be confirmed, the NCUA examiner will draft a letter notifying the FISCU of the removal of their troubled status using the [Upgrade FISCU from Troubled Condition Status](#) template. The letter will be processed for Regional Director signature through the examiner’s supervisor, and the regional office.

---

*[NSPM content](#) last updated March 24, 2017*

## 7. Call Report, Trending Analysis, and RATE

The trending process is a means to identify and evaluate existing or emerging risk, highlight supervision needs, adjust supervision plans if necessary, and provide for a more effective allocation of examiner resources. The trending process is an integral part of the examiner’s offsite supervision process and overall district management. Because examinations and onsite supervision contacts are performed at a specific point in time, offsite supervision provides for an ongoing awareness to any changing financial conditions, risk indicators, and/or emerging risks that may be developing in an examiner’s assigned district(s).

The time examiners charge for data collection, validation, FPR review, risk report analysis, scoping, and trending changes for their districts (WCC 20 or 21) should generally fall within the guidelines specified in the applicable Resource Budget Program:

- When NCUA processes the Call Report: Two hours per cycle for each FICU
- When NCUA does not process the Call Report: One hour per cycle per FICU

Examiners should use their discretion in charging the time allotted between uploading the Call Report and performing the risk review. Examiners should contact their supervisor if additional time is needed for the Call Report Risk Review process. Supervisors should approve additional time if the credit union profile warrants additional supervision hours.

---

*[NSPM content](#) last updated July 31, 2018*

## A. Division of Supervision Responsibilities

- Send out quarterly regional Call Report Risk Review deadline reminders consistent with the national due date

---

[NSPM content](#) last updated July 29, 2015

## B. Supervisor Responsibilities

- Review RATE reports submitted by examiners as follows:
  - 100% of assigned credit unions for June and December cycles
  - Random sample of assigned credit unions for March and September cycles
    - Regional Directors will ensure the random sample size is meaningful, and will determine specific sampling criteria.
- Notify the ARDP of any specific credit unions where supervision plans materially changed as a result of the RATE reviews, necessitating material budget increases for supervision

---

[NSPM content](#) last updated July 29, 2015

## C. Field Staff Responsibilities

- Process Call Reports for the assigned district
- Review the credit union's Profile each quarter during the Call Report or RATE review to determine whether the credit union has received a new audit which fulfills the requirements of [Part 715](#) or [Part 741](#) of NCUA's rules and regulations.
  - If the Profile indicates a new audit has been completed, field staff will request a copy of the audit within 10 business days of reviewing the Profile. Field staff will request and [review a copy of the audit report](#) as described in the NSPM.
- Review the warnings comments and historical warnings for each credit union and contact credit unions when warranted to determine whether Call Report changes are necessary (for FISCUs, follow the agreements for the applicable states)
- Access the Risk Analysis and Trending Evaluation tool (RATE)
- Complete the [RATE Dashboard](#). This process should include an analysis of:

- FPR
- Risk reports
- 5300 Call Report
- Include comments about significant changes in risk and/or changes in supervision plans in the appropriate comment box
- Submit your review to your supervisor

Examiners must complete the 5300/FPR Trending Dashboard for each credit union in their assigned district and submit to their supervisor. With the exception of the September cycle, which is shortened to ensure RATE reviews are completed by year-end,<sup>1</sup> examiners will have approximately 75 days from the cycle date to complete their review.

Cycle Date	Approximate RATE Due Date*
March 31	June 15
June 30	September 15
September 30	December 1
December 31	March 15

\* E&I will post the actual due date in the application or notify staff by email.

---

*[NSPM content](#) last updated May 31, 2017*

## 8. Administrative Items

- [AIRES: Deleting Files](#)
- [AIRES File Size Limitation](#)
- [AIRES: Minimal Upload](#)
- [AIRES: Required Workpapers](#)
- [Delivering a Report to Credit Union Officials](#)
- [Documented Secondary CAMEL Review](#)

---

<sup>1</sup>See memo from E&I director to all field staff dated August 20, 2014.

- [EIC Rotation Limits](#)
- [Electronic and Hard Copy Field Files](#)
- [Electronic Copies of Reports](#)
- [Exam/Supervision Completion Date and AIRES Upload Requirements](#)
- [Limiting Exams in Process](#)
- [Notifying a Credit Union of a Contact](#)
- [Team Member Responsibilities](#)
- [Timeframe to Complete an Examination/Supervision Contact](#)

---

*[NSPM content](#) last updated July 29, 2015*

## A. Deleting AIRES Files

To delete a previously uploaded AIRES examination/supervision contact, an examiner will send a request to his or her SE, who is responsible for reviewing the request. The request must include the credit union's charter number, effective date, contact type, and a brief explanation.

The SE will forward approved requests to the region's DOS mailbox and copy the requesting examiner. DOS will notify the supervisor and examiner when the contact has been deleted, and indicate when the examiner will be able to re-upload.

---

*[NSPM content](#) last updated January 27, 2016*

## B. AIRES File Size Limitation

NCUA limits the size of attachments in Microsoft Outlook to 30MB for internal email. (SSA examiners who do not use an NCUA.gov mailbox are limited to 15MB.)

If an examiner cannot upload an AIRES file due to the size limitation, he should contact the OCIO help desk as early as possible. In these rare cases, OCIO will work with the examiner to allow the file to be uploaded, which may require decreasing the file size while preserving the history and integrity of the exam/supervision information.

---

*[NSPM content](#) last updated July 29, 2015*

## C. Minimal AIRES Upload

AIRES allows for a “Minimal Contact,” for uploading contact reports with limited information. This feature is available for off-site supervision. The minimum information required for a minimal contact is:

- CAMEL ratings
- Financial data
- Time
- Completed information tab

If an examiner chooses to download and import historical data, the EMC will display the imported information and the examiner will need to enter the CAMEL ratings in the Exam.xls. Additional information regarding minimal contacts can be found in the [\*AIRES 2005 User's Manual\*](#).

---

*NSPM content last updated July 29, 2015*

## D. Required AIRES Workpapers and Questionnaires

Field staff are responsible for including all questionnaires required by the most recent NCUA Instruction 5000.20, [\*Examination Scope\*](#), as well as work papers, and team memoranda (if applicable), in the AIRES file.

Appendix 20A of the [\*Examiner's Guide\*](#) lists the required AIRES work papers which must be included in examination uploads. The [\*FCU Program and Procedures\*](#) and [\*FISCU Program and Procedures\*](#) sections of this guide include documentation requirements for both onsite and offsite contacts. Examiners will include additional work papers completed which contribute to the administrative record including team members' loan exceptions work papers and documentation submitted for other areas reviewed.

The AIRES upload file should contain all documentation provided to management in the credit union's formal exam report and documentation produced by the examiner or exam team participants to support the report. Examiners should generally not include documents provided by the credit union unless the information cannot be effectively documented elsewhere in the AIRES upload file.

## **1. AIRES Table of Contents**

The table of contents serves as NCUA's permanent record and documentation as to what was provided to credit union officials. Examiners will use the table of contents to organize the report given to the officials. The table of contents is a required work paper. Examiners are required to print the final copy of the examination report (using the print examination function within AIRES) before creating or uploading their examination file. The AIRES print examination function creates the table of contents in a PDF format and ensures the visibility of the table of contents in the examination upload file.

## **2. AIRES Share and Loan Download**

Examiners are required to request an AIRES share and loan download for every examination. If a credit union will not or cannot provide an AIRES share and loan download, examiners will notify their supervisor while the on-site field work is in process. The SE will work with the examiner on options for obtaining the AIRES download (or an equivalent such as a text file with share and loan information). The examiner should document the options exercised to obtain the download (for example, contacting other credit unions with the same vendor, contacting the vendor directly) and concurrence with the SE on the final outcome in the Confidential Section.

## **3. Consumer Compliance Violations Module**

Examiners must document violations of federal regulation detected during the examination and supervision process on the Consumer Compliance Violations module in AIRES. Examiners will follow the procedures for BSA violations outlined in the [BSA Enforcement](#) section of the NSPM.

---

*[NSPM content](#) last updated January 22, 2018*

## **E. Delivering a Report to Credit Union Officials**

When possible, examiners should deliver the final examination report or insurance review report at the joint conference or exit meeting. For compressed scheduling situations, examiners must deliver the DOR and Examiner's Findings, if applicable, during the joint conference or exit meeting. Management and key officials should be aware of the major deficiencies before the joint conference. (See the [Joint Conferences and Exit Meetings](#) section of the NSPM for more information.)

In situations where the examiner is not able to deliver the report at the joint conference or exit meeting, the examiner must mail the report to the credit union within one business day of the examination completion date. If this time-frame cannot be met, the examiner must document supervisor concurrence in the Confidential Section, as well as the reason for delay.

---

*[NSPM content](#)* last updated July 29, 2015

## F. Documented Secondary CAMEL Review

In cases where a credit union presents higher risk, has serious problems, or represents a material potential risk to the share insurance fund, the supervisor that has district responsibility for the credit union will review draft examination and follow-up examination reports before they are finalized by the examiner.

At a minimum, supervisors will complete a Documented Secondary CAMEL Review for:

- All examinations and follow-up examinations of credit unions with assets greater than \$250 million at the examination effective date
- All examinations and follow-up examinations of credit unions with a current or proposed CAMEL rating of 4 or 5
- All onsite supervision contacts (code 22 or 23) where the composite CAMEL rating changes to or from a 4 or 5
- All examinations and follow-up examinations of credit unions with an NCUA proposed or outstanding Letter of Understanding and Agreement, Preliminary Warning Letter, Cease and Desist Order, or Other Discretionary Supervisory Action provided under Prompt Corrective Action
- All FISCUs with a proposed or outstanding administrative action (equivalent to an LUA, PWL, C&D, or Other Discretionary Supervisory Action under PCA) issued jointly with or separately by the state regulator where NCUA participates on the examination

The supervisor's DSCR must be completed before the examiner releases the final report to the credit union. In the event an examiner is completing work outside his/her SE group, the examiner's SE will have permissions to view the approved DSCR.

The supervisor is responsible for reviewing the report to ensure that:

- The scope is well developed and appropriate for the identified and indicated risks
- All significant risks and problem areas are appropriately identified and communicated
- Resolution plans are effective and timely for the type and proportion of risk
- CAMEL and risk ratings appropriately reflect the level and direction of risk
- Recurring problem areas are appropriately escalated to more stringent action plans or administrative actions

For credit unions identified for a DSCR, examiners will email exam support documents to the credit union's SE for review before issuing the report no more than five business days after completing the field work (including any field work completed by the SSA that the examiner relies on in assigning a CAMEL rating, if applicable). If the five-day timeline cannot be met, the SE may grant the examiner additional time to complete the task. The examiner will document the need for this additional time in the Confidential Section of AIRES.

At a minimum, examiners must send the following:

- DOR (if applicable)
- Examiner's Findings (if applicable)
- CAMEL Evaluation Form
- Scope module, including completed "Final Assessment" tab
- Any other documents requested by the SE

Examiners must receive the supervisor's DSCR prior to releasing the exam report to the credit union officials or management. Examiners will document completion of the DSCR in the Confidential Section of AIRES. Examples of sufficient documentation are:

- E-mail from the supervisor
- Optional DSCR template in AIRES
- Supervisor creates form to document the review

Supervisors will perform a CAMEL review and provide the examiner feedback as documented in the DSCR within seven business days of receipt of the

supporting documentation. They will evaluate and document the secondary review of CAMEL ratings on the DSCR. In those rare cases where the supervisor and examiner cannot reach consensus on the appropriate CAMEL ratings, the examiner should document the CAMEL ratings they were advised to adjust in the Confidential Section.

---

*[NSPM content](#) last updated September 12, 2016*

## G. EIC Rotation Limits

NCUA Instruction 5000.19, [\*Examiner-In-Charge Rotation\*](#) (Nov. 23, 2005), describes the current policy for examiner rotation, including limits on consecutive years in district assignments.

Supervisors will ensure adequate rotation of EICs occurs. ARDPs will monitor compliance with this requirement. The assigned ARD may approve exceptions on a case-by-case basis for extraordinary circumstances such as pending merger, liquidation, charter conversion, or resolution of an emerging material problem. The ARD will document all approved exceptions in writing, and the EIC will note said approval in the Confidential Section.

---

*[NSPM content](#) last updated July 29, 2015*

## H. Electronic and Hard Copy Field Files

Examiners will maintain electronic field files for credit unions within their district. Examiners will maintain electronic correspondence between the central office, regional office, credit union, SSA, or any other related party within the electronic files. Upon transferring credit unions to another district, examiners will be responsible for transferring the credit union's electronic files to the new examiner.

If an examiner chooses to maintain hard copy field files, the examiner is responsible for maintaining the field files in accordance with NCUA Instruction 13500.09, [\*Security of External Party's Documentation\*](#), and NCUA Instruction 1200.15, [\*Rules and Consequences for Safeguarding Personally Identifiable Information\*](#). The field file should not contain confidential or sensitive information, unless properly secured to prevent disclosure to unauthorized parties. The contents of the field file are subject to examiner discretion. In some instances, the credit union may not have any significant problems and there may not be a field file.

---

*[NSPM content](#) last updated July 29, 2015*

## I. Electronic Copies of Reports

Examiners may provide credit unions with an electronic copy of examination and supervision contact reports. The electronic copy can replace or be in addition to the hard copy report, depending on the credit union's preference. Provide electronic copies in PDF format to prevent easy manipulation of documents.

The instructions for creating an electronic copy of the examination report are accessible through the AIRES program main menu, Help-Instructions. If an examiner sends the examination report via e-mail, they must use ZixMail, NCUA's secure e-mail program. Instructions for using ZixMail are in the Outlook 2010 section of NCUA's [Hi Tech Manual](#).

---

[NSPM content](#) last updated July 29, 2015

## J. Timeframe to Complete an Examination/Supervision Contact

It is critical to ensure credit union officials receive timely information and take timely corrective action. Examiners will complete and upload all examinations/supervision contacts within 60 calendar days of the start of the examination/supervision contact. The start date is the first date an examiner charges time to [WCC](#) 10 or WCC 11 (for an exam), or WCC 22 or WCC 23 (for a supervision contact). An exam start date will coincide with the first date that exam work is conducted onsite or offsite. Examiners must ensure the AIRES start date is consistent with this definition.

This timeframe includes all other exam-related timeframes. Timeframes detailed in the [Examination/Supervision Completion Date and AIRES Upload Requirements](#) section of the NSPM can and will be shortened as necessary to meet the maximum timeframe of 60 days.

If completing and uploading an examination/supervision contact within 60 days is not possible, an EIC will notify his or her supervisor and obtain approval to extend the timeframe. If the requested completion and upload date exceeds 90 days, the supervisor will notify and request advance approval from the ARDP. Examiners will document the rationale for the extension request and the SE or ARDP decision in the Confidential Section of the report.

Regions will maintain a cumulative report identifying credit union examinations/supervision contacts remaining open longer than 60 days and provide the report to the ARDPs quarterly. ARDPs will review the report to evaluate if the extended examination periods were justified.

E&I will evaluate completion and upload timeframes not less than semi-annually to evaluate the efficiency and effectiveness of examination planning and scheduling.

*[NSPM content](#)* last updated July 29, 2015

## K. Examination/Supervision Completion Date and AIRES Upload Requirements

Examiners will enter the examination completion date on the "Completion Information" tab of the EMC in AIRES. The examination/supervision completion date is the day the examiner last charged time to the examination and must be within five business days of the latest of the following dates:

- Date of last onsite
- Date of exit meeting
- Date of joint conference

Within one business day of the examination completion date, examiners will upload the AIRES examination report, including a completed Scope.

The five (5) business days to complete and one business (1) day to upload the examination/supervision contact are included in the [60-day examination timeframe requirement](#). For example, if the joint conference, exit meeting, or last day onsite takes place on the 58<sup>th</sup> day, the examiner has two (2) business days to complete and upload the examination.

The [60-day examination timeframe requirement](#) does not include time spent pre-planning (WCC 94 or WCC 95).

Having a joint conference, exit meeting, or last day onsite on the 58<sup>th</sup> day does not extend the 60-day timeframe unless a waiver is obtained as outlined above. Similarly, if an examiner has the joint conference, exit meeting, or last day onsite on the 30<sup>th</sup> day, she has until the 35<sup>th</sup> business day to complete the examination/supervision contact and until the 36<sup>th</sup> business day to upload the examination/supervision contact. Hand delivery of an examination report does not constitute 'date last onsite.'

The five business days to complete and one business day to upload the examination/supervision contact are included in the 60-day examination

timeframe requirement. The 60-day closeout requirement can only be extended through a waiver.

If the examination completion date exceeds five business days due to items like conferences, training, annual leave, or sick leave, the examiner will document the circumstance(s) in the Confidential Section.

If there is a delay in the AIRES upload, examiners will notify their supervisor and document supervisor concurrence and the reason(s) for exceeding the timeframe in the Confidential Section of the report.

---

[NSPM content](#) last updated July 29, 2015

## L. Limiting Examinations in Process

EICs will not have more than three examinations in process at any time without supervisor approval. Examiners will email their supervisor for concurrence documenting the reason(s) for exceeding the allowable number of examinations in process.

---

[NSPM content](#) last updated July 29, 2015

## M. Notifying a Credit Union of an Examination/Supervision Contact

When NCUA is leading an examination, examiners should provide as much advance notice as possible before starting an examination/supervision contact. Unless fraud is suspected or other special circumstances exist, examiners will give credit union officials a minimum notice of four weeks. NCUA management must approve notification periods shorter than four weeks. Each region will specify at what level management approval is required. This approval will be documented in the Confidential Section of the report.

For [joint FISCU exams](#), the NCUA EIC should make every effort to coordinate with the SSA EIC to ensure that an all-inclusive "Items Needed" list is provided to the FISCU with as much advance notice as possible.

NCUA management must approve notification periods shorter than four weeks.

As part of the notification process, examiners will provide the appropriate pre-examination letter (RFE or SCUEP) found in the AIRES Exam Directory under

Available Template Files. This letter should be customized to only request items unique and necessary to address the scope and risk profile for each examination.

Credit unions should receive the "Items Needed" list no less than four weeks in advance of the actual [start date](#) of the exam, whether onsite or offsite. Examiners do not need credit union approval of examination scheduling, but should reach agreement whenever possible to minimize disruption to a credit union and to ensure critical staff members are available while examiners are on site.

With supervisory approval, examiners may start an examination or supervision contact without providing notice when the EIC plans to conduct a surprise contact due to weak internal controls or when supervisory timeliness is warranted.

---

*[NSPM content](#) last updated December 30, 2016*

## **N. Team Member Responsibilities**

Team members are responsible for providing the EIC with the documentation to support any recommendations (and discussed with management) before completing their onsite review. Team members can provide examination materials after completing onsite work only with EIC concurrence and the establishment of a defined delivery date.

Team memos do not replace a documented scope, applicable questionnaires, and assessment of risk ratings. At a minimum, team members should provide the following to the EIC (as applicable):

- Detail of time charged
- Scope team export file including completed AIRES Scope module (Corporate Exam Work Center for corporate exams), comments on the final risk ratings, and recommended areas for review (when completing the module and areas of review, all team members with an SME designation will include their designation, in parenthesis, next to their initials in the "Done by" column)
- Loan Review team export file
- Appropriate questionnaires
- Examiner's Findings
- Document of Resolution (DOR) team export file (include comments in the

DOR module on the credit union's actions to address prior DOR items)

- Other work papers to support findings and/or recommended actions

Before commencing a team examination or supervision contact which includes three or more team members (including the EIC), the EIC will communicate individual responsibilities and any additional expectations for documentation to all team members, including specialized examiners (RLS, RCMS, RISO, ISO, CMS, etc.). This is typically done through an email or [team memo](#). At a minimum, the EIC will provide team members the following information:

- Location of the credit union, hours of operation, dress code, travel considerations (rental cars needed, lodging, etc.)
- Summary of existing and emerging concerns
- Individual responsibilities and time budgeted
- Expected documentation to be provided to the EIC

The EIC is ultimately responsible for delegating and coordinating the work of the team members and the quality of the examination. This includes, but is not limited to, ensuring:

- Risk areas are adequately identified and assessed
- The examination report is cohesive
- Credit union management understands and agrees with the areas of concern
- An administrative record is well established in AIRES

---

[NSPM content](#) last updated December 30, 2016

## 9. Confidential Section

The Confidential Section of the examination report is for NCUA's internal use only. Examiners should use this section to document any actions which take place during the examination that are not discussed elsewhere in the report.

This section is also the appropriate place to discuss management's ability and willingness to correct areas of concern, as well as provide details of new or unique programs or services not discussed elsewhere in the report or in the AIRES Scope module.

Examiners will address the following in the Confidential Section:

- Number and type of attendees of the joint conference and/or exit meeting (for example, five board members, one supervisory committee member, SE Smith)
- Summary of subjects discussed (outside of what can be found in the open section) at the joint conference or exit meeting including agreements reached and acceptance of the DOR
- Reasons management failed to take corrective action for any previous and outstanding DOR items or agreements relating to safety and soundness and/or plans for escalation of administrative action
- Explanation of any CAMEL rating differences or other differences during joint insurance reviews and joint examinations of federally insured state-chartered credit unions (FISCUs)
- Any approvals or concurrences from their supervisor or ARDP concerning conditions or actions taken during the examination (i.e., reject audit, no LUA with repeat DOR, issuing a PWL, LUA, EIC rotation exceptions, adjustments in CAMEL ratings, MBL waiver violations not presenting a heightened level of risk, etc.). The examiner will include the reasons for the recommendation, the anticipated date the problems will be resolved, the recommended course of action if the problems are not resolved, and the examiner's plans for supervision
- Any other pertinent information about management in order to maintain a full administrative record (for example, management's and officials' ability to resolve issues, knowledge level of credit union operations, not providing an AIRES download)
- Any deviations from budgeted hours, documenting supervisor concurrence
- Any expansion beyond the SCUEP defined-scope procedures, including how and why the scope was expanded, documenting supervisor approval in the *Miscellaneous Exam Considerations* section (if applicable)
- Reason why report not completed or uploaded within required time-frames (if applicable)
- Completion of a documented secondary CAMEL review
- Reasons a joint FISCU exam was not possible, including efforts made to coordinate the joint examination with the SSA, when applicable.

- When a joint exam is conducted, the EIC will note the extent of SSA participation in the Confidential Section.

Remember that records, including the Confidential Section, can be subpoenaed.

*[NSPM content](#) last updated January 27, 2016*

## 10. Joint Conferences and Exit Meetings

A joint conference is a meeting of the examiners and a sufficient number (quorum) of the board of directors to conduct official credit union business. It provides the examiner the opportunity to reach agreements with the board that they will take appropriate action for reducing levels of unwarranted risk in the credit union.

Examiners must hold a joint conference at the end of every examination and follow-up examination for CAMEL 3, 4, and 5 credit unions. In CAMEL 1 or 2 credit unions, a joint conference is not mandatory; however, examiners must make credit unions aware of the option of holding a joint conference by offering a joint conference to the board chair (or their board member designee, not to include a credit union employee) and document the decision in the Confidential Section. The examiner may also elect to hold a joint conference if the examination reveals substantive concerns or there is a need for a communication forum.

Examiners will conduct an exit meeting at the end of every examination and for any onsite supervision contact that results in a report or other correspondence. (See [Onsite Supervision Contact Documentation](#).) An exit meeting differs from a joint conference in that an exit meeting does not require a quorum of the board attend. Attendance generally consists of top management, key staff members, and preferably one or more officials (board members or supervisory committee members). When no joint conference is scheduled, examiners should extend an invitation to the board and supervisory committee chairpersons to attend the meeting.

The examiner will provide adequate information to allow recipients to make an informed decision regarding whether any of the officials would like to participate in the exit meeting or have a joint conference. Examiners should make every effort to confirm commitment from management and the officials present at the exit meeting to take corrective action, if necessary.

If material information arises that has not been presented to managers, field staff may reschedule the joint conference, exit meeting, or release of the examination report until the information is presented, or may conduct a follow-up meeting. Examiners must obtain supervisor approval if they exceed the exam completion parameters addressed in the District Management section of the NSPM.

Key assertions may be withheld from management in the event they merit discussion directly with a credit union board of directors. An example of such a circumstance is suspected fraud.

*[NSPM content](#) last updated May 31, 2017*

## 11. Communicating Directly with a Credit Union

### A. Informal Communication

Examiners may use e-mail as an informal means of communication with credit unions in place of, or in addition to, telephone calls. Examiners must use ZixMail, NCUA's secure e-mail program, when discussing confidential matters with credit unions through email. Instructions for using ZixMail are available in NCUA's [Hi Tech Manual](#) under Outlook 2010.

Examiners may not share information obtained from a credit union with another credit union (for example, sample policies, etc.) without the originator's express permission. In addition, examiners will not forward regional/central office email correspondence directly to the credit union.

### B. Formal Communication

Formal written communication with a credit union is typically initiated by the examiner and supervisor and processed through the regional office. The [Audits, Recordkeeping, and Fraud](#) and [Regulatory Waivers and other Regulatory Actions](#) sections of the NSPM present common types of written correspondence. These sections provide many templates which contain the minimum documentation standards and should be used as a starting point when preparing credit union correspondence. Employees can also reference the [NCUA Communications Manual](#) for more information.

- In most cases, the Regional Director's response is addressed to the board of director's chairperson at the credit union's address, with a copy to the

CEO as appropriate. Correspondence is not typically mailed directly to the home of a board member unless there has been a problem with the correspondence being delivered (for example, there is a question of confidentiality, or, if appropriate, in some cases of negative correspondence such as a Regional Director letter for significant violations or safety and soundness issues). When mailing items to the home address of any board member, the outgoing correspondence should be marked "confidential and private". In special cases, DOS may mail correspondence to each board member's home or the supervisor may determine if delivering the correspondence in person is appropriate.

- Examiners and supervisors should be copied on all outgoing correspondence. The SSA should be copied on all outgoing FISCU correspondence.
- DOS has the discretion to add line items such as "cc" and "bcc" recipients, "sent via FedEx – Signature Required," etc. to templates

---

*[NSPM content](#) last updated July 29, 2015*

## C. Writing Guidelines

NCUA is responsible for ensuring that agency personnel prepare documents intended for the public according to plain writing guidelines. [Information about the Plain Writing Act of 2010](#) can be found on NCUA's website. The plain writing guidelines used by NCUA can be found at [Plain Language.gov](#). Plain language (also called plain English) is communication your audience can understand the first time they read or hear it. Plain language is defined by results—it is easy to read, understand, and use. Staff should incorporate the following writing techniques to help achieve this goal:

- Logical organization with the reader in mind
- "You" and other pronouns
- Active voice
- Short sentences
- Common, everyday words
- Easy-to-read design features

A [plain language checklist](#) is available on Plain Language.gov. In general, use the following tips when preparing written correspondence:

- Write for the average reader
- Use base verbs, not nominalizations (hidden verbs)
- Present tense is usually best
- Organize content to serve the reader's needs
- Remove excess words
- Organize content with useful headings
- Avoid using more than two or three subordinate levels
- Use short sections and sentences
- Use concrete, familiar words
- Simplify complex material using lists and tables
- Speak to the reader using "you" and other pronouns
- Express requirements with "must" (avoid "shall," which is ambiguous)
- Use active voice
- Place words carefully (avoid large gaps between the subject and object and place modifiers appropriately)

---

[NSPM content](#) last updated July 29, 2015

## **12. Communicating with Law Enforcement, Outside Audit Firms, or Other Federal Agencies**

Examiners must refer all inquiries from law enforcement, outside audit firms, or other federal agencies to the region's Division of Supervision through their supervisor. Regional Directors should communicate knowledge of any law enforcement investigation to the NCUA Board, OGC, and E&I.

---

[NSPM content](#) last updated July 29, 2015

## **13. Supervising a New Credit Union**

If an examiner is responsible for a new credit union, the following policies apply:

- Contact the credit union officials shortly after approval of the charter in order to arrange for the initial examination (usually within the first six months of operation)
- Perform a supervision contact within 60 days of initial operations, and within every 120 days thereafter for the first two years
- Documentation requirements are the same as for follow-up examinations
- Maintain open communication with the assigned economic development specialist (EDS)
- Document compliance with the Letter of Understanding and Agreement (LUA) or Special Insuring Agreement (SIA) and adherence to the credit union's business plan in the Status Update section of the report
- Review all changes in management (officials and key personnel), and determine if changes in officials were approved by the Regional Director and the SSA, if applicable, in accordance with [S701.14e of NCUA rules and regulations](#)
- Assess the need for assistance, including enrollment in the National Small Credit Union Program (NSCUP), and the creation of a mentor relationship with an established credit union
- Discuss findings and recommendations with management during a joint conference and deliver the appropriate sections of the report to the responsible officials

The supervisor will provide a summary of the supervision provided, results achieved, and the prognosis for continued successful operations in the regional monthly management report.

---

*[NSPM content](#) last updated July 29, 2015*

## 14. Critical Case Credit Unions

The term “critical cases” is used to define credit unions which pose the most significant emerging risk to the share insurance fund. Critical case briefings are part of the region’s risk management practices and provide regional management an opportunity to evaluate the need for enhanced supervision. This section provides examiners with insight into the purpose, selection criteria, and processes involved in critical case credit union briefings as well as providing

structure on what to expect if critical case credit unions are identified within their district.

*[NSPM content](#) last updated July 29, 2015*

## A. Developing a Critical Case List

Periodically, regions will develop a listing of their top critical cases. Regional management will select critical cases based on the following:

- Recommendations from regional management and regional DOS
- Quarterly risk trending reports reviewed by regional DOS
- Monthly management reports listing problem cases
- Internal regional risk reports
- [High Risk Credit Union Pipeline Reports](#)
- Reports provided by E&I flagging select cases
- Other approaches at the discretion of the region

Regional management will compile a critical case list and share the cases with E&I. E&I will review case files and request attendance at selected critical case briefings each year based on critical cases of national significance and to monitor regional risk management approaches.

The High Risk Credit Union Pipeline identifies potential credit union failures and estimates the potential loss for high risk credit unions based on select minimum criteria. It does not cover all the possibilities for a credit union to show up as a critical case. HRP reports can be used as a starting point for the critical case lists, but regions may need to add credit unions to the list as they see fit.

Theoretically, any credit union rated as "Likely to Fail" in the HRP should show up on a critical case list. However, the regional office may list a credit union that meets the minimum HRP Instruction criteria as unlikely to fail. This does not mean regional management cannot consider the credit union as a critical case and monitor it closely.

Removing a credit union from the critical case list is not the same as

removing it from the HRP. NCUA Instruction 4001, [\*High Risk Credit Union Pipeline\*](#), provides specific information regarding the HRP.

[\*NSPM content\*](#) last updated July 29, 2015

## B. Critical Case Meetings

The purpose of critical case meetings/briefings is to discuss the case background, present status, prognosis, and supervision plans with regional management. The assigned examiner(s) will prepare and present critical cases at the briefings. The Regional Director will determine the format of the critical case package prior to the meeting and communicate the format to examiners a minimum of ten business days in advance of the meeting. The examiner's supervisor will review the package(s) prior to submission to the regional office for quality and completeness as well as adherence to established standards.

[\*NSPM content\*](#) last updated July 29, 2015

## 15. Control Reports

Control reports serve as a mechanism to ensure the agency has a robust examination program that is properly resourced and monitored for adherence to national examination and quality standards.

[\*NSPM content\*](#) last updated July 29, 2015

### A. E&I Control Reports

E&I will run reports to evaluate the status of the national examination program and evaluate adherence to national standards including:

- Outstanding Recordkeeping Issues
- Completion Target Exception Reports
- DOR Tracking Reports to ensure resolution is achieved timely
- MARS workload and completed examination/supervision contact reports
- CAMEL 3, 4, and 5 MARS reports
- Problem Credit Union Reports (3,4,5)
- Other specialized reports as deemed appropriate

Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions should ensure their current systems capture the requested information.

---

*[NSPM content](#) last updated July 29, 2015*

## B. Regional Control Reports

At a minimum, the regions will be responsible for maintaining the following control reports:

- MARS reports – Regions will ensure MARS complete and reconciled each month
- Budgeting – Regions will review necessary reports and resource budgets monthly to ensure completion and consistency with standards
- Unresolved Recordkeeping Issues – Regions will be responsible for tracking outstanding recordkeeping concerns within their region's credit unions. Each quarter (at a minimum), the report should be reviewed and updated to reflect the status of the reported problem codes
- Program Completion Reports
- CAMEL 3, 4, 5 Detail, Status, and Exception Reports
- [High Risk Credit Union Pipeline Reports](#)
- Quarterly PCA Reports
- Quality Control Reviews (QCR)
- Status and Exception Reports

---

*[NSPM content](#) last updated July 29, 2015*

## 16. Develop and Issue Guidance

NCUA issues formal examination and supervision guidance to staff in the form of Supervisory Letters, Regulatory Alerts, and Letters to Credit Unions. To ensure guidance aligns with the agency's mission and provides staff appropriate and timely guidance, NCUA has adopted a standard process to initiate, develop, and release examination- and supervision-related guidance at the national and field office levels.

The Office of Examination and Insurance issues authoritative agency guidance at the national level. Individual field offices may issue explanatory and training materials (such as white papers) directly to their staff. The NCUA Exam Steering Group assists E&I by:

- Reviewing examination and supervision guidance requests
- Helping prioritize guidance requests based on need
- Recommending a lead office or region responsible for the development of guidance
- Aiding the coordination of necessary resources for guidance development

**Whitepapers and other regional materials may not establish exam procedures or policy.** Regions may continue to provide guidance to staff to clarify existing policy and provide regional specific direction/training.

The following review process, which is also available on the [ESG SharePoint site](#), is intended to eliminate redundant guidance development efforts. Staff will adhere to the protocol outlined below.

## A. Initiating Guidance Development

To initiate a request for guidance development, field and central offices will submit a guidance request to E&I and provide a brief description of the issue(s) or topic(s) to be addressed. Upon receiving a formal request for guidance development, E&I will:

- Maintain an inventory of all guidance products in development and related requests
- Post the inventory of guidance in development to the [ESG SharePoint site](#)
- Provide the formal request to the ESG for discussion

At each quarterly meeting, the ESG will review all proposed guidance requests received since the last meeting to determine if the proposal creates new agency policy and consider the most appropriate avenue for distribution (i.e., Supervisory Letter, Regulatory Alert, Letter to Credit Unions, whitepaper).

## B. Developing and Issuing National Guidance

Once the ESG (with E&I's concurrence) or E&I determines whether the proposed guidance is suitable for national development and issuance:

- E&I will notify the requesting office within 14 days of the ESG's decision.
- Unless E&I will serve as the lead office, another office may volunteer and be assigned as the lead office to conduct the initial research for, and drafting of, the guidance.
- E&I will assign a staff member to be the point of contact on all guidance in development and will work with regions and offices to marshal subject matter experts as necessary.
- Once developed, the lead office will provide all regions and related central offices with the draft guidance and a comment log. The lead office will establish a comment period no shorter than two weeks for regions and offices to submit feedback.
- The lead office will submit updated guidance to E&I after receiving and addressing all feedback. A copy of the comment log will be included with the submission.
- E&I will assume the lead at this point and will take on responsibility to perform quality control and vet the guidance with the NCUA Board, Executive Director, other agencies as applicable, and determine whether to issue the guidance, and when.

## C. Developing and Issuing Field Office Guidance (Directions, Training Material, Whitepapers)

If the ESG (with E&I's concurrence) determines the proposed guidance is suitable for development and issuance by an individual field office:

- E&I will notify the requesting office (the "lead office") responsible for developing the guidance within 14 days of the ESG's decision.
- Upon notification, the lead office will research, draft, and distribute the material to its staff and provide a copy to all regions, E&I, and any interested central offices.

---

*NSPM content* last updated January 27, 2016

## 17. Templates

- Supervision Chronology Report
- Team Memo

---

*[NSPM content](#) last updated July 29, 2015*

# Template: Supervision Chronology Report

## Contact Profile

<b>CU Name</b>		<b>Region</b>	
<b>City, State</b>		<b>DSA/SE</b>	
<b>Charter/Ins#</b>		<b>PCO/EX</b>	
<b>CEO</b>		<b>Most Recent Onsite</b>	
<b>Phone #</b>		<b>CAMEL Rating</b>	
<b>Year Chartered</b>		<b>Assets</b>	
<b>FOM</b>		<b>Net Worth Ratio</b>	
<b>Low Income</b>		<b>ROA</b>	
<b>Underserved Area(s) Added</b>		<b>Asset Growth Ratio</b>	
<b>Effective Date of Initial Code 4/5 Assignment</b>		<b>Members</b>	
<b>Future Prospects</b>	(ex: upgrade, merger, liquidation)	<b># Branches</b>	

**Sponsor:** State chartered CU - primary FOM are various SEGs in USA County

**Management Evaluation:** CEO long-term 18+ years. CPA. Strong financial knowledge-but over the years has taken high risk.

**Root cause of problems:** Weak/aggressive lending and high risk ALM strategies.

**Supervision Planned:** Continued on-site contact until overall financial strength improves.

## Chronology of Contacts and Supervision

### 2011

---

**6/2011 Examiner XXXXX Insurance Review**

**CAMEL 4= 4-4-3-5-3**

Completed the insurance review effective 3/31/2010. This was not a joint exam with the SSA. Despite changes and adjustments to policies, procedures and the balance sheet, conditions are not improving. It's going to take time. The downturn in USA County economic condition has stabilized. Insufficient to make a positive impact. Loan modifications remain a small percentage of the loan portfolio. No new mods since 2010. Operating expenses and costs are declining but not as fast as the decline in yield. Ongoing deterioration. The LUA remains in effect.

**5/2011 Examiner XXXXX**

**Offsite review CAMEL 4= 4-4-3-5-3**

Review of April board package. Preparation of "Top Case" information. Review of Cash Flow statement draft submitted by CEO. Several email contacts with CEO throughout the month.

**4/2011 Examiner XXXXX**

**Offsite reviewCAMEL 4= 4-4-3-5-2**

Phone and e-mail contacts during the month to monitor progress. Review of board package. Review of DOR compliance status.

**3/10/2011**

**Examiner XXXXX Follow-up Exam**

**CAMEL 4= 4-4-3-5-3**

Review first quarter board packages and completion of monthly management reports. Completion of SATEX and review of trends. DOR follow-up. Review of ALM program, policies and procedures including recent investment purchases and borrowings. Reviewed Loan Modification program and sample modification loan review, TDR classifications and reserves. Review of ALL and methodology changes. ALL validation by external consultant. Compliance with LUA and DOR. Review of NW contingent capitalization plan – needs additional revisions/detail. Review of vendor receivables.

**2/2011 Examiner XXXXX**

**Offsite reviewCAMEL 4= 4-4-3-5-2**

Review of board package. Phone contact to discuss major income/expense items and deteriorating key ratios. E-mail contacts during the month to discuss purchasing loan portfolios or participations. Monitor progress.

**1/3/2011**

**Examiner XXXXX Onsite review**

**CAMEL 4= 4-4-3-5-2**

Onsite. Review of modified loan policies and sample review of modified loans. Complicated multi-dimensional modifications and forbearances. Required additional reserves over \$300k. Review of financial trends. Net losses from operations and declining NW; 5.31%. Delinquency decreased since December 2009 but charge off increased. 17/4 tests reflects a NW of 2.49%; 0.50% including Investment devaluation for a 94% negative change in NW. Since 2009, long term asset ratio increased to 42%. Borrowings at \$20 million.

**12/27/2010**

**Examiner XXXXX**

**Offsite reviewCAMEL 4= 4-4-3-5-2**

Review of November board package and completion of monthly management report. Completion and review of SATEX.

# **Template: Team Memo**

## **NATIONAL CREDIT UNION ADMINISTRATION REGION X**

**TO:** PE [name] AND EX [name]

**CC:** SE [name]

**FROM:** PE [name]

**SUBJECT:** [credit union name] Team Examination

**DATE:** [date]

We are scheduled to start the team examination of [credit union name] FCU #XXXXX on [date]. This examination will have an effective date of [effective date]. A list of team members, associated hours for this exam, and areas scheduled for review is provided below:

- EX [name] -- 32 hours - ALM Review (on-site week of [date])
- EX [name] – 32 hours - Lending review (on-site week of [date])

You can work any time from 7:00 AM to 7:00 PM at the ABC Office:

[CU address]  
[City, State Zip]  
[Phone number]

The dress code is [type of dress]. [Parking, Travel, and/or Transportation Considerations, Lodging Options, etc.]

I plan to begin work at [time].

The CEO's name is [name].

The following request lists and questionnaires have been provided to the credit union:

- ALM general request list
- IRR and Liquidity questionnaires

**\*\*\*\*\*IF YOU HAVE ADDITIONAL INFORMATION YOU WOULD LIKE THE CU TO PREPARE FOR US, PLEASE LET ME KNOW ASAP.\*\*\*\*\***

I will provide a backup of the examination to you the first day you are on-site.

Please provide me a memo with the results of your review upon the completion of your work. Please include a section to address each of the topics listed below and any additional topics you feel are necessary.

### **EXAM HOURS**

- Please provide the hours you have worked on this examination, and please indicate whether the time was on or off site.
- Provide me with any recommendations for changes to future budget hours.
- Provide recommendations for changes to the number of participants as well the addition/deletion of any SME's to the job.

### **SCOPE**

- Please provide your input on what the final risk rating should be based on your review.
- Please provide any areas you recommend for review during the next examination.
- Provide the scope team merge file.

### **OVERVIEW**

- Please provide an overview narrative, if applicable.
- Please provide discussion of the topic, indicate what is wrong, and provide guidance on how to address the issue.

### **DOR**

- Please update and comment on all prior DOR items in the DOR module that relate to your area of review.
- Please discuss all DOR items with me prior to discussing them with management.
- After you have discussed the DOR items with me, please discuss with management and assure any questions management may have regarding your DOR items are addressed prior to your departure.
- Provide the DOR team merge file.

### **EXAMINER'S FINDINGS**

- Please provide your Examiner's Findings in an Examiner's Findings document.

### **CAMEL RATINGS**

- Please provide your input on what you feel the CAMEL rating should be for the area you reviewed and provide a brief supporting explanation.

## **QUESTIONNAIRES**

- Complete all required questionnaires related to your area of review and complete optional questionnaires as you deem necessary.

## **CONFIDENTIAL SECTION**

- Please provide me with any information you feel is necessary and appropriate to include in the *Confidential Section*.

## **EXIT MEETINGS**

- Schedule all exit meetings as soon as possible to assure all appropriate credit union employees and NCUA staff can attend.
- Please discuss all findings with me prior to the exit meeting.
- Please discuss any issues with credit union management prior to the meeting so there are no surprises.

**\*\*\*\*\*Return all materials provided to you by the credit union back to the appropriate person prior to your departure\*\*\*\*\***

## Chapter 11. Examination Complaints

Credit union officials have the right to appeal or file a complaint on examination issues directly to the Regional Director. This would include any written or informal appeal or complaint related to an examination or supervision contact or other supervisory determination and may take the form of complaints against supervisory examiners, examiners, requests for a different examiner, or requests for some type of change to the examination report.

In addition, Part 309 of the [Riegle Community Development and Regulatory Improvement Act of 1994](#) required NCUA to establish an independent appellate process to review material supervisory determinations. In 2017, the NCUA Board approved a final rule ([Part 746, Subpart A](#)) outlining the review process. After making a request for reconsideration from the Regional Director, a credit union may request a review by the Office of Examination and Insurance or appeal directly to the Supervisory Review Committee. A credit union may also file an appeal with the NCUA Board challenging the decision by the Supervisory Review Committee.

Examination material supervisory determination is defined as written decisions by a program office that may significantly affect the capital, earnings, operating flexibility, or that may otherwise affect the nature or level of supervisory oversight of a credit union. The term includes, but is not limited to:

- Composite CAMEL ratings of 3, 4, and 5 and all component ratings of those composite ratings
- Adequacy of loan loss reserve provisions
- Loan classifications on loans that are significant as determined by the appealing credit union

To be appealable to the committee, an examination complaint must be filed by a credit union within 30 days of the Regional Office's final determination or the final determination of the Office of Examination and Insurance, if applicable. A complaint regarding a FISCU examination may be made to the NCUA if the final determination was made by the NCUA examiner. If a final determination was made by the state examiner, the NCUA will turn the complaint over to the state for the appropriate action.

## 1. Material Supervisory Determination Exclusions

The following are excluded from the term “material supervisory determination:”

- A composite CAMEL rating of 1 or 2
- A component CAMEL rating, unless the rating has a significant adverse effect on the nature or level of supervisory oversight of an insured credit union
- The scope and timing of supervisory contacts
- A decision to appoint a conservator or liquidating agent for an insured credit union
- A decision to take prompt corrective action pursuant to Section 216 of the [Federal Credit Union Act](#) and [Part 702](#) of NCUA regulations
- Enforcement-related actions and decisions, including determinations and the underlying facts and circumstances that form the basis of a pending enforcement action
- Preliminary examination conclusions communicated to an insured credit union before a final exam report or other written communication is issued
- Formal and informal rulemakings pursuant to the [Administrative Procedure Act](#)
- Requests for NCUA records or information under the [Freedom of Information Act](#) and [Part 792](#) of NCUA regulations and the submission of information to the NCUA that is governed by this statute and regulation, and
- Determinations for which other appeals procedures exist

---

[NSPM content](#) last updated July 31, 2018

## 2. Examination Complaint Investigation Goals

Our main goal is to anticipate and resolve problems at the field level whenever possible. We expect the investigative process to:

- Determine the real issues and work towards solutions
- Reach agreements based on facts and complete necessary corrective action

- Identify potential deficiencies in agency systems, methods, and procedures and effect correction
- Identify examiner performance issues
- Provide a written response from the Regional Director to the credit union within a 30-day timeframe on all appeals that involve material supervisory determinations

---

[NSPM content](#) last updated July 29, 2015

## 3. Roles and Responsibilities

### A. Division of Supervision

DOS is responsible for coordinating the examination complaint investigation with field staff. Upon receipt of an examination complaint, DOS will:

- For FISCUs, review the complaint to identify if the NCUA or state made the final determination. If it was NCUA, the complaint will be processed by DOS. If the state examiner made the final determination, the complaint will be forwarded to the state for processing.
- Review the complaint and identify if it is for a material supervisory determination.
  - DOS will ensure all actions are completed within 60 days. This includes complaints that are ultimately appealable to the committee and complaints that are not for a material supervisory determination. For matters appealable to the SRC, DOS will ensure the credit union is made aware of the response before 60 days have elapsed.
- Draft and send memo to [acknowledge the examination complaint](#) to the credit union within five days of receipt of the complaint in the regional office.
- Prepare and send a work assignment to complete a [Regional Summary](#) to the SE (or ARDP) that includes a copy of the credit union's examination complaint. A copy of the examination complaint will be sent to the Examiner-In-Charge, if warranted.
- Review the completed field [Regional Summary](#) and analyze the recommendations for appropriate support and justification. Upon concurrence,

DOS will submit the recommendation and proposed response (use the [Respond to Examination Complaint](#) sample) to the Regional Director for approval and signature. DOS will mail the signed letter using the region's preferred expedited mail delivery service with a copy to the SE and Examiner.

- DOS will post copies of the original complaint, acknowledgement letter, response letter and completed [Regional Summary](#) to the central office via E&I SharePoint Post Office.

## B. Regional Director

The Regional Director, or his/her designee, will:

- Review all appeals
- Notify the Office of the Inspector General immediately if an appeal concerns NCUA staff involvement in waste, fraud, or abuse against the U.S. government
- Route all appeals to the DOS director for processing

## C. Field Staff Review

The supervisory examiner will be responsible for investigating all complaints. If the SE is named in the complaint, the associate ARDP or his/her designee may be asked, depending on the nature of the complaint, to handle the investigation.

The SE (or ARDP) will contact the credit union officials and the examiner and will schedule any meetings necessary to facilitate the investigation.

The SE (or ARDP) will complete the investigation and send a report to DOS outlining the investigation steps, the findings, agreements, and recommendations for action. The SE response will also include a draft [response](#) to the credit union for the Regional Director's signature.

The SE may request an extension of the investigation timeframe for any complaint not governed by IRPS 11-1, [Supervisory Review Committee](#), as amended by IRPS 12-1, by sending an e-mail request to the ARDP explaining the reason for the extension. The ARDP will notify the SE of his or her decision by e-mail with a copy to the DOS.

---

[NSPM content](#) last updated January 27, 2016

## 4. Templates

- Acknowledge Examination Complaint
- Regional Summary of Exam Appeal and Complaint
- Respond to Examination Complaint (sample)

---

*[NSPM content](#) last updated July 29, 2015*

# **Template: Acknowledge Examination Complaint**

[DATE]

Mr. John Doe  
Board Chairman  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [DATE], I received your letter detailing your disagreement with the NCUA examination, effective [ DATE ]. In particular, the board of directors has requested changes to [EXAMINATION ITEM THEY WANT CHANGED].

I have asked supervisory examiner [NAME] to review this matter and provide me his/her findings. [SE NAME] will contact you to discuss your letter and determine what further action may be needed. Once the review is complete, I will provide you with my response no later than [30 DAYS].

If you have any questions in the interim, please contact the Division of Supervision at [PHONE NUMBER].

Sincerely,

[NAME]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:            SE  
                EX

# **Template: Regional Summary (Exam Appeals and Complaints)**

## **REGIONAL SUMMARY Exam Appeals &Complaints**

<b>CHARTER NUMBER</b>	
<b>CREDIT UNION NAME</b>	
<b>DATE RECEIVED</b>	
<b>REVIEWER NAME, TITLE</b>	
<b>SUPERVISOR NAME</b> (assigned to cu)	
<b>EXAMINER NAME</b> (assigned to cu)	
<b>CAMEL CODE / EFFECTIVE DATE OF CAMEL</b>	
<b># DAYS FROM DATE RECEIVED TO FINAL RESPONSE</b> ( <i>completed by regional office</i> )	

### **TYPE OF APPEAL** (check all that apply)

- CAMEL Rating (composite or component)
- Adequacy of the Loan Loss Reserve Provision
- Loan Classification
- DOR
- Examiner
- Other

### **Brief Description of the Specific Concern(s)**

### **Reason and Support provided in the Appeal/Complaint**

### **Investigation Steps**

### **Investigation Findings**

### **Any New Agreements with Management Concerning the Original Complaint**

## **Other Pertinent Information**

### **REVIEWER RECOMMENDATIONS AND COMMENTS:**

Reviewer Recommendation:

### **APPROVAL/DENIAL RECOMMENDATIONS**

Analyst Comments:

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date\_\_\_\_\_

---

**APPROVE**

**DISAPPROVE**

# Sample: Respond to Examination Complaint

Date

Mr. John Doe  
Board Chairman  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. NAME:

On [DATE], I received your letter concerning the disagreement with the Document of Resolution issued at the NCUA examination, effective [DATE]. In particular, the board of directors requested NCUA lift the moratorium on real estate lending.

I understand supervisory examiner [SE NAME] discussed this matter with examiner [EXAMINER NAME] and met with you and the ABC FCU board on [DATE]. After these discussions, concerns remain with your credit union's ability to measure, monitor and control increased interest rate risk resulting from your desire to fund long-term, fixed-rate real estate loans.

During your meeting with supervisory examiner [SE NAME], your board agreed to seek training in asset-liability management and interest-rate risk concepts, and seek outside assistance to evaluate your real estate loan policies and concentration risk limits. Once you receive this training and consultation, examiner [EXAMINER NAME] will return to your credit union to review your progress. Examiner [EXAMINER NAME] will re-evaluate the need for the real estate loan moratorium during the follow-up contact.

If you have any questions, please contact supervisory examiner [NAME] or examiner [NAME] at [PHONE NUMBER].

Sincerely,

[NAME]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:        SE  
            EX

## Chapter 12. Examination Reports

Examiners will write reports and prepare documents in accordance with the [NCUA Communications Manual](#) and plain writing guidelines. Examiners must develop a professional and concise examination report that communicates all problems and risks in an easy to read and understandable format for the credit union officials.

The examination report must:

- Properly identify all material examination concerns related to the seven risk areas (credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risk)
- Relate the applicable risk areas to the CAMEL ratings
- Support all conclusions reached regarding problems identified
- Outline proper corrective actions to ensure problems are resolved in a timely manner
- Establish a documented administrative record to support future administrative action and problem resolution, if necessary
- Be properly supported by [required documentation](#)

For more information about the components of an examination report, see the Exam Report Writing section of the Examiner's Guide.

Examiners should set aside time throughout an exam to discuss problems identified during the contact with management and officials. It is important to provide management a draft copy of the Document of Resolution, Examiner's Findings, and Loan Exceptions with sufficient time to review before the joint conference or exit meeting. Examiners should not present new information to managers at the joint conference, exit meeting, or in the examination report.

Examiners will use the AIRES Table of Contents to organize examination reports and document the official report components and workpapers given to the officials. Examiners will provide the credit union copies of the Examination Cover Letter, Examination Overview, and other report documents as applicable.

Examiners may informally provide a credit union any schedules, optional workpapers, questionnaires, or examiner-designed workpapers necessary to

support their conclusions and assist in gaining resolution to problems uncovered during the exam or supervision process. However, only those work-papers and documents listed in the Table of Contents are considered part of the official examination report given to officials.

---

[NSPM content](#) last updated January 22, 2018

# Chapter 13. Fair Lending Examination Program and Procedures

The Office of Consumer Financial Protection was created in 2010 to demonstrate the increased importance NCUA places on consumer protection. OCFP is responsible for consumer compliance policy, program, and rulemaking, fair lending examinations, interagency coordination for consumer financial protection and compliance issues, consumer complaints, and financial literacy programs. OCFP also handles chartering, charter conversions, bylaw amendments, field of membership expansions, and low-income designations.

With the exception of federal credit unions that have more than \$10 billion in assets (which are under the supervisory authority of the [Consumer Financial Protection Bureau](#) for consumer financial protection matters), NCUA enforces the Equal Credit Opportunity Act (ECOA) and Regulation B in federal credit unions, and the Home Mortgage Disclosure Act (HMDA) and Regulation C in all federally insured credit unions. OCFP's Division of Consumer Compliance Policy and Outreach (CCPO) is responsible for conducting fair lending examinations and off-site supervision contacts, as well as HMDA enforcement.

NCUA also assesses compliance with the Fair Housing Act and reports violations to the Department of Justice. NCUA conducts on-site fair lending examinations and off-site supervision contacts with federal credit unions to assess compliance with fair lending laws using the FFIEC [Interagency Fair Lending Examination Procedures](#) (Aug. 2009). For more information regarding OCFP's fair lending reviews, visit the Fair Lending Compliance Resource section of OCFP's [Consumer Compliance Policy and Outreach's SharePoint site](#).

---

*NSPM content* last updated January 22, 2018

## 1. Roles and Responsibilities

### A. OCFP Responsibilities

#### **1. Risk Assessment and Credit Union Selection**

- Request recommendations for fair lending examinations and off-site supervision contacts from regional offices at least annually
- Analyze HMDA data provided annually to NCUA from federally insured credit unions, in coordination with the Office of the Chief Economist (OCE)

- Select federal credit unions for on-site fair lending examinations and off-site supervision contacts based on a credit union's fair lending risk profile (which includes information provided by regional offices) and member discrimination complaints
  - OCFP will attempt to work high-risk referrals into each year's schedule of examination and supervision contacts.
- Notify the appropriate regional office and seek input before contacting the credit unions selected for a fair lending examination. The notification will include:
  - A list of federal credit unions selected, along with a summary of the basis for selection and any preselected focal points to be reviewed
  - A request for the date of each credit union's next safety and soundness exam and point of contact (supervisory examiner or district examiner), if available
  - A request for information on any unusual circumstances OCFP should consider before proceeding with a fair lending examination
- Notify the appropriate regional office of the reason why a fair lending examination request was not accepted

## ***2. Examinations, Supervision Contacts, and Follow Up***

- Notify credit unions at least four weeks in advance of the fair lending examination or off-site supervision contact
  - OCFP will provide the appropriate regional office with a courtesy copy of credit union notification letters.
- Request volunteers to assist with fair lending examinations and supervision contacts, as needed, through a Notice of Interest to all NCUA staff, in consultation with the Office of Human Resources
- Complete fair lending examinations and off-site supervision contacts according to guidelines outlined in the [FFIEC Interagency Fair Lending Examination Procedures](#)
- Recommend corrective action, including informal or formal administrative action or DOJ referral, when deficiencies are identified in a fair lending examination or supervision contact
  - OCFP will consult with the appropriate regional office prior to recommending a referral to DOJ.

- OCFP will copy the appropriate regional office on OCFP Director Letters, and will consult with the appropriate regional office before issuing Letters of Understanding and Agreement (LUA), Preliminary Warning Letters (PWL), and Cease and Desist Orders (C&D).
- Track, monitor, and follow-up on compliance with corrective actions, including, but not limited to Examiner's Findings and Document of Resolution (DOR) items, as needed
- Participate, as resources permit, on fair lending reviews conducted during safety & soundness examinations

OCFP normally schedules fair lending examinations independently of safety and soundness examinations. However, OCFP will attempt to schedule concurrently if the regional office expresses a preference.

### **3. HMDA Late and Non-Filers**

- Analyze HMDA data to determine if any federally insured credit unions that were required to file HMDA data for a specific year either did not do so in a timely manner or failed to file.
- Notify appropriate regional offices of any HMDA late or non-filer federally insured credit union
  - OCFP will consult with the appropriate regional office prior to issuing PWLs, or sending OCFP Director Letters or CCPD Director Letters to federally insured credit union concerning a HMDA late or non-filer matter. OCFP will copy the appropriate regional office and, if applicable, the appropriate State Supervisory Authority (SSA) on any PWLs, OCFP Director Letters or CCPD Director Letters sent to a federally insured credit union concerning a HDMA late or non-filer matter.

## **B. B. Regional Office Responsibilities**

- Respond to OCFP's annual request for recommendations regarding which credit unions to examine or supervise
  - The regional office will provide the name and charter number of credit unions with elevated fair lending risks, as well as a brief description of the basis for the recommendation.
- Submit high-risk cases to OCFP on an ad hoc basis

- Consult with OCFP on fair lending related LUAs, PWLs, C&Ds, and DOJ referral cases
- Notify the appropriate SSA of information provided by OCFP concerning any HMDA late or non-filer state chartered credit union

---

*[NSPM content](#) last updated January 22, 2018*

## 2. Federal Credit Union Selection for Review

OCFP selects federal credit unions for either an on-site fair lending examination or an off-site supervision contact based on a credit union's risk profile. Federal credit unions selected for a fair lending examination or off-site supervision contact exhibit elevated fair lending risk characteristics. Criteria used to determine a federal credit union's fair lending risk may include:

- HMDA outliers determined from review of annual HMDA reports
- Fair lending findings or violations noted in recent safety and soundness examinations
- Elevated compliance risk noted in recent safety and soundness examinations
- The volume, types, or complexity of the lending products and services offered, or types of communities served
- Lending discrimination complaints against the credit union

The number of federal credit unions selected may vary each year based on available resources. OCFP may also participate in a fair lending review of a federal credit union during an examination (WCC 10).

### A. Field Recommendations

Given their direct knowledge of credit union lending practices, policies, and management strengths and weaknesses, field staff are in the best position to identify credit unions having elevated fair lending risk. OCFP is particularly interested in identifying credit unions having:

- Lending policies or practices that discriminate on a prohibited basis.
- Lending personnel who have made negative statements towards protected groups or individuals (including documentation of such comments in loan files).

- Member or employee complaints alleging lending discrimination.
- Systemic ECOA (Regulation B) or HMDA (Regulation C) violations.
- Discretionary loan underwriting or pricing practices, when present with limited or no monitoring or internal controls.
- Lending distinctions tied to geography that may disproportionately impact protected groups or individuals.
- Lending programs that are available to specific groups, individuals, or select employee groups, but not the entire field of membership.
- Particular incentives created by employee compensation structures that may disproportionately impact protected groups or individuals.

---

[NSPM content](#) last updated January 22, 2018

### **3. Requested Participation for SCU Selected for Review by SSA**

When requested by an SSA, OCFP may participate or assist on a fair lending examination conducted at a state-chartered credit union by its SSA. The OCFP Director will determine whether to participate on such examinations. The determination to participate will depend on available resources. Depending on the size and scope of an examination, OCFP may request assistance with the examination from the region whose coverage includes the state requesting participation.

---

[NSPM content](#) last updated January 22, 2018

### **4. On-Site Fair Lending Exams (WCC 03)**

NCUA staff use Contact Type 03, OCFP On-site Fair Lending Review, for on-site fair lending examinations. Fair lending examinations are used to:

- Enforce credit union compliance with fair lending laws and regulations and HMDA and Regulation C compliance, and strengthen credit unions' fair lending programs through risk-based examination procedures, including transaction testing
- Educate credit unions on fair lending and consumer protection laws and regulations.

Fair lending examinations are risk-based and conducted in accordance with the August 2009 [FFIEC Interagency Fair Lending Examination Procedures](#).

At the conclusion of the exam, a federal credit union will receive a written fair lending examination report, and the analyst- or examiner-in-charge will conduct an on-site meeting to discuss the findings. District examiners will be notified in advance of meeting dates and times, and may attend if they choose.

---

*[NSPM content](#) last updated January 22, 2018*

## 5. Off-Site Fair Lending Exams (WCC 33)

NCUA staff use Contact Type 33, "OCFP Off-site Fair Lending Supervision Contact," for off-site fair lending reviews.

Off-site supervision contacts are used to:

- Determine whether a credit union has adequate policies, procedures, and internal controls to ensure compliance with fair lending laws and regulations.
- Educate credit unions on fair lending and consumer protection laws and regulations.

Off-site supervision contacts are more limited in scope than on-site fair lending examinations. Supervision contacts generally include a fair lending baseline review with no transaction testing.

The analyst- or examiner-in-charge will communicate with federal credit union staff throughout each off-site supervision contact. At the conclusion of the off-site supervision contact, the federal credit union will receive a written report and the analyst- or examiner-in-charge will hold an exit meeting by phone. District examiners will be notified in advance of meeting dates and times.

If an off-site supervision contact identifies possible discriminatory practices or significant findings of non-compliance with fair lending laws and regulations, the federal credit union will be considered for a future fair lending examination.

---

*[NSPM content](#) last updated January 22, 2018*

## 6. Contact Documentation

NCUA staff will record and upload the findings and supporting information of a fair lending examination or supervision contact in AIRES. The administrative

record contained in the AIRES upload should fully support violations and weaknesses noted.

Examiners will use the:

- AIRES Scope Tab to document the scope for the current examination/contact, areas and depth of review, and results of the review
- AIRES Consumer Compliance Violations Module to document regulatory violations
- Examination Overview, Examiner's Findings, and DOR forms (as appropriate) to provide the credit union with information related to the fair lending review and to address deficiencies requiring corrective action
- DOR module in AIRES to input problem codes for tracking purposes. Problems documented in a DOR must be significant enough that OCFP would recommend escalating to the next level of elevated enforcement action for failure to correct the problem
- Confidential Section to address noteworthy items or actions taken during the contact/examination not discussed elsewhere in the report, or to discuss management's ability and willingness to correct areas of concern
- Exam Management Console ("Administrative Tracking" section of the "Completion Information" tab) to document administrative actions issued by OCFP

CAMEL and risk ratings are assigned by district examiners according to safety and soundness guidelines and will not be changed during a fair lending examination or supervision contact. Fair lending examiners can make recommendations to the appropriate region to adjust CAMEL and risk ratings, when serious violations are noted.

The analyst- or examiner-in-charge will include additional work papers completed which contribute to the administrative record.

Regional offices, supervisory examiners, and district examiners receive notice of fair lending examination or supervision contact completion and access to the report through the AIRES email notification process.

---

*[NSPM content](#)* last updated January 22, 2018

## 7. Contact Follow-Up

OCFP will provide recommendations for corrective action when deficiencies are identified in a fair lending examination or supervision contact. OCFP is responsible for follow-up of compliance with corrective actions, including, but not limited to Examiner's Findings and DOR items.

OCFP will track DOR timeframes for completion and follow-up with credit union management consistent with the standards outlined in the [Administrative Remedies](#) section of this Manual. Resolution of corrective action items should be documented in an AIRES upload (WCC 33).

During onsite examinations and supervision contacts, district examiners will consult with OCFP before declaring an Examiner's Finding or DOR item resolved.

---

*[NSPM content](#) last updated January 22, 2018*

## 8. Administrative Remedies

Many of the administrative remedies used by safety and soundness examiners are also available to OCFP. The timeframes for taking administrative actions take into account OCFP's process for consulting with other NCUA offices, federal or state financial regulators, and, as appropriate, the credit union. This process is important in resolving any factual disputes and addressing potential legal issues prior to taking a formal agency action.

### A. Report of Administrative Actions

OCFP will monitor and follow-up on any outstanding administrative action items. OCFP will maintain a record of all informal and formal administrative actions including, but not limited to, OCFP Director Letters, PWLs, and civil money penalties (CMPs). OCFP will provide a report of these informal and formal administrative actions to the Director of Examination and Insurance quarterly. The report will include administrative actions newly issued, currently outstanding (with the exception of OCFP Director and CCPO Division Director Letters), and those canceled since the last report.

### B. Document of Resolution

CCPO analysts will note the person(s) responsible, a citation for the problem, and the timeframe for taking corrective action in the DOR. Credit union management's failure to address DOR items may result in elevated administrative

action (for example, OCFP Director Letter, PWL). See the [Document of Resolution](#) section of the NSPM for additional guidance on issuing DORs.

## C. OCFP Director / CCPO Division Director Letters

The OCFP Director Letter is used when a credit union has serious and/or persistent problem areas that are not being adequately resolved. The OCFP Director Letter may be issued in conjunction with a fair lending examination to emphasize an area of concern. Typically, the CCPO Division Director Letter is used to respond to a first-time late or non-filed HMDA Report.

OCFP will consult with the appropriate regional office prior to sending an OCFP Director or CCPO Division Director letter in connection with a fair lending exam or HMDA late or non-filer matter. OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA, with a copy of the OCFP Director or CCPO Division Director Letter.

Fair Lending Examination	The OCFP Director Letter should be issued to the credit union within 30 days of the completion date of the fair lending examination or supervision contact.
HMDA Report	The applicable OCFP Director Letter or CCPO Division Director Letter should be issued to the credit union within 90 days of the availability of HDMA data.

## D. Preliminary Warning Letter

A Preliminary Warning Letter (PWL) is a warning of potential formal administrative action if corrective action is not taken. OCFP may issue a PWL when the credit union has not adequately resolved serious and/or persistent problem areas identified during a fair lending examination, or in response to repeated late-filed or non-filed HMDA reports. A PWL will not be issued as a result of an OCFP fair lending off-site supervision contact.

OCFP will consult with the appropriate regional office prior to issuing a PWL in connection with a fair lending exam or HMDA late or non-filer matter. OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA, with a copy of the PWL.

For a **fair lending examination**, the PWL should be issued to the credit union within 60 days after completion of the exam.

- OCFP will forward the draft PWL to the appropriate regional office for review.
- Within 10 days of receiving the draft PWL, the regional office will review the PWL and notify OCFP of its review and any recommended changes. If the regional office is aware of additional safety and soundness concerns, it may propose issuing a PWL directly from the Region to address both fair lending and safety and soundness concerns.
- OCFP will schedule a follow-up contact within 120 days of issuing a PWL to assess the credit union's compliance.

For a **HMDA report**, a PWL is issued after the credit union's second HMDA late filing or non-filing within a five-year period. The PWL should be issued to the credit union within 90 days of the availability of HDMA data.

- The PWL should require a written response from the credit union to OCPF, with a copy to the appropriate regional office, within 30 days of receipt of the PWL indicating what actions the credit union has taken or plans to take to address the HMDA late or non-filing matter.
- OCFP will review the credit union's response and determine whether corrective action plans are appropriate.
- If OCFP determines corrective actions plans are not appropriate, OCPF will schedule an off-site supervision contact within 240 days of the availability of HDMA data to counsel the credit union on appropriate policies and procedures.

## E. Civil Money Penalty

The Office of General Counsel (OGC) must be consulted on all Civil Money Penalty actions and they must be approved as outlined in the NCUA's Delegations of Authority. Additionally, OCFP will consult with the appropriate regional office prior to seeking a CMP against a credit union. OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA with a copy of the CMP.

Federal law provides that a CMP may be assessed against a credit union for a late-filed or non-filed HMDA report. A CMP is typically issued after the credit union's third late HMDA filing or non-filing within a five-year period. The CMP should be issued to the credit union within 120 days after the availability of HDMA data.

## F. DOJ Referrals

Under the Equal Credit Opportunity Act, regulators, including NCUA, must refer a matter to DOJ whenever the agency has reason to believe that a credit union has engaged in a pattern or practice of discouraging or denying applications for credit in violation of 15 U.S.C. §1691(a) of ECOA. The initiating office (OCFP, in the case of a fair lending examination conducted by that office, or the applicable regional office or ONES in the case of a fair lending violation addressed during a safety and soundness examination (WCC 10)) will consult with each other and OGC prior to taking any action to refer cases to DOJ. OGC will deliver all referrals for ECOA violations to DOJ.

---

*[NSPM content](#) last updated January 22, 2018*

## 9. Administrative Items

### A. Timeframe to Complete and Upload Fair Lending Examinations/Supervision Contacts

Except for minor differences with start dates, fair lending examiners will complete and upload all examinations/supervision contacts consistent with standards outlined in [District Management](#) section of the this manual. The start date for a fair lending examination is the date the analyst- or examiner-in-charge first charges time to the examination, and generally corresponds to the date pre-examination scoping begins. The start date for a fair lending supervision contact is the date the analyst- or examiner-in-charge receives supervision contact materials from a credit union.

### B. Notifying a Credit Union of a Fair Lending Examination or Supervision Contact

OCFP will provide adequate advance notice before starting a fair lending examination or supervision contact. When a fair lending examination runs concurrently with a safety and soundness examination, OCFP will coordinate all scheduling efforts with the district examiner.

Unless special circumstances exist, OCFP will give credit union officials a minimum notice of four weeks. The CCPO Division Director must approve notification periods of less than four weeks. This approval will be documented in the Confidential Section of the report.

As part of the notification process, OCFP will prepare a notification cover letter and items needed list for fair lending examinations and supervision contacts. OCFP will revise the items needed list to meet the needs of the particular examination or contact. OCFP will provide the notification package to the credit union at least four weeks prior to the fair lending examination or supervision contact start date.

---

*[NSPM content](#) last updated January 22, 2018*

## 10. Quality Assurance

CCPO's fair lending program officer (or designee) will perform a written quality control review (QCR) of each fair lending examination. QCRs will evaluate and address:

- The adequacy of problem identification and corrective actions
- Whether examination documentation provides a sufficient administrative record to support the review of focal points, and OCFP's findings and recommendations
- Consistency in OCFP's application of DORs, Examiner's Findings, Loan Exceptions, and recommendations

The fair lending program officer will review each fair lending supervision contact and document the review for the CCPO Director in a summary spreadsheet. Supervision contact reviews will evaluate supervision contact findings, recommended corrective actions, and recommendations for follow-up work. The fair lending program officer will advise the CCPO Director of any recommendation for follow-up work noted in a fair lending supervision contact.

CCPO's fair lending program officer will provide QCRs to CCPO analysts within 45 days of examination completion.

---

*[NSPM content](#) last updated January 22, 2018*

# Chapter 14. Federal Credit Union Program and Procedures

NCUA's examination program institutes standards for a high quality examination process and establishes guidelines to:

- Identify and mitigate current and emerging risks to the share insurance fund
- Ensure credit unions are in compliance with applicable laws, regulations, and directives
- Initiate appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitate timely resolution of supervisory concerns

This section of the NSPM explains how examiners will supervise federal credit unions in their districts. Supervision efforts will vary depending on the size of the credit union, the risk to the share insurance fund, and other circumstances as applicable. Supervision includes, but is not limited to, examinations, follow-up examinations, onsite contacts, offsite contacts, offsite monitoring, and trending analysis (for example, Call Report/FPR Trending).

The examination and supervision program is the most important component of managing risk to the share insurance fund and protecting members. Refer to the [comparison of examination and supervision programs for federal credit unions and federally insured, state-chartered credit unions](#) for a high-level overview.

---

*[NSPM content](#) last updated July 29, 2015*

## 1. Examination Planning

Advance pre-planning is critical for effective examinations. Poor planning before going onsite often leads to unnecessary burden on credit unions and miscommunication between NCUA and credit union staff. For example, each "Items Needed" list must be customized to only request items unique and necessary to address the scope and risk profile for each credit union exam. Examiners must keep a copy of the customized "Items Needed" list within the AIRES file so it becomes part of the administrative record.

Failing to pre-plan can cause frustration for credit unions that spend significant amounts of time gathering information that an examiner does not review.

*[NSPM content](#) last updated December 30, 2016*

## A. Pre-Exam Planning Hours

Examiners will use WCC 94, Pre-Exam Planning FCU, on weekly time reports to capture time spent pre-planning a federal credit union examination. These hours are separate from, and in addition to, the budgeted hours for examining a credit union. Examiners will document their pre-planning activities with the Pre-Exam Planning Questionnaire and upload it with the exam.

Pre-exam hours must be recorded for each completed WCC 10 exam. Exceptions to the budgeted time must be approved in writing by a supervisor, in advance.

The Pre-Exam Planning Questionnaire is available in the AIRES Scope module.

*[NSPM content](#) last updated May 31, 2017*

## B. Pre-Exam Planning Procedures

Examiners will start the pre-planning exam process by opening an AIRES exam WCC 10 for a credit union and charging the hours to WCC 94, Pre-Exam Planning FCU, in the TMS. The AIRES Pre-Exam Planning Questionnaire outlines specific procedures.

Examiners will comply with the latest version of NCUA Instruction 13500.09, [Security of Sensitive Information](#).

*[NSPM content](#) last updated May 31, 2017*

## C. Preliminary Risk Assessment

The preliminary risk assessment drives the initial scoping for a risk-based examination. This assessment is documented in the preliminary risk assessment tab of the AIRES Scope module. Examiners will focus on current and emerging risk indicators and evaluate preliminary risks.

Examiners do not complete a preliminary risk assessment for defined-scope examinations. For these exams, an examiner will check the SCUEP box in the Preliminary Risk Assessment tab, which will gray out the input fields on the tab.

*[NSPM content](#) last updated December 30, 2016*

## D. AIRES Exam Scope (Scope Module)

The Scope module is the permanent record of procedures performed during an examination/supervision contact. All WCC 10 examination procedures will be guided by the expectations outlined in the current NCUA Instruction 5000.20, [Examination Scope](#).

### **1. Examiner**

Examiners must thoroughly document the areas reviewed, the results, and the recommended action. Comments like "completed" or "inadequate" are not sufficient. Examiners must include a description of the area reviewed and results obtained, regardless of whether references to other work papers are included in the AIRES scope.

The Scope module should be a comprehensive synopsis of what occurred during the examination or supervision contact. However, when applicable, the completed IRR workbook represents the scope for the IRR review and for scope module purposes, it is acceptable for examiners to state "Refer to IRR workbook" in the Results of Review section of the scope. Additionally, examiners may use the narrative conclusion for the final risk assessment. The IRR workbook framework includes the necessary scope elements of review steps (either required or baseline), fields to input the results of each review step, a narrative conclusion (in the overall tab), and the IRR rating (high, moderate, or low).

A [comprehensive scope](#) will enable the examiner of the next examination to become familiar with the history of the credit union in a shorter amount of time. Examiners must complete the Plans and Budget tab in the AIRES Scope module.

When completing the Scope module and areas of review, all team members with an SME designation will include their designation, in parenthesis, next to their initials in the "Done by" column.

## **2. Examiner-in-Charge**

EICs are responsible for the sufficiency of the AIRES Scope module. For team exams/supervision contacts, the EIC should complete the scope in advance of the rest of the team's arrival onsite.

EICs need to continually evaluate the appropriateness of the scope and document procedures commensurate with the size and complexity of a credit union throughout the course of an examination. EICs will fully evaluate areas that represent a significant risk or potential risk to a credit union.

## **3. E&I**

E&I will review, and update when necessary, the scope expectations in conjunction with changes in key risk indicators, economic conditions and regional concerns by January 1 each year.

---

*[NSPM content](#) last updated September 15, 2017*

## **4. Examples of Sufficient Scoping**

<b>Current Area of Review</b>	<b>Results of Review</b>
Member business loan participations	Three MBLs reviewed. Credit union entered into one participation with Her FCU 8/10. Loan is collateralized by nine rental properties consisting of 60 units. Appraisals for each respective property issued between 5/07 and 6/08 prior to market downturn. CU performed no further analysis to determine property devaluation. Risk not considered material given original LTV of 31% and properties located in PA where devaluation was minimal. Management encouraged to include reasonable market analysis when considering future MBL participations with outdated appraisals. No other material exceptions identified.
Liquidity policies	Read policy, reviewed ALCO minutes, compared limits to current ratios and to rules and regulations Policy stale, last updated 2009. No discussion in ALCO minutes of need to review or change policy dur-

<b>Current Area of Review</b>	<b>Results of Review</b>
	ing 10 month exam period. Policy thresholds are not perceived as reasonable. Limits are: loan-to-assets less than 90%, fixed assets 12%, and cash + short-term investments 4%. Fixed assets are 11.39% a loan-to-asset ratio of 90% would force the CU to borrow funds to support routine operations. High fixed assets due to prior RegFlex designation, FA will not be under 7% until 2014 based on current depreciation. Cash + short-term investments of 4% is not sufficient; historically, CU has ranged between 6 and 8% over past three years. See Overview and DOR.
"IC - Financial Triggers" questionnaire (WCC 10 & WCC 11)	Completed questionnaire. Credit union experienced losses during 2009 and 2010 due to the economic environment, low loan/investment yields, stabilization expenses, and premium expense. Net worth declined from 10.30% in 2008 to 8.16%.
Loan portfolio risk quantification / MDPA	Credit union not performing CLTV or credit migration analysis for RE loans. RE portfolio comprises only 11% total loans and 6.00% total assets, but management plans to expand RE lending and was advised periodic risk quantification analysis should be occurring. Management agreed to perform analysis. YCU updated credit scores for credit card loans during 2009 and reduced or suspended lines of credit for borrowers with credit scores below 560. Management was advised the analysis should occur more frequently and include migration as one of the criteria (i.e., a credit score declining by 100 points during a 12 month period).
Review audit work papers	CPA work papers not reviewed at prior exam. Reviewed AUP audit effective 6/30/11 performed by XXX CPAs. Workpapers maintained in electronic format. Workpapers well-organized and audit adequate in scope and procedure. Audit period was 7/1/10 through 6/30/11; report dated 8/20/11. Report delivered within 120 days of the effective

<b>Current Area of Review</b>	<b>Results of Review</b>
	date as required.
Review internal audit calendar plan/schedule	Credit union has two internal auditors. Audit plan includes the verification, which is done every year. This is also done as a statistical sample by the CPAs. IA does 18 branch audits and many other audits that include the Fannie Mae quality control.
Supervisory committee minutes	There are four committee members who meet every month. They go over the internal auditors' work and the chairman attends LCR, ALCO, Technology, and board meetings sometimes and reports back to the committee. SC follows up on exam/audit reports. They also review complaints from members. Reviewed minutes for one year.
Reconciliation of bank and/or corporate statements, focusing on the main transactional accounts (WCC10 & WCC 11)	Reviewed reconciliations for two corporate accounts and FRB. All items appear to clear off in a timely fashion. Completed the Cash on Deposit worksheets in Exam.xls. Tied each statement balance and GL balance on the recons back to supporting documentation.
Business Continuity Plan	Credit union developed a BCP and tests it annually. Credit union uses the results of the test to improve the plan. Credit union has 12 recovery teams to execute the plan. Each team has specific recovery related tasks. There is an established management succession policy for the plan should team leaders be unavailable. No problems noted.
Emergency Management Plan	Emergency management plan identifies each facility and locations and where they evacuate to during an emergency. Plan identifies team leaders, meeting places, phone numbers, emergency services by location. Plan describes disaster scenarios and actions to take. No problems noted.
File Maintenance Reports	Opt OUT; credit union has a very active and effective internal audit department that reviews these reports

Current Area of Review	Results of Review
	regularly; Reviewed workpapers of internal audit department which document the department's review of file maintenance reports and appropriate investigation and resolution of questionable transactions.
Complete CUSO Checklist	Opt IN; credit union recently entered into two new relationships with CUSOs; noted discussion of contract issues in the board minutes. Completed checklist for both CUSO relationships and discussed resolution of contract issues with the CEO. No significant concerns noted.
Cash Internal Controls	Opt IN; observed head teller physically count teller and vault cash; reconciled totals to GL totals. Concerns exist because of limited staff, lack of segregation of duties, and unusual activity in cash accounts. No exceptions noted. Unusual activity in cash accounts documented and explained. Discovered that supervisory committee regularly reviews bank reconciliations and performs surprise cash counts every quarter.

[NSPM content](#) last updated July 29, 2015

## 2. Membership Data Information

Membership Data Information will be collected for all natural person federal credit unions in accordance with NCUA Letter to Federal Credit Unions 09-FCU-03, [Membership Data Collection](#). Detailed instructions on Membership Data Collection can be found by clicking on the "extract" button on the Completion Information tab within AIRES.

[NSPM content](#) last updated January 27, 2016

## 3. Federal Credit Union Examinations (WCC 10)

NCUA examiners will use WCC 10 for FCU examinations, including SCUEP defined-scope examinations. Examiners will reference the most recent

NCUA Instruction 5000.20, [Examination Scope](#), Appendix B, for required and baseline review areas. For an FCU SCUEP defined-scope examination, examiners will reference Appendix A for required Tier 1 review areas.

As noted in the document, examiners are responsible for using their judgment to adjust the scope to focus on areas of heightened risk. When opting out of baseline review areas, examiners will provide justification in the Scope module.

---

[NSPM content](#) last updated January 27, 2016

## 4. Federal Credit Union Supervision Contacts

Supervision contacts typically fall into one of three categories:

1. Follow-up exams
2. Onsite supervision contacts
3. Offsite supervision contacts

For a full list of WCC definitions, see the [Work Classification Codes](#) section of the NSPM.

---

[NSPM content](#) last updated July 29, 2015

### A. Follow-Up Examinations for Troubled/Problem Federal Credit Unions (WCC 22)

Follow-up examinations are more comprehensive than other onsite supervision contacts and require an analysis of data to support the CAMEL ratings and administrative action recommendations. Examiners will support in the scope, or by other means that can be made part of the administrative record, all of the critical problem areas identified during the regular examination.

Before uploading an AIRES contact, examiners will indicate on the AIRES Exam Management Console (EMC) whether the supervision contact was a follow-up examination (yes/no button on the Completion Information tab in AIRES).

Examiners typically only perform follow-up examinations on CAMEL 3, 4, or 5 credit unions.

*A follow-up examination* is a type of onsite supervision contact that applies to both federal credit unions and federally insured, state-chartered credit unions.

At a minimum, examiners will perform a follow-up examination, which must include a joint conference with the board of directors, during the following intervals:

Credit Union Description	Follow-Up Exam Requirements
CAMEL 3 > \$50 million	180 days (from completion date to completion date)
CAMEL 4 or 5 > \$50 million	120 days (from completion date to completion date)

### ***1. Timeframe Exceptions for Follow-Up Examinations***

Examiners will consult their supervisor and request an extension via email if they cannot complete a follow-up examination within the required timeframe. The guidelines for requesting an extension are:

Credit Union Description	Maximum Extension	Guidelines
CAMEL 3 > \$50 million	Completion timeframe may not exceed 240 days based on supervisor approval	Any request for an extension of the 180-day requirement must include information which demonstrates that the FCU will not represent increased risk to the share insurance fund resulting from the extended timeframe. Supervisor must approve all requests for extension and forward approval to the region's DOS mailbox. The ARDP or ARDO, as appropriate, must approve and document in writing any additional extensions and associated considerations.
CAMEL 4 or 5 > \$50 million		Any request for an extension of the 120-day requirement must include information which demonstrates that the FCU will not represent increased risk to the share insurance fund resulting from the extended timeframe. The ARDP or the ARDO, as appropriate, must approve and document in writing extensions for follow-up examinations.

Any approvals to exceed the timeframes listed above require the supervisor or ARDP, as applicable, to forward their approval via email to DOS with supporting documentation. All timeframe extension approvals will include a projected completion date.

## ***2. Small Credit Union Supervision Requirements***

CAMEL 3, 4 or 5 FCUs with less than \$50 million in assets may receive an onsite supervision contact in lieu of a follow-up examination. The supervision contact or follow-up examination will occur at the frequency described below.

<b>Credit Union Description</b>	<b>Follow-Up Exam or Supervision Contact Requirements</b>	<b>Guidelines</b>
CAMEL 3 FCUs with less than \$50 million in assets	Onsite supervision between examinations is at the discretion of the region	If BSA or recordkeeping issues are present, the timeframes for those targeted review contacts will be followed.
CAMEL 4 or 5 FCUs with less than \$50 million in assets	Must be completed within 210 days of the examination	No waiver for the 210-day completion requirement for CAMEL 4 or 5 credit unions less than \$50 million in assets is available. If BSA or recordkeeping issues are present, the timeframes for those targeted review contacts will be followed and will not be considered the supervision contact necessary to meet this requirement unless all outstanding DOR items receive a full review.

SEs/examiners will use sound judgment to determine, on a case-by-case basis, the completion requirements for any FCU meeting these criteria (within the 210 days for CAMEL 4 or 5 FCUs), tailoring the supervision needs to the credit union. Regional Directors and supervisors may require different completion timeframes or supervision plans for specific risks in a specific credit union.

Examiners will support in the scope, or by other means that can be made part of the administrative record, all of the critical problem areas identified during the regular examination. The contact must include a joint conference with the board of directors.

Each region will establish monitoring procedures for follow-up examinations and timeframe extensions, until a national system is developed and implemented. The ARDP will review the applicable report(s) and share them with the supervisors to evaluate appropriateness and timeliness of completion contacts to ensure a quality and timely supervision program.

### ***3. Follow-Up Examination Documentation***

Examiners document a follow-up examination by uploading an AIRES file, and charging time to WCC 22. At a minimum, the AIRES upload must include:

- AIRES historical download, Exam.xls, and all critical input areas
- Sections in the Scope module that were the subject of the follow-up examination, including pertinent risk ratings. Examiners will document their explanations of any change of final risk ratings in the scope. For any areas not reviewed in the Scope module, "n/a" or "DNR" (did not review) will suffice
- Documentation regarding compliance with any outstanding administrative actions (LUA, PWL, etc.,) in the Status Update
- Documentation regarding compliance with any outstanding Net Worth Restoration Plan (NWRP) / Revised Business Plan (RBP) in the Status Update
- Documentation of compliance or non-compliance with previous DOR items and updated DOR module
- Written narrative report provided to the credit union (for example, Examination Overview, Examiner's Findings, etc.)
- Completed EMC including all questions and the date of the exit meeting and/or joint conference (a joint conference is required for all CAMEL 3, 4, and 5s, unless the supervisor approves an exception. In the event a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at the next board meeting)

- Updated [Supervision Chronology Report](#) saved in the examination directory for a CAMEL 3 with assets \$250 million and greater, and CAMEL 4 or 5
- Consumer Compliance Violations module in AIRES, if applicable
- Completed Confidential Section
- Sufficient AIRES work papers to support the scope of review and the conclusions drawn and any other information necessary to support the scope and time spent on the contact

Examiners are required to issue a report to the credit union for follow-up examinations. Examiners will [deliver the report as they would an examination report](#). Examiners must discuss required corrective actions, administrative actions, and provide relevant supporting sections of the report to the officials during the joint conference (for example, DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts).

---

[NSPM content](#) last updated July 29, 2015

## B. Onsite Supervision Contacts (WCC 22)

An onsite supervision contact is more limited in scope than a follow-up examination. Examiners will typically perform an onsite supervision contact to review one major problem area, to hold a joint conference if it could not be completed as part of the exam, and/or to review the credit union's compliance with a DOR, etc.

Examiners will perform onsite supervision contacts as needed between regular or follow-up examinations based on the nature and severity of the problems or as their supervisor requires. Examiners will need to make each contact a results-oriented contact designed to achieve corrective action.

Credit unions with significant recordkeeping concerns require an onsite supervision contact focused on ensuring adequate attention to and correction of problems. See the [Significant Recordkeeping Concerns](#) section of the NSPM for additional guidance for performing supervision contacts for credit unions that have significant recordkeeping concerns.

---

[NSPM content](#) last updated January 23, 2017

#### **4. Onsite Supervision Contact Documentation**

Examiners document an onsite supervision contact by uploading an AIRES file. At a minimum, the AIRES upload must include:

- AIRES historical download, Exam.xls, and all critical input areas
- Sections within the Scope module that were the subject of the contact including pertinent final risk ratings. Examiners will document their explanations of any change of final risk ratings in the scope. For any areas not reviewed in the Scope module, "n/a" or "DNR" (did not review) will suffice
- Written narrative report provided to the credit union if applicable (for example, Examination Overview, Examiner's Findings, etc.). Use the Confidential Section to document additional information when a report is not provided to the credit union and in place of a supervision contact memo
- Completed EMC
- Updated [Supervision Chronology Report](#) saved in the examination directory for a CAMEL 3 with assets \$250 million and greater, and CAMEL 4 or 5
- Any other information necessary to support the scope and time spent on the contact (for example, updated and completed DOR module if focus of contact was to review compliance with DOR items, completed Consumer Compliance Violations module in AIRES if focus was to review compliance violations, etc.)

Examiners will discuss their findings and recommendations during an exit meeting and issue a written report to the officials if the contact results in required action or changes are made to CAMEL or risk ratings.

---

[NSPM content](#) last updated July 29, 2015

#### **C. Offsite Supervision Contacts (WCC 27)**

Offsite supervision is conducted somewhere other than at the credit union. At times, examiners will perform offsite supervision to follow up on outstanding concerns, review the credit union's response to a DOR, review monthly financial and/or board packages, respond to regional or national requests regarding credit unions in their district, or otherwise supervise, counsel, or interact with the credit union remotely (for example, phone, email). Examiners will not change a credit union's composite CAMEL rating during a WCC 27 contact.

---

[NSPM content](#) last updated July 29, 2015

## **5. Offsite Supervision Contact Documentation for Offsite Contacts Eight Hours or Longer**

A [minimal AIRES upload](#) or a “minimal contact” is required for all WCC 27 offsite contacts of eight hours or more. Examiners document an offsite supervision contact of eight hours or more by uploading a “Minimal Contact” report in AIRES and charging time to WCC 27.

At a minimum, the AIRES upload must include a completed EMC with documentation of the contact scope, progress, conclusions, recommendations, etc. in either the “Examiner Comments” section on the Completion Information tab of the EMC or, if more room is needed, in the Executive Summary or Supplementary Facts.

An AIRES upload with a completed Scope module for offsite supervision is only required for a material change in risk ratings. Otherwise, the Scope module is optional.

Minimal uploads don't include MS Word and Excel files. To include these types of files, you may need to bypass the "minimal upload."

## **6. Offsite Supervision Contact Documentation for Offsite Contacts Shorter Than Eight Hours**

Time spent performing offsite supervision in increments less than eight hours for the same credit union should be aggregated and uploaded on a quarterly basis. If the aggregate time charged in a quarter is less than eight hours, an AIRES upload is not required.

This does not apply to contacts for credit unions with BSA violations that must be resolved by a specific date. Examiners will complete an AIRES upload for BSA-related resolution contacts. See the [BSA Enforcement](#) section of the NSPM for more information.

---

[NSPM content](#) last updated July 29, 2015

## **D. Monthly Financial Monitoring (WCC 27)**

Examiners must trend monthly financial data for the following:

- Any CAMEL 4 or 5 credit union with more than \$250M in assets
- Any CAMEL 3 credit union with more than \$1B in assets

- All cases assigned to the Division of Special Actions
- All troubled institutions in which financial condition is a concern and the credit union represents significant risk to the share insurance fund (as in the case of a large, troubled institution)

Examiners must trend the data using SATEX or an equivalent tool. Examiners will charge this type of offsite supervision to [WCC 27](#) and will upload a Minimal Contact.

Examiners should make every effort to receive monthly financials directly from a credit union. For example, a section of the DOR could request financial and/or board packets be sent on a monthly basis to the examiner. The supervisor will, on a case by case basis:

- Notify the FCU when there is a change in district assignment or the monthly financial data is no longer needed
- Determine the format of the examiner's analysis and reporting requirements

---

[NSPM content](#) last updated January 27, 2016

## E. Processing of Call Reports and Trending for Federal Credit Unions (WCC 20)

Examiners will perform offsite supervision while reviewing the Call Report, risk reports, FPRs, and other offsite monitoring tools for their district. Examiners will use WCC 20 for FCU reviews. Refer to the NSPM for [more information on trending](#).

---

[NSPM content](#) last updated July 29, 2015

## 5. OCFP/Regional Office Fair Lending Examinations and Supervision Contact Coordination

The Office of Consumer Financial Protection has supervisory authority to conduct on-site fair lending examinations and off-site fair lending supervision contacts in federal credit unions.

NCUA implemented its fair lending examination program in 1999. With the exception of FCUs that have more than \$10 billion in assets (which are under the authority of the Consumer Financial Protection Bureau), NCUA enforces the Equal Credit Opportunity Act and Regulation B in federal credit unions, and the

Home Mortgage Disclosure Act and Regulation C in all federally insured credit unions.<sup>1</sup>

NCUA also assesses compliance with the Fair Housing Act and reports violations to HUD or DOJ.<sup>2</sup> NCUA conducts fair lending examinations at and supervision contacts with federal credit unions to assess compliance with fair lending laws using the Federal Financial Institutions Examination Council's [\*Interagency Fair Lending Examination Procedures\*](#) (August 2009).

---

*NSPM content* last updated October 27, 2016

## A. Federal Credit Union Selection for Fair Lending Review

The Office of Consumer Financial Protection selects federal credit unions for either an on-site fair lending examination or an off-site supervision contact based on a credit union's risk profile. The number of federal credit unions selected will vary annually, based on available resources.

### **1. Field Recommendations**

Given their direct knowledge of credit union lending practices, policies, and management strengths and weaknesses, field staff are in the best position to identify credit unions that have an elevated fair lending risk. OCFP requests recommendations from regional offices at least once each year.

Regional offices should respond to OCFP's request with the name and charter number of credit unions with elevated fair lending risks, as well as a brief description of the basis for the recommendation. OCFP is particularly interested in identifying credit unions that have:

- Lending policies or practices that discriminate on a prohibited basis
- Lending personnel who have made negative statements towards protected groups or individuals (including documentation of such comments in loan files)
- Member or employee complaints alleging lending discrimination

---

<sup>1</sup>The Equal Credit Opportunity Act is implemented by Regulation B. The Home Mortgage Disclosure Act is implemented by Regulation C.

<sup>2</sup>The U.S. Department of Housing and Urban Development and the U.S. Department of Justice enforce the Fair Housing Act.

- Systemic Equal Credit Opportunity Act (Regulation B) or HMDA (Regulation C) violations
- Discretionary loan underwriting or pricing practices, when present with limited or no monitoring or internal controls
- Lending distinctions tied to geography that may disproportionately impact protected groups or individuals
- Lending programs available only to specific groups, individuals, or select employee groups
- Particular incentives created by employee compensation structures that may disproportionately impact protected groups or individuals

Regional offices can submit high risk cases to OCFP on an ad hoc basis. OCFP will attempt to work high-risk referrals into the current year's schedule.

OCFP normally schedules fair lending examinations independently of safety and soundness examinations. However, OCFP will attempt to schedule concurrently if the regional office expresses a preference.

## ***2. Regional Office Notification***

Upon selecting a credit union for a fair lending examination or off-site supervision contact, OCFP will notify the appropriate regional office and seek its input before contacting the credit union.

In notifications to regional offices, OCFP will:

- Provide a list of federal credit unions selected for a fair lending examination along with a summary of the basis for selection and any preselected focal points that will be reviewed
- Provide a list of federal credit unions selected for an off-site supervision contact along with a summary of the basis for selection
- For each planned fair lending examination, request the date of the next safety and soundness examination, if available, and a point of contact (supervisory examiner or district examiner)
- For each planned fair lending examination or supervision contact, request information on unusual circumstances that OCFP should consider before proceeding

OCFP will consider information provided by regional offices before making a final determination on fair lending examinations, supervision contacts, and dates. OCFP will courtesy copy the appropriate regional office on credit union notification letters.

---

[NSPM content](#) last updated October 27, 2016

## B. Fair Lending Examination and Supervision Contact Follow Up

When the Office of Consumer Financial Protection identifies deficiencies in a fair lending examination or supervision contact, it will provide recommendations for corrective action. OCFP is responsible for addressing findings and assuring compliance with DOR items.

Regional offices, supervisory examiners, and district examiners receive notice of fair lending examination or supervision contact completion and access to the report through the AIRES email notification process.

---

[NSPM content](#) last updated October 27, 2016

## C. Field Support of OCFP Examinations and Supervision Contacts

The Office of Consumer Financial Protection will request volunteers to assist with fair lending examinations and supervision contacts as needed. Each year, OCFP may recruit volunteers to assist with examinations and supervision contacts annually through a request for volunteers sent to all NCUA made in consultation with the Office of Human Resources.

---

[NSPM content](#) last updated October 27, 2016

## Chapter 15. Federally Insured, State-Chartered Credit Union Program and Procedures

The state supervisory authority (SSA) is the primary regulator for FISCUs whereas NCUA is responsible for managing risk to the share insurance fund. Supervision efforts at FISCUs will vary depending on the size of the credit union, the risk to the share insurance fund, and other circumstances as applicable. Supervision includes, but is not limited to, examinations, follow-up examinations, onsite contacts, offsite contacts, offsite monitoring, and trending analysis. (for example, Call Report/FPR Trending). NCUA's FISCU examination program institutes standards for a high quality examination process and establishes guidelines to:

- Empower staff to work collaboratively with each SSA to assess the financial and operational condition of FISCUs
- Identify, prioritize, and mitigate current and emerging risks to the share insurance fund
- Ensure credit unions comply with applicable laws, regulations, and directives
- Initiate appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitate timely resolution of supervisory concerns

FISCUs sign an Application and Agreement for Insurance and agree to comply with [NCUA rules and regulations Part 741](#) when applying for federal share insurance. The Document of Cooperation (DOC) between the National Association of State Credit Union Supervisors (NASCUS) and NCUA is the overarching document laying out the principles and the relationship with SSAs and the insurance review process.

Each region maintains an operating agreement with each individual state. The operating agreements outline the method and procedures to monitor FISCUs for insurance risk. Regions will document any changes to procedures or any special arrangements made with an individual state in an addendum that NCUA's Office of General Counsel will review.

This section of the NSPM explains how examiners will supervise FISCUs in their districts and identifies the different types of FISCU examination and supervision options available for examiners. The examination and supervision

program is the most important component of managing risk to the share insurance fund and protecting members. Refer to the [comparison of examination and supervision programs for federal credit unions and federally insured, state-chartered credit unions](#) for a high-level overview.

---

[NSPM content](#) last updated July 29, 2015

## 1. Examination Planning

Advance pre-planning is critical for effective examinations. Poor planning before going onsite often leads to unnecessary burden on credit unions and miscommunication between NCUA and credit union staff. For example, each "Items Needed" list must be customized to only request items unique and necessary to address the scope and risk profile for each credit union exam. Examiners must keep a copy of the customized "Items Needed" list within the AIRES file so it becomes part of the administrative record.

Failing to pre-plan can cause frustration for credit unions that spend significant amounts of time gathering information that an examiner does not review.

When planning for a FISCU exam, examiners will ensure coordination with the SSA and compliance with the NSPM. This includes coordinating with the SSA on the planned scope and coordination between specialists scheduled for the exam (for example, create one "Items Needed" list), to the maximum extent possible. Examiners should also inquire and discuss any changes since the last exam with the SSA.

---

[NSPM content](#) last updated December 30, 2016

## D. Pre-Exam Planning Hours

Examiners will use WCC 95, Pre-Exam Planning FISCU, on weekly time reports to capture time spent pre-planning a FISCU examination. These hours are separate from, and in addition to, the budgeted hours for examining a credit union. Examiners will document their pre-planning activities with the Pre-Exam Planning Questionnaire and upload it with the examination.

Pre-exam hours must be recorded for each completed WCC 11 exam. Exceptions to the budgeted time must be approved in writing by a supervisor, in advance.

The Pre-Exam Planning Questionnaire is available in the AIRES Scope module.

---

[NSPM content](#) last updated May 31, 2017

## E. Pre-Exam Planning Procedures

Examiners will start the pre-planning exam process by opening an AIRES exam WCC 11 for a credit union and charging the hours to WCC 95, Pre-Exam Planning FISCU, in the TMS. The AIRES Pre-Exam Planning Questionnaire outlines specific procedures.

Examiners will comply with the latest version of NCUA Instruction 13500.09, [Security of Sensitive Information](#).

---

[NSPM content](#) last updated May 31, 2017

## F. Preliminary Risk Assessment

The preliminary risk assessment drives the initial scoping for a risk-based examination. This assessment is documented in the preliminary risk assessment tab of the AIRES Scope module. Examiners will focus on current and emerging risk indicators and evaluate preliminary risks.

---

[NSPM content](#) last updated December 30, 2016

## 2. Communication with a State Supervisory Authority

Open communication between NCUA and the SSA is critical to ensure a robust and effective management of risk to the share insurance fund posed by FISCUs.

### A. Supervisor Responsibilities

The NCUA supervisor's interaction with the SSA is a critical link in this relationship. Therefore, the supervisor will be the primary party responsible for maintaining open and effective communication. The supervisor will maintain both formal and informal communication with the SSA. The supervisor will conduct such meetings as necessary to establish and maintain a positive relationship. However, in those states with few state-chartered credit unions or strong FISCU supervision programs, less frequent and/or more informal communication may be sufficient. Regardless of the circumstances, supervisors should meet face-to-face with SSAs at least annually. The meetings will focus on scheduling, supervision, credit union problem resolution, and addressing issues between respective examiners.

In addition to the face-to-face meetings, the supervisor will maintain phone and email contacts with the SSA for complex or problem credit unions (for example, credit unions with more than \$250 million in assets, credit unions exhibiting negative trends or insurability concerns, credit unions with a composite CAMEL rating of 4 or 5, and credit unions with a composite CAMEL rating of 3 or below which in the supervisor's judgment present a material risk to the share insurance fund).

Each December, supervisors will provide the SSA with a list of credit unions NCUA plans to conduct an examination/supervision contact. The supervisor will state the reason for NCUA going onsite and may expand or reduce the list throughout the year, as new financial data is available. This will eliminate unwelcome surprises and enable the SSA to plan for NCUA participation into their schedules.

NCUA reserves the right to go into any FISCU as frequently as warranted, based on risk to the share insurance fund, and may conduct an independent onsite contact when unable to coordinate a joint contact with the SSA. NCUA will notify the SSA prior to initiating any such contact and share the report with the SSA prior to submission to the FISCU.

## **B. Regional Director and Associate Regional Director Responsibilities**

The Regional Director or designated ARDP will meet at least annually with the SSA. The meetings will focus on the operating agreement, discussing roles, responsibilities, and expectations for NCUA and the SSA.

---

*[NSPM content](#) last updated July 29, 2015*

# **3. NCUA Federally Insured, State-Chartered Program**

## **A. Disclosing NCUA CAMEL and Risk Ratings**

Examiners will strive to disclose the NCUA CAMEL simultaneously with disclosure by the SSA but in no event later than the final meeting with management and officials.

A final meeting is the last on-site meeting with the credit union and NCUA present. In some cases, this will be the same as the exit meeting or the joint conference.

The NCUA CAMEL and supporting rationale will be documented using the FISCU CAMEL Disclosure form in AIRES. The NCUA EIC will clearly identify the conditions supporting the individual CAMEL component ratings and CAMEL composite rating.

The examiner will use and deliver to the credit union the following AIRES forms (at a minimum) to document the CAMEL disclosure:

- Region X –FISCUCAMELCoverLetter.doc
- Table of Contents
- CAMEL-Disclosure in FISCUs (in exam.xls)

For CAMEL composite 1 or 2 FISCUs requiring a [Documented Secondary CAMEL Review](#), the examiner, in consultation with their SE, may determine that sending the FISCU CAMEL Disclosure form via secured email or post with a teleconference to discuss the contents of the form is appropriate based on the concerns (or lack thereof) noted during the examination. This gives examiners and SEs sufficient time to review the CAMEL and risk ratings as required. The SSA will be invited to participate on the teleconference.

For CAMEL composite 3, 4, or 5 FISCUs, a joint conference is required to deliver the NCUA CAMEL. NCUA examiners may have to schedule a joint conference to disclose the NCUA CAMEL rating that provides time for their SE to perform a Documented Secondary CAMEL Review if the Documented Secondary CAMEL Review cannot be completed prior to the SSA's joint conference. The SSA will be invited to participate at the NCUA CAMEL disclosure joint conference.

For SSAs that have added an "S" to CAMEL(S) to record the credit union's interest rate risk sensitivity position, examiners will record the lower (worse) of the "L" or "S" rating in the AIRES CAMEL "L" field unless, in their professional judgment, the rating should be different. For example, if the "L" is rated a code 2 and the "S" is rated code 3, examiners will typically record a code 3 in the "L" field. Examiners will take into account the impact of the credit union's liquidity and interest rate sensitivity position on the overall health of the institution when assigning the rating.

## **1. Joint FISCU Examinations/Contacts**

### **Field Staff Responsibilities**

The NCUA EIC will assign component and composite CAMEL ratings during joint contacts based on the work and conclusions reached by both the SSA and NCUA examiners. For code 11 and 23 contacts, NCUA examiners will do the following:

- Work cooperatively with the SSA examiner in charge and maintain ongoing communications during the examination, which will include a meeting to discuss differences in CAMEL rating conclusions and attempts to resolve any component or composite differences with the SSA.
- In the event a component or composite rating differs from the respective SSA rating, and the EIC is unable to reach agreement with the SSA, the NCUA EIC will notify their NCUA supervisor and seek concurrence for their CAMEL ratings.
  - Once the NCUA supervisor has concurred with the CAMEL ratings, the examiner will proceed to disclose NCUA's CAMEL as outlined above.
  - If the SSA does not disclose a CAMEL rating either onsite, or if done later than the final meeting, NCUA will still disclose its rating as outlined above.
  - In situations where the NCUA EIC issues a different component or composite CAMEL rating than the SSA, the EIC will document efforts to reach agreement with the SSA on the CAMEL rating in the NCUA Confidential Section.

### **NCUA Supervisor Responsibilities**

The NCUA supervisor is responsible for ensuring the NCUA EIC supports the CAMEL rating and communicates actively with their SSA counterpart(s) to resolve differences. For code 11 and 23 contacts, NCUA supervisors will:

- Review supporting information with in-process examinations to provide concurrence for CAMEL ratings assigned to the FISCU when issuing a differing CAMEL rating

- Communicate with the SSA in advance to notify the SSA supervisory staff that NCUA has a differing CAMEL rating when the NCUA and SSA EIC cannot agree on a consistent CAMEL rating
- Prioritize performing Documented Secondary Reviews of CAMEL for FISCUs in order to allow for the expeditious disclosure of NCUA CAMEL ratings to FISCUs

### **Regional Office Responsibilities**

The regional office is responsible for facilitating open communication with the SSAs and completing quality control over the assigned ratings.

## **2. CAMEL Differences during WCC Code 26 Reviews**

This procedure applies to WCC 26 reviews where the NCUA examiner did not participate onsite during the examination and has not previously disclosed CAMEL to the FISCU as outlined above. As discussed in the NSPM, NCUA examiners evaluate CAMEL when performing WCC 26 reviews of state examinations. For WCC 26 reviews, the following apply:

- When the examiner performing the code 26 review assigns the same rating as the SSA composite rating, no additional action is needed; unless, the composite rating is a 4 or 5. For newly downgraded CAMEL 4 or 5 FISCUs, the NCUA examiner must verify whether the FISCU was given notice of its troubled condition [as outlined in the NSPM](#).
- When the NCUA examiner assigns a different composite rating, but chooses to rate the credit union a composite CAMEL 1 or 2, no further action is needed.
- When the NCUA examiner's rating differs from the SSA composite rating and a composite CAMEL 3 is assigned by NCUA, the examiner, in concurrence with their SE, will determine the best course of action to more fully evaluate material risks. This may include obtaining, through the SE, additional examination information from the SSA before completing the code 26 contact or scheduling an onsite contact, as appropriate.
- When the NCUA examiner's rating differs from the SSA composite rating and a composite CAMEL 4 or 5 is assigned by NCUA, the examiner will schedule an onsite review sufficient to more fully evaluate material risks. The examiner may obtain, through their supervisory examiner, additional examination information from the SSA to more fully evaluate risks before

completing the code 26 contact or scheduling an onsite contact, as appropriate.

See the [Reviews of SSA Examinations](#) section of the NSPM for timeframes for completing the subsequent onsite contact. A credit union is not considered in 'troubled condition' based on an NCUA CAMEL rating until an onsite contact is performed.

For more information about troubled credit unions, see the [Notice of Troubled Credit Union](#) section of the NSPM.

### **Field Staff Responsibilities**

The following process is used for WCC 26 reviews when the examiner assigns a CAMEL composite rating of 3, 4 or 5 which differs from the SSA assigned rating:

- The NCUA examiner will obtain supervisor concurrence for CAMEL differences with the SSA where NCUA issues a composite CAMEL 3, 4, or 5 rating.
- The NCUA examiner will work through their supervisor to schedule an insurance review or on-site supervision contact within the appropriate period of time, [as outlined in the NSPM](#).
  - The purpose of the requested insurance review or on-site supervision contact will be to evaluate risk and reach conclusions on the appropriate CAMEL rating, as well as agreements for corrective action with credit union management.

### **NCUA Supervisor Responsibilities**

- Supervisors will assist the examiner in obtaining more information on material issues within an examination report as needed.
- Supervisors will follow up with the SSA to ensure insurance reviews or on-site supervision contacts are scheduled within a reasonable timeframe.

### **Regional Office Responsibilities**

- The regional office is responsible for facilitating open communication with the SSAs to discuss differences in CAMEL identified during code 26

reviews.

- ARDPs will decide whether NCUA examiners will perform a contact without SSA participation if joint contacts cannot be scheduled within a reasonable period of time. Documented ARDP approval is needed if a joint contact cannot be scheduled within a reasonable timeframe and NCUA does not perform its own insurance review or on-site supervision contact.

## **E&I Responsibilities**

E&I will monitor national and regional trends with respect to differences in CAMEL ratings and summarize the frequency and magnitude of CAMEL differences within regions and selected states no less than annually. The goal for such reviews is to ensure the consistent application of CAMEL, especially in instances when an NCUA CAMEL differs from the SSA CAMEL.

---

*[NSPM content](#) last updated September 15, 2017*

## **B. NCUA Onsite Presence Criteria**

Onsite participation (including joint examinations, insurance reviews, and onsite supervision contacts) in FISCUs is necessary to effectively assess conditions that may pose a risk to the share insurance fund. The Regional Director will determine the onsite participation plans for FISCUs as part of the annual resource budget process and in accordance with [NCUA's Examination Scheduling Program](#). Since SSAs vary in their approach to onsite supervision between full examinations, the degree to which each region can utilize SSA examination and supervision work will also vary.

NCUA will notify the SSA of all FISCUs selected for onsite contacts. Each regional office will provide the specific criteria and reports used in making these selections to the state to ensure their awareness of which credit unions NCUA will select for an onsite contact.

---

*[NSPM content](#) last updated July 29, 2015*

## **C. Examination and Supervision Planning and Scoping**

Planning and scoping is an integral component of the risk-focused examination program. An appropriate assessment of risk will result in an effective allocation of resources based on the level and type of risk present in the credit union.

---

*[NSPM content](#) last updated July 29, 2015*

## D. AIRES Scope

The scope is the permanent record of procedures performed during an examination or supervision contact. All WCC 11 examination procedures will be guided by the expectations outlined in most recent NCUA Instruction 5000.20, [Examination Scope](#).

Examiners must thoroughly document the areas reviewed, the results, and the recommended action. Comments like "completed" or "inadequate" are not sufficient. Examiners must include a description of the area reviewed and results obtained regardless of whether references to other work papers are included in the AIRES Scope module. Examiners must complete the Plans and Budget tab in the AIRES Scope module.

The Scope module should be a comprehensive synopsis of what occurred during the examination or supervision contact. However, when applicable, the completed IRR workbook represents the scope for the IRR review and for scope module purposes, it is acceptable for examiners to state "Refer to IRR workbook" in the Results of Review section of the scope. Additionally, examiners may use the narrative conclusion for the final risk assessment. The IRR workbook framework includes the necessary scope elements of review steps (either required or baseline), fields to input the results of each review step, a narrative conclusion (in the overall tab), and the IRR rating (high, moderate, or low).

A comprehensive scope will enable the examiner of the next examination to become familiar with the history of the credit union in a shorter amount of time. (See [examples of sufficient scoping detail](#).) When completing the Scope module and areas of review, all team members with an SME designation will include their designation, in parenthesis, next to their initials in the "Done by" column.

EICs are responsible for the sufficiency of the AIRES Scope module. For team exams/supervision contacts, the EIC should complete the Preliminary Risk Assessment and Current Area of Review section of the Exam Scope in advance of the rest of the team's arrival onsite. EICs need to evaluate the appropriateness of the scope and document procedures commensurate with the size and complexity of the credit union throughout the course of the examination or supervision contact. EICs will fully evaluate those areas representing a significant risk or potential risk to the credit union.

Examiners will review these plans and determine whether the plans are reasonable and appropriate for the size and complexity of the credit union. Refer to the "Review Areas" worksheet in Exam.xls in AIRES for additional suggested scope areas. Examiners must adequately explain any changes from the preliminary risk assessment to the final risk assessment to justify the final risk ratings.

---

*[NSPM content](#) last updated September 15, 2017*

## E. NCUA-SSA Joint Scoping

Scoping for FISCU joint examinations and contact may vary and will consider the relationship with the SSA. Meeting(s) with the SSA examiner to establish NCUA's scope and support resources will be held prior to or at the start of field-work. The meeting may be a telephone contact or via secure email. The examiner responsible for setting up the meeting will depend on the working arrangement with each SSA. The examiner's objective of the scoping meeting is to:

- Discuss the issues initiating the contact
- Discuss any new information
- Define operational and financial concerns
- Establish review areas

NCUA's role in conducting joint examinations and contacts is limited to significant risk areas and compliance with laws and regulations for which NCUA has enforcement authority. When a review reveals additional safety and soundness concerns, examiners will expand the scope and review time in consultation with their supervisor.

If agreements cannot be reached regarding NCUA's participation, including expansion of the scope, the NCUA examiner will contact their supervisor prior to or during the examination, who will discuss the matter with the SSA office. Supervisors will request ARDP involvement in the event the supervisor and the SSA office cannot resolve the issue.

When completing the Scope module and areas of review, all team members with an SME designation will include their designation, in parenthesis, next to their initials in the "Done by" column.

---

*[NSPM content](#) last updated December 30, 2016*

## 4. Types of Federally Insured, State-Chartered Credit Union Examinations

NCUA examiners will create a WCC 11 for both joint examinations and independent insurance reviews. All WCC 11 joint examinations and insurance reviews will be based on the scope guidelines noted most recent NCUA Instruction 5000.20, [Examination Scope](#). E&I will review, and update when necessary, the established scope guidelines in conjunction with changes in key risk indicators, economic conditions and regional concerns by January 1 each year.

---

[NSPM content](#) last updated July 29, 2015

### A. Insurance Reviews (WCC 11)

The NCUA examiner is the EIC for all insurance reviews. As such, it is NCUA's responsibility to ensure completion of the AIRES examination procedures and work papers.

The scope of an insurance review will focus on concerns with safety and soundness. Examiners will complete the examination scope steps (detailed in the most recent NCUA Instruction 5000.20, [Examination Scope](#)), concentrating on areas of risk, including compliance with [NCUA rules and regulations](#) and other regulations that may represent a risk to the share insurance fund if the credit union failed to comply (see chapter 26 of the [Examiner's Guide](#)).

#### **1. Insurance Review Documentation**

At a minimum, documentation of an insurance review will include:

- Completed Scope module
- Indication of compliance or non-compliance with previous DOR, LUA, NWRP/RBP items or agreements relating to safety and soundness
- Completed DOR module in AIRES, if applicable
- Consumer Compliance Violations module in AIRES, if applicable
- Status and management's acceptance of current DOR
- Completed Confidential Section
- Written narrative report provided to credit union and SSA

## **2. Joint Conferences**

NCUA examiners must hold a joint conference for all CAMEL 3, 4, and 5s. In the event a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at a subsequent meeting. NCUA examiners will notify their supervisor of the date and time of the joint conference at least three business days in advance of holding the joint conference. The NCUA supervisor will notify the SSA staff of the date of the joint conference and invite them to participate.

If requested, the NCUA EIC will provide a copy of examination work papers outlining corrective actions and any related handouts to the SSA prior to meeting with credit union officials with the goal of allowing sufficient time for SSA review and feedback prior to the meeting. As a courtesy, the SSA should also have an opportunity to review the finalized complete insurance review report prior to issuance to the credit union. However, issuance of the report is at NCUA's discretion.

---

*[NSPM content](#) last updated July 29, 2015*

## **B. Joint Examinations (WCC 11)**

The state examiner is the EIC for joint examinations unless otherwise agreed to by the SSA. NCUA examiners have the responsibility to ensure WCC 11 exams meet the scope guidelines specified in the most recent NCUA Instruction 5000.20, [Examination Scope](#). In the Scope module, the NCUA EIC will note which scope steps the SSA performed. The NCUA EIC will ensure appropriate completion of the scope steps (as they would for any team member). If the work is adequate, the NCUA EIC can accept the work.

If the SSA does not use AIRES and/or the examiner feels the scope will not be adequately completed by the SSA, the NCUA EIC will note this in their scope and document the SSA's work to the best of their ability (including possibly using the team merge function in AIRES to get the SSA's exam scope into the NCUA AIRES upload).

NCUA will make every effort to schedule joint examinations with the SSA in order to streamline the process and facilitate networking and cooperation between the two agencies. If NCUA and the SSA cannot schedule a joint examination, NCUA will conduct an insurance review. When a joint exam was not possible, the EIC will note the reason(s), and the efforts made to coordinate a joint

examination with the SSA, in the Confidential Section. When a joint exam was conducted, the EIC will note the extent of SSA participation.

### ***3. Joint Examination Documentation***

For joint examinations, the final examination report will usually be a joint report, which encompasses both NCUA and SSA recommendations. If necessary, NCUA may issue an independent report. NCUA will notify the SSA of plans to issue a separate report prior to issuance to the FISCU.

NCUA examiner and SSA examiner can upload a scope workbook for a WCC 11 to AIRES with the same effective date.

For joint examinations, NCUA examiners should exclude problem codes and violations from the WCC 11 upload via the Data Communications section, Send Exam Tab of AIRES. NCUA examiners will review whether the state included the problem codes and violations and add any missing problem codes or violations as part of the Code 26 Review [as outlined in the NSPM](#).

NCUA examiners must upload their own WCC 11 examination report to document the work performed by NCUA. The WCC 11 upload also serves to identify any discrepancies between information provided to the SSA for inclusion in the joint report. For WCC 11 Joint Examinations, NCUA examiners need to upload:

- NCUA-developed standard examination documents provided to the SSA such as: Overview commentary, DOR document, and Examiner's Findings
- Sufficient AIRES work papers to support the scope of review and conclusions
- Completed Scope module for areas reviewed
- Indication of compliance or non-compliance with previous DOR, LUA, NWRP/RBP items or agreements relating to safety and soundness
- Completed [Confidential Section](#) including:
  - Number and type of attendees of the joint conference and/or exit meeting (for example, five board members, one supervisory committee member, SE Smith)
  - Summary of subjects discussed (outside of what can be found in the open section) at the joint conference or exit meeting including agreements reached and acceptance of the DOR

- Discrepancies between the SSA-issued report and agreed-upon corrective action items, if applicable
- Follow-up with the SSA addressing any concerns with the SSA report, including discrepancy of corrective action items or lack of emphasis regarding NCUA concerns
- Explanation of any CAMEL rating differences or other differences during joint insurance reviews and joint examinations of federally insured state-chartered credit unions
- Reasons management failed to take corrective action for any previous and outstanding DOR items or agreements relating to safety and soundness and/or plans for escalation of administrative action
- Any approvals or concurrences from their supervisor or ARDP concerning conditions or actions taken during the examination (i.e., reject audit, no LUA with repeat DOR, issuing a PWL, LUA, EIC rotation exceptions, adjustments in CAMEL ratings, MBL waiver violations not presenting a heightened level of risk, etc.). The examiner will include the reasons for the recommendation, the anticipated date the problems will be resolved, the recommended course of action if the problems are not resolved, and the examiner's plans for supervision
- Any other pertinent information about management in order to maintain a full administrative record (for example, management's and officials' ability to resolve issues, knowledge level of credit union operations, not providing an AIRES download)
- Any deviations from budgeted hours, documenting supervisor concurrence
- Any expansion beyond the SCUEP defined-scope procedures, including how and why the scope was expanded, documenting supervisor approval in the *Miscellaneous Exam Considerations* section (if applicable)
- Reason why report not completed or uploaded within required timeframes (if applicable)
- Reasons a joint FISCU exam was not possible, including efforts made to coordinate the joint examination with the SSA, when applicable

- When a joint exam is conducted, the EIC will note the extent of SSA participation in the Confidential Section.

#### **4. Joint Conferences**

If the SSA plans to hold a joint conference, the NCUA examiner will attend and participate in the meeting. If the SSA does not plan to hold a joint conference, the NCUA examiner must hold a joint conference for all CAMEL 3, 4, and 5 credit unions. In the event a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at a subsequent meeting. NCUA examiners will notify their supervisor of the date and time of the joint conference at least three business days in advance of holding the joint conference. The NCUA supervisor will notify the SSA staff of the date of the joint conference and invite them to participate.

---

*[NSPM content](#) last updated January 27, 2016*

#### **5. Supervision Contacts**

NCUA supervises FISCUs, based on the risk to the share insurance fund, through onsite contacts and offsite monitoring of statistical financial reports, etc. FISCUs presenting an increased insurability risk will receive onsite supervision contacts. The EIC and supervisor, in consultation with the ARDP, will determine the frequency and timing of onsite supervision contacts. Onsite contacts may be appropriate for focused reviews of identified risks, reduced or limited participation in a contact of a FISCU with less than \$250 million in assets, or for ongoing supervision of problem credit unions.

NCUA will make every effort to coordinate joint NCUA/SSA contacts but reserves the right to perform independent onsite contacts. For instance, if NCUA suspects fraud at a credit union, then an immediate onsite contact will be necessary.

NCUA may perform independent onsite contacts when necessary due to scheduling issues. NCUA will offer to provide the SSA a draft copy of solo NCUA contact reports prior to issuance to the FISCU. The SSA may also perform solo onsite supervision contacts. If the SSA issues a report, the NCUA examiner has the option of reviewing the SSA supervision reports and charging offsite supervision time to WCC 28.

NCUA considers the timing of the next SSA examination when scheduling onsite supervision. However, if a timely joint contact is not possible, NCUA may need to make an onsite contact independent of the SSA. The NCUA supervisor is responsible for contacting the SSA if onsite supervision is necessary prior to the next scheduled examination. If the NCUA supervisor and SSA cannot reach an agreement regarding necessary action, the supervisor will contact the ARDP who will further discuss the concerns with the SSA and make necessary arrangements either for a joint contact or an independent NCUA contact.

---

*[NSPM content](#) last updated July 29, 2015*

## **A. Follow-Up Examinations for a Troubled/Problem Federally Insured, State-Chartered Credit Union (WCC 23)**

Follow-up examinations are more comprehensive than other onsite supervision contacts and require an analysis of data to support the CAMEL ratings and administrative action recommendations.

### **1. Follow-Up Examination Timeframes**

At a minimum, examiners will perform a follow-up examination, which must include a joint conference with the board of directors, when the credit union is a:

<b>Credit Union Description</b>	<b>Follow-Up Exam Requirements</b>
CAMEL 3 > \$250 million	NCUA examiners will perform a follow-up examination in conjunction with the SSA at least every 180 days (from completion date to completion date)
CAMEL 4 or 5 > \$250 million	NCUA examiners will perform a follow-up examination in conjunction with the SSA at least every 120 days (from completion date to completion date)

In FISCUs that have less than \$250 million in assets, the Regional Director has authority to determine the risk priority needs of a follow-up examination and establish an alternate schedule based on regional risk priorities and impact to the share insurance fund.

## **2. Timeframe Exceptions for Follow-Up Examinations**

Examiners will consult their supervisor and request an extension via email if they cannot complete a follow-up examination within the required timeframe. The guidelines for requesting an extension are:

<b>Credit Union Description</b>	<b>Maximum Extension</b>	<b>Guidelines</b>
CAMEL 3 > \$250 million	Completion timeframe may not exceed 240 days based on supervisor approval	Any request for an extension of the 180-day requirement must include information which demonstrates that the credit union will not represent increased risk to the share insurance fund resulting from the extended timeframe. Supervisor must approve all requests for extension and forward approval to the region's DOS mailbox. The ARDP or ARDO, as appropriate, must approve and document in writing any additional extensions and associated considerations.
CAMEL 4 or 5 > \$250 million		Any request for an extension of the 120-day requirement must include information which demonstrates that the credit union will not represent increased risk to the share insurance fund resulting from the extended timeframe. The ARDP or the ARDO, as appropriate, must approve and document in writing extensions for follow-up examinations.

Any approvals to exceed the timeframes listed above require the supervisor or ARDP, as applicable, to forward their approval via email to DOS with supporting documentation. All time frame extension approvals will include a projected completion date.

The basis for tracking the above timeframes will be the NCUA examination completion date for NCUA onsite participation (joint).

Each region will establish monitoring procedures for FISCU follow-up examinations and timeframe extensions similar to what is required for supervision of

FCUs. The ARDP will review the applicable report(s) and share them with their supervisors to evaluate appropriateness and timeliness of completion contacts to ensure a quality and timely supervision program.

### ***3. Follow-Up Examination Documentation***

Examiners will support in the scope, or by other means that can be part of the administrative record, all of the critical problem areas identified during the regular examination. Before uploading an AIRES contact, examiners will indicate on the AIRES Exam Management Console (EMC) whether the supervision contact was a follow-up examination (yes/no button on the Completion Information tab in AIRES). Examiners need to upload a completed Scope module and sufficient AIRES work papers to support the scope of the review and conclusions.

The administrative record for FISCUs also needs to be comparable to FCUs, including maintenance of a Supervision Chronology Report [as detailed in the NSPM.](#)

All follow-up examinations will include a report to the FISCU. The final report may either be a joint report with the SSA or a stand-alone NCUA report. NCUA examiners must upload their own WCC 23 report to document the work performed by NCUA. The WCC 23 upload also serves to identify any discrepancies between information provided to the SSA for inclusion in the joint report. For WCC 23 follow-up examinations, examiners need to upload:

- AIRES historical download, Exam.xls, and all critical input areas
- Sections in the Scope module that were the subject of the follow-up examination, including pertinent risk ratings. Examiners will document their explanations of any change of final risk ratings in the Scope module. For any areas not reviewed in the module, "n/a" or "DNR" (did not review) will suffice
- Sufficient AIRES work papers to support the scope of review and the conclusions drawn
- Documentation regarding compliance with any outstanding administrative actions (LUA, PWL, etc.,) in the Status Update
- Documentation regarding compliance with new worth restoration plan (NWRP) / revised business plan (RBP) in the Status Update

- Documentation of compliance or non-compliance with previous DOR items and updated DOR module
- Written narrative report provided to the credit union (or to the SSA to include in their report if applicable) (for example, Examination Overview, Examiner's Findings, etc.)
- Completed EMC including all questions and the date of the exit meeting and/or joint conference (a joint conference is required for all CAMEL 3, 4, and 5s, unless the supervisor approves an exception. In the event a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at the next board meeting)
- Updated [Supervision Chronology Report](#) saved in the examination directory for a CAMEL 3 with assets \$250 million and greater, and CAMEL 4 or 5
- Consumer Compliance Violations module in AIRES, if applicable
- Completed [Confidential Section](#) including:
  - Number and type of attendees of the joint conference and/or exit meeting (for example, five board members, one supervisory committee member, SE Smith)
  - Summary of subjects discussed (outside of what can be found in the open section) at the joint conference or exit meeting including agreements reached and acceptance of the DOR
  - Discrepancies between the SSA-issued report and agreed-upon corrective action items, if applicable
  - Follow-up with the SSA addressing any concerns with the SSA report, including discrepancy of corrective action items or lack of emphasis regarding NCUA concerns
  - Explanation of any CAMEL rating differences or other differences during joint insurance reviews and joint examinations of federally insured state-chartered credit unions
  - Reasons management failed to take corrective action for any previous and outstanding DOR items or agreements relating to safety and soundness and/or plans for escalation of administrative action

- Any approvals or concurrences from their supervisor or ARDP concerning conditions or actions taken during the examination (i.e., reject audit, no LUA with repeat DOR, issuing a PWL, LUA, EIC rotation exceptions, adjustments in CAMEL ratings, MBL waiver violations not presenting a heightened level of risk, etc.). The examiner will include the reasons for the recommendation, the anticipated date the problems will be resolved, the recommended course of action if the problems are not resolved, and the examiner's plans for supervision
- Any other pertinent information about management in order to maintain a full administrative record (for example, management's and officials' ability to resolve issues, knowledge level of credit union operations, not providing an AIRES download)
- Any deviations from budgeted hours, documenting supervisor concurrence
- Reason why report not completed or uploaded within required time-frames (if applicable)
- Reasons a joint FISCU exam was not possible, including efforts made to coordinate the joint examination with the SSA, when applicable
  - When a joint exam is conducted, the EIC will note the extent of SSA participation in the Confidential Section.
- Any other information necessary to support the scope and time spent on the contact

When the SSA issues the report to the credit union, the NCUA EIC will work with the SSA to ensure the report includes required corrective actions, administrative actions, and provide relevant supporting sections of the report to the officials during the joint conference (for example, DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts). The NCUA EIC will follow up to ensure the SSA issues the report timely. In the event the SSA does not issue a report as previously agreed or if the report is not timely, the NCUA EIC will notify their supervisor and plan to issue their own report (as discussed in the paragraph below).

When NCUA issues the report to the credit union, the NCUA EIC will deliver the report as they would an examination report. Examiners must discuss required corrective actions, administrative actions, and provide relevant supporting sections of the report with the officials during the joint conference (for example,

DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts).

---

*[NSPM content](#) last updated December 30, 2016*

## B. Onsite Supervision Contacts (WCC 23)

An onsite supervision contact is more limited in scope than an examination or a follow-up examination. Examiners will typically perform an onsite supervision contact to review targeted risk area(s), to hold a joint conference if it could not be completed as part of the exam, and/or to review the credit union's compliance with a DOR, etc.

### **4. Onsite Contact Timeframes**

Examiners will perform onsite supervision contacts as needed between regular or follow-up examinations based on the nature and severity of the problems or as their supervisor requires. Examiners will need to make each contact a results-oriented contact designed to achieve corrective action. The NCUA EIC or supervisor will coordinate with the SSA as appropriate.

The NCUA EIC, in consultation with their supervisor, will determine whether to accept the SSA's limited scope onsite contacts to resolve recordkeeping problems in place of an NCUA onsite contact. When review of an SSA report (WCC 26 Review) discloses material recordkeeping problems, the examiner will contact their supervisor and the SSA to determine if an onsite contact is necessary. See the [Significant Recordkeeping Concerns](#) section of the NSPM for additional guidance on performing supervision contacts for credit unions that have significant recordkeeping concerns.

### **5. Onsite Contact Documentation**

Examiners document an onsite supervision contact by uploading an AIRES file, charging time to WCC 23. Examiners need to upload a completed Scope module and sufficient AIRES work papers to support the scope of review and conclusions. At a minimum, the AIRES upload must include:

- AIRES historical download, Exam.xls, and all critical input areas
- Sections in the Scope module that were the subject of the contact, including pertinent final risk ratings. Examiners will document their explanations of any change of final risk ratings in the Scope module. For any areas not reviewed in the module, "n/a" or "DNR" (did not review) will suffice.

- Written narrative report provided to the credit union if applicable (for example, Examination Overview, Examiner's Findings, etc.). Use the Confidential Section to document additional information when a report is not provided to the credit union and in place of a supervision contact memo.
- Completed EMC
- Updated [Supervision Chronology Report](#) saved in the examination directory for a CAMEL 3 with assets \$250 million and greater, and CAMEL 4 or 5
- Any other information necessary to support the scope and time spent on the contact (for example, updated and completed DOR module if focus of contact was to review compliance with DOR items, completed Consumer Compliance Violations module if focus was to review compliance violations)

Examiners will discuss their findings and recommendations during an exit meeting and issue a written report to the officials if the contact results in required action or changes to CAMEL or risk ratings.

---

*[NSPM content](#) last updated January 23, 2017*

## C. Offsite Supervision Contacts (WCC 28)

Offsite supervision of FISCUs may be necessary in a variety of situations. Examiners conduct offsite supervision somewhere other than at the credit union. Offsite supervision of FISCUs may entail review of SSA supervision contacts completed between examinations (we asked the SSAs to supply the regional office copies of reports for any follow-up or supervision contacts. The regional office will send the district examiner a copy of all reports and correspondence received). Offsite supervision may also be necessary to perform a more detailed review of financial statements or progress in resolving outstanding issues from a prior examination that do not warrant onsite supervision. Additional examples of FISCU offsite supervision include reviews/monitoring of CAMEL 4/5 FISCUs, FISCUs with outstanding LUAs or NWRPs, and large CAMEL 3 FISCUs with strategic and/or financial concerns. The timing and scope of offsite supervision is at the discretion of examiners and their supervisor.

Examiners will not change a credit union's composite CAMEL rating during a WCC 28 unless the WCC 28 is a review of an SSA onsite contact. When a WCC 28 is used to review an SSA onsite contact, examiners should follow the guidelines outlined under WCC 26 Reviews regarding disagreements in CAMEL

and notification of troubled condition as outlined in various sections of this section of the NSPM.

## ***6. Documentation Requirements for Offsite Contacts Eight Hours or More***

A [minimal AIRES upload](#) or a “minimal contact” is required for all WCC 28 offsite contacts of eight hours or more. Examiners document an offsite supervision contact of eight hours or more by uploading a “Minimal Contact” report in AIRES and charging time to WCC 28. At a minimum, the AIRES upload must include a completed EMC that documents the contact scope, progress, conclusions, recommendations, etc. in either the “Examiner Comments” section on the Completion Information tab of the EMC or in the Executive Summary, Status Update or Supplementary Facts.

An AIRES upload with a completed Scope module for offsite supervision is only required for a material change in risk ratings. Otherwise, the Scope module is optional.

Minimal uploads don't include Word and Excel files. To include these types of files in an upload, you must bypass the "minimal upload."

## ***7. Documentation Requirements for Offsite Contacts Less Than Eight Hours***

Examiners will aggregate time spent performing offsite supervision in increments less than eight hours for the same credit union and upload to AIRES on a quarterly basis. If the aggregate time charged in a quarter is less than eight hours, an AIRES upload is not required.

This does not apply to contacts for credit unions with BSA violations that must be resolved by a specific date. Examiners will complete an AIRES upload for BSA-related resolution contacts. For more information about BSA enforcement, see the [BSA Enforcement](#) section of the NSPM.

---

[NSPM content](#) last updated July 29, 2015

## **D. Monthly Financial Monitoring (WCC 28)**

Examiners must trend monthly financial data for the following:

- Any CAMEL 4 or 5 credit union with more than \$250M in assets
- Any CAMEL 3 credit union with more than \$1B in assets
- All cases assigned to the Division of Special Actions
- All troubled institutions in which financial condition is a concern and the credit union represents significant risk to the share insurance fund (as in the case of a large, troubled institution)

Examiners must trend the data using SATEX or an equivalent tool. Examiners will charge this type of offsite supervision to [WCC 28](#) and will upload a Minimal Contact.

Examiners will make every effort to receive monthly financials directly from the credit union. For example, a section of the DOR could request financial and/or board packets be sent on a monthly basis to the respective SSA and NCUA examiner. If the examiner does not receive monthly financials directly from the credit union, their supervisor will on a case-by-case basis:

- Work with the SSA office to determine the method for the NCUA examiner to obtain the monthly financial information needed and means for follow-up on requested reports
- Notify the SSA and/or FISCU when there is a change in district assignment or the monthly financial data is no longer needed
- Determine the format of the examiner's analysis and reporting requirements

---

[NSPM content](#) last updated January 27, 2016

## E. Reviews of SSA Examinations (WCC 26)

SSAs upload AIRES examinations in a similar fashion as NCUA examiners. When NCUA receives an SSA examination report (typically through AIRES) and a corresponding Scope module (except from the non-participating states), examiners typically have three hours to review the SSA report. Examiners typically refer to this type of offsite supervision contact as a "Code 26 Review" because they charge time spent to WCC 26. In essence, a Code 26 Review is the time an examiner spends to identify financial and operational risks in FISCUs. There is a more detailed description of the WCC 26 review process later in this section.

Reviews of independent SSA examinations resulting in an NCUA CAMEL composite rating of 4 or worse, and the SSA CAMEL composite rating is better than NCUA's CAMEL composite rating, require an onsite supervision contact to more fully evaluate material risks. Examiners must consider the implications of the CAMEL composite rating on a FISCU's "troubled condition" designation. Per [§701.14](#), either the NCUA or the SSA can declare a FISCU in "troubled condition;" however, NCUA will not designate a FISCU to be in "troubled condition" without first making an onsite contact at the FISCU.

For CAMEL composite 4 or 5 ratings, an onsite supervision contact must be completed within 60 calendar days of completing the WCC 26 review to validate the CAMEL rating and trigger the "troubled condition" designation. Examiners must start this onsite contact within ten business days of the WCC 26 review upload for the same FISCUs where there is an official or senior executive officer vacancy. The executive director must approve exceptions to this policy.

A code 26 review is not the measure for a "troubled condition" designation, the subsequent onsite contact is. See the NSPM for [more information on notices of troubled condition for FISCUs](#).

---

[NSPM content](#) last updated September 12, 2016

## F. Processing Call Reports and Trending for a Federally Insured, State-Chartered Credit Union (WCC 21)

Examiners will perform offsite supervision while reviewing the Call Reports, risk reports, FPRs, and other offsite monitoring tools for their district. Examiners will use WCC 21 for FISCU reviews. Refer to the NSPM for [more information on trending](#).

---

[NSPM content](#) last updated July 29, 2015

## 6. Completing a Review of a State Examination (WCC 26)

Examiners will review all state examinations, regardless of whether they participated with the SSA or not. The effective date of the review must match the effective date of the AIRES WCC 11 examination.

WCC 26 reviews are not required for supervision contacts performed by the SSA.

## A. Receipt of SSA Examination

The first step in completing a review of a state examination is the receipt of the SSA examination. For states using AIRES, examiners receive a confirmation email from SysAIRES notifying them of the examination report upload and they can use the link in the email to download the file. Otherwise, the SSA sends a hard copy of the report to the regional office who will then forward it on to the examiner.

## B. Timeframes

Examiners will upload WCC 26 reviews for FISCUs in their district within 30 calendar days of receipt. Supervisors may approve workload-based extensions up to 45 days. The 30 days will start the day examiners receive a confirmation email from AIRES notifying them of the examination report upload (or if the report is submitted hard copy, the day the regional office provides examiners with the report).

## C. Review of the SSA Report

When completing a WCC 26 review, examiners will:

- Determine whether the report identifies and addresses the material issues
- Identify and document the SSA's supervision efforts and NCUA's supervision efforts
- Determine the appropriateness of the SSA's supervision
- Determine any CAMEL differences and communicate, through their supervisor, any adverse differences in the composite rating to the SSA (for example, CAMEL 3, 4 or 5)

If an NCUA examiner assigns a composite CAMEL rating of 4 or 5 during the WCC 26 review and the NCUA CAMEL rating is worse than the rating the SSA assigned and NCUA did not participate in the examination, the NCUA examiner will schedule an onsite contact to more fully evaluate material risks. The NSPM [outlines the required timeframes for completing the onsite contact](#).

- If it was a joint examination, document whether the material issues and agreed-upon concerns are in the final report (for example, Examination Overview, DOR)
- Determine if risk has been properly identified and addressed by the SSA
- Document any material risk the examination report does not adequately cover
- Recommend whether a joint examination or contact is necessary. If the concerns are significant, examiners may recommend a joint contact rather than wait until the next joint examination
- Document recommended actions or communication to resolve any material risk oversights or inadequate corrective action identified in the SSA report. For example, examiners may draft a Regional Director letter to the SSA if the report failed to identify or properly address material concerns. Examiners will first discuss the concerns with their supervisor, who in turn will discuss with their SSA counterpart. If the issue cannot be resolved at that level, a Regional Director letter may be necessary.

The review should not be a recap of the SSA's report but rather an analysis of the operational and financial condition of the credit union. Examiners will provide enough information to give a clear picture of this condition.

## D. AIRES Procedures

Examiners perform all WCC 26 reviews in AIRES. Examiners will use the EMC and Scope module to document the review. To complete a WCC 26 review, examiners will:

- Review the state's report
- Enter "26" in the contact type in AIRES
- Complete the "Review of State Examination" questionnaire
  - This requires examiners to answer the eight questions relating to the WCC 26 review. Examiners access the questionnaire labeled "Review of State Examination." via the hyperlink in the upper right hand corner of the "Final Assessment" tab. Examiners must provide comments for any question answered with "no" for questions two through six.

- Complete the “Final Assessment” tab in the Scope module, providing the following input for the seven areas of risk:
  - Final Risk Assessment
  - Reasons for Risk Assessment
  - Anticipated Direction of Risk
  - Reasons for Anticipated Direction
- Complete the “Plans and Budget” tab in the Scope module
  - Complete this tab to show budget projections for the next examination cycle. Standard budgeted hours anticipated for Call Report review and WCC 26 reviews do not need to be included.
- Record their time and complete the “Completion Information” tab
- Input problem codes in the DOR module needing to be tracked and not included by the SSA
  - For items in the SSA report that meet [NCUA’s definition of a DOR](#), NCUA examiners are required to input the DOR, problem code and corrective action into the DOR module if the SSA did not do so in their AIRES upload (or if the SSA does not use AIRES). SSA DORs not meeting the NCUA definition may be input at the examiner’s discretion.
- Create new problem code(s) in the DOR module under “Items Excluded from DOR” if there are problem codes and corrective action items identified during NCUA examiner’s WCC 26 review but not identified in the SSA report.
- Input both the NCUA and SSA CAMEL ratings on the CAMEL worksheet in Exam.xls and input any comments concerning the CAMEL rating and differences on this tab
- Complete the Consumer Compliance Violations module in AIRES, as applicable, for any violations (i.e., significant BSA violations) not addressed or reported correctly in the SSA report
- Discuss any plan of action with their supervisor, as applicable
- Perform any necessary follow-up action (for example, verbal communication with the SSA, Regional Director letter), as applicable
- Upload the completed AIRES file

If an NCUA examiner assigns a composite CAMEL rating of 4 or 5 during a WCC 26 review where the NCUA examiner did not participate onsite and the SSA CAMEL rating is better, he or she [must schedule an onsite contact to more fully evaluate material risks](#) before the FISCU can be considered in troubled condition. Refer to the NSPM for [more information about FISCUs in troubled condition](#).

[NSPM content](#) last updated July 29, 2015

## 7. Requesting Additional Information from an SSA

Examiners notify their supervisor when the SSA report is lacking adequate information to determine the risk. Depending on the relationship with the SSA, the supervisor may contact the SSA or may reach an agreement with the SSA for the examiner to contact the SSA office or the SSA EIC directly to gather additional information. If the examiner does not receive the requested information, the examiner will draft an appropriate Regional Director letter and cover memo. The supervisor will also contact the SSA when the reviews or any other information reveals a need for an immediate contact at a specific FISCU.

[NSPM content](#) last updated July 29, 2015

## 8. Joint Conferences for Federally Insured, State-Chartered Credit Unions

Joint examinations of FISCUs with a CAMEL rating of a 3, 4, or 5 will include a joint conference with a majority of the board of directors. NCUA staff will attend these meetings, appropriately addressing all NCUA concerns. Examiners will disclose the NCUA CAMEL ratings (components and composite) to the board both verbally and in writing, as described in NCUA Letter to Credit Unions 11-CU-12, [Disclosing CAMEL Ratings to Federally Insured State Credit Unions \(FISCUs\)](#). Examiners may reformat the CAMEL Evaluation Form available in AIRES, provided that all the information is documented in the alternate format.

The SSA examiner and NCUA EIC will hold an exit meeting in CAMEL 1 or 2 FISCUs if a joint conference is not necessary or requested. In this situation, examiners will disclose the NCUA CAMEL ratings during the exit meeting. Exit meetings should occur as soon as possible after the completion of fieldwork subject to reasonable accommodation for SSA advance review of draft documents.

The timeframe for scheduling joint conferences and exit meetings should comply with the 60-day guideline for examination completion.

*[NSPM content](#) last updated January 22, 2018*

## **9. Issuing a Report to a Federally Insured, State-Chartered Credit Union**

Generally, during joint contacts, the SSA issues the final report and uploads the AIRES examination (some state exceptions do exist). The NCUA examiner will also upload an AIRES file. In instances where NCUA takes the lead, as a courtesy, the SSA should have an opportunity to review the finalized examination report prior to issuance to the credit union. However, issuance of the report is at NCUA's discretion. NCUA staff will invite the SSA to the joint conference.

NCUA examiners will provide the SSA EIC with the working papers of their review areas upon completion of the fieldwork. The NCUA EIC will draft sections or work with the SSA to draft sections of the Examination Overview, DOR, or comparable document pertaining to NCUA's areas of concern including documentation to support the report's findings and conclusions. The NCUA EIC will also work with the SSA EIC to include NCUA comments in the AIRES Scope module for NCUA review areas.

It is important that examiners clearly document the day, time, and version of documents provided to the SSA for inclusion in the final report. This can be accomplished through an email chain.

To ensure the best possible results in resolving any anticipated dispute with the SSA examiner, the NCUA EIC will identify and discuss with the SSA examiner, as early as possible in the examination process, any corrective actions to be required of the FISCU, including respective CAMEL component and composite ratings.

Any disagreements concerning the content of documents will be resolved prior to meeting with FISCU management. If agreement is not possible at the examiner level, NCUA examiners will contact their supervisor who will discuss the matter with the SSA office and ARDP. If agreement is still not possible, examiners will draft a section for the SSA to include in the issued report titled "NCUA Concerns," which outlines these issues and required resolution. Examiners will work to obtain agreement from the SSA to include this section in the final report to management. Should the SSA not include this section, examiners will

discuss these concerns with their supervisor, provide documentation in the WCC 26 review regarding the issues, and draft a Regional Director letter to the FISCU stating NCUA's concerns and necessary corrective action.

---

*[NSPM content](#) last updated September 12, 2016*

## 10. AIRES Uploads for a Federally Insured, State-Chartered Credit Union

Examiners will upload AIRES contacts for FISCU onsite contacts as they would for FCUs. Examiners will [enter the examination completion date on the "Completion Information" tab of the EMC in AIRES](#). The examination/supervision completion date is the day the examiner last charged time to the examination and is required to be within five business days of the latest of the following dates:

- Date of last onsite
- Date of exit meeting
- Date of joint conference

If the examination completion date exceeds five business days due to items such as conferences, training, annual or sick leave, the examiner will document the circumstance(s) in the Confidential Section noting supervisor concurrence.

---

*[NSPM content](#) last updated July 29, 2015*

## 11. Credit Union Enforcement Action

NCUA defines a problem credit union as one that either NCUA or the SSA rates a CAMEL 4 or 5. Either informal (Regional Director letter, DOR, LUA) or formal (C&D, removal, prohibition, etc.) enforcement action is necessary in all problem credit unions. In CAMEL 3, 4, or 5 credit unions, the supervisor will coordinate and consult with the ARDP and Regional Director for concurrence before proceeding with a formal enforcement action recommendation consistent with other parts of this manual and NCUA Instruction 4820, [Enforcement Manual](#). NCUA and the SSA will coordinate enforcement actions such as a Letter of Understanding and Agreement (LUA), cease and desist order (C&D), conservatorship, or liquidation.

Prompt Corrective Action (PCA) – NCUA will communicate with the SSA on an ongoing basis regarding all actions involving FISCUs taken under Part 702 of the NCUA rules and regulations.

---

*[NSPM content](#) last updated July 29, 2015*

## 12. Federally Insured, State-Chartered Credit Union Consumer Compliance Program

NCUA Instruction 12400.05, [Processing Complaints Against Credit Unions and Documenting Compliance Violations](#) (Apr. 23, 2004) addresses compliance evaluation in FISCUs. If the SSA is responsible for determining consumer compliance in the FISCU, the SSA's procedural responsibilities include:

- Completing the consumer compliance checklists during the examination
- If compliance violations are identified in the FISCU
  - Entering violation(s) in the Consumer Compliance Violations module in AIRES (optional)
  - Entering problem code(s) in the DOR module
  - Describing the problem/deficiency and the actions the credit union plans to initiate in order to resolve the situation (preferably using the Supplementary Facts document)
- Continuing to upload the violation(s) in AIRES (or email the examination, including the compliance forms/documents, to the regional office)

If a compliance violation exists, and the SSA did not complete the Consumer Compliance Violations module in AIRES, the NCUA examiner completes it during the WCC 26 review.

If the credit union is unable or unwilling to take corrective action, the NCUA examiner:

- Reviews the situation
- Consults with their supervisor to determine what further action, if any, is needed on NCUA's part
- Seeks assistance from OGC if violations are serious (examiner should work through the regional office to seek assistance)
- Notifies their supervisor and the SSA of the determination

---

*[NSPM content](#) last updated July 29, 2015*

## 13. NCUA Responsibilities Regarding Compliance Regulations in Federally Insured, State-Chartered Credit Unions

NCUA has the enforcement authority in state-charted credit unions for the following consumer regulations:

- Home Mortgage Disclosure Act (Reg C)
- Expedited Funds Availability Act (Reg CC)
- Flood Disaster Protection Act
- Truth in Savings Act
- Bank Secrecy Act (SSA has authority to review)<sup>1</sup>
- Depository Institution Management Interlocks Act
- Gramm-Leach-Bliley Act (Privacy of Consumer Financial Information)
- Homeowners Protection Act (PMI disclosures)

[Part 711](#) of [NCUA rules and regulations](#) discusses the provisions of the Depository Institution Management Interlocks Act (aka "Interlocks Act" or "Management Official Interlocks").

*NSPM content last updated July 29, 2015*

---

<sup>1</sup>While many SSAs have signed their own MOU with FinCEN, adherence to [Part 748](#) is a requirement for federal insurance.

# Chapter 16. Prompt Corrective Action

Prompt corrective action (PCA) is designed to restore and improve the net worth of federally-insured credit unions (FICUs). When a credit union is subject to PCA, the district examiner will monitor compliance to all applicable provisions of PCA contained in [Part 702 of NCUA rules and regulations](#). This section of the NSPM establishes national policy and guidelines NCUA staff will follow when completing PCA related work assignments and examination/supervision of PCA related issues.

Additional references include chapter 17 of the [Examiner's Guide](#), Prompt Corrective Action, and Letter to Credit Unions 01-CU-01, [Prompt Corrective Action \(PCA\) Implementation Information](#).

---

[NSPM content](#) last updated July 29, 2015

## 1. Prompt Corrective Action Classification

### A. Field Staff Responsibilities

- Determine the effective date and PCA classification as defined under [§702.101\(b\)](#) and [§702.102](#)
- Ensure credit unions under your supervision comply with all requirements of [Part 702](#)

The regional office, at its option, may provide documentation to an examiner to determine the effective date of classification and/or if a credit union is newly chartered, but it is incumbent on the examiner to be familiar with their district information.

---

[NSPM content](#) last updated July 29, 2015

### B. Net Worth Category Classification

Examiners need to consider if a credit union meets any applicable risk based requirements for PCA classification.

Net Worth Category PCA Classification	New Credit Union	Credit Union NOT Classified as New under PCA
Well capitalized	7% or higher	7% or higher

Net Worth Category PCA Classification	New Credit Union	Credit Union NOT Classified as New under PCA
Adequately capitalized	6% to 6.99%	6% to 6.99%
Undercapitalized	3.5% to 5.99%	4% to 5.99%
Significantly under- capitalized	2% to 3.49%	2% to 3.99%
Critically under- capitalized	0% to 1.99%	<2%

Additionally, when [NEV Supervisory Test](#) results are extreme and a credit union is unable or unwilling to de-risk to a less than an extreme risk level, regions must follow a process that involves providing a recommendation to the NCUA Board to reclassify a “well capitalized” credit union as “adequately capitalized,” and require an “adequately capitalized” or “undercapitalized” credit union to comply with certain mandatory or discretionary supervisory actions as if it were in the next lower net worth category, based upon safety and soundness ([§702.102\(b\)](#)).

For PCA purposes, a “new” credit union is one which has been in operation for less than 10 years and has total assets of not more than \$10 million.

[NSPM content](#) last updated September 15, 2017

## C. Effective Date of Classification

The effective date of the net worth classification ([§702.101\(b\)](#)) is the most recent of:

- The last day of the calendar month following the end of the calendar quarter. This is determined by the 5300 Call Report filing and the most typical effective date.
- The date the credit union received subsequent written notice from NCUA or, if state-chartered, the appropriate SSA, of:
  - a decline in net worth category due to a correction of an error or mis-statement in the credit union’s most recent Call Report

- a reclassification to a lower net worth category on safety and soundness grounds

If you are recommending lowering the credit union's net worth category to less than well capitalized based on an examination or supervision contact, you must complete the following actions:

- Obtain your supervisor's concurrence, note the agreement in the Confidential Section of the AIRES report, and document the corrected net worth category in the Examination Overview.
- If the examination or the supervision contact reduces net worth to a lower category, and you are not issuing a report to the credit union, prepare a draft letter to formally notify credit union officials of the corrected net worth category and the required PCA action(s). This should be rare. Your findings to lower a credit union's net worth category would be significant in most circumstances, making an AIRES report to the officials warranted for the administrative record. (See [sample Regional Director letters](#).) Forward the draft letter through your supervisor to the regional DOS mailbox for processing.

---

*[NSPM content](#) last updated July 29, 2015*

## D. Reclassification Based on Correction

The effective date of an examination or supervision contact-based correction to a net worth category varies depending on whether the credit union is federally chartered or state-chartered:

Credit Union Description	Effective Date
Federal credit union (FCU)	If the contact involves an AIRES report upload (such as an examination or follow-up examination), the effective date is the date the officials receive the final report. If the contact does not involve an AIRES report upload, the effective date will be the date the credit union receives the notification letter.
Federally insured, state-chartered credit union	NCUA examiners should consult and work cooperatively with the appropriate state supervisory authority (SSA) official before correcting a net worth category of a FISCU. NCUA examiners will promptly notify the appropriate SSA of its decision to correct a net worth category. The effective date will

Credit Union Description	Effective Date
(FISCU)	<p>depend on whether it was an independent or joint examination:</p> <ul style="list-style-type: none"> <li>• Effective date of classification for an independent examination completed by the SSA: when the SSA releases its official examination report</li> <li>• Effective date of classification for a joint examination, where the NCUA EIC is aware the SSA will be providing a timely examination report to the FISCU: when the SSA releases its official examination report</li> <li>• For joint examinations in which the SSA may not release its examination report for several months, or in the event of an independent insurance review completed by NCUA, follow the same procedure used for FCUs (i.e., through a notification letter) but give the SSA an opportunity to review the draft notification letter before it is issued and copy the SSA on the final letter.</li> </ul>

[NSPM content](#) last updated July 29, 2015

## 2. Earnings and Reserve Transfer Requirements for “Adequately Capitalized” or Lower Federally Insured Credit Unions

[Subpart B of Part 702](#) contains regulatory guidance regarding the earnings retention requirements for adequately capitalized or lower credit unions. Earnings retention waiver filing procedures are discussed in [Regulatory Waivers and other Regulatory Actions](#) section of the NSPM.

[NSPM content](#) last updated July 29, 2015

### A. Field Staff Responsibilities

- Review the accuracy and adequacy of the quarterly net worth increases and reserve transfers since the last supervision contact during examinations and follow-up examinations

- Determine if it is probable that an FICU will need to request an earnings retention waiver for the current or foreseeable quarters during the course of any examination, follow-up examination, or other supervision activity
  - If a credit union is likely to need to request an earnings retention waiver, you must address this issue in the examination report. Your supervision plans must incorporate adequate follow-up to ensure earnings retention waiver requests are filed timely.
- Document the violation in the exam report if you determine that a FICU failed to meet the earnings retention requirements for one or more of the previous quarters during the course of an examination, follow-up examination, or other supervision activity
  - NCUA can take supervisory or other enforcement action against credit unions that either decrease their earnings retention without permission or persistently fail to file their waiver requests timely. You should instruct management to establish procedures to reduce dividends to achieve the required earnings retention requirements or obtain an earnings waiver from NCUA before paying dividends.
- Prepare a brief memo outlining your findings and forward it to your supervisor if you identify a federal credit union that failed to meet its earnings retention requirements did not seek a waiver ([§702.201](#)) through supervision activity outside of an examination or follow-up examination
  - Include a draft letter that notifies the officials of the credit union's violation for the Regional Director's signature. The supervisor will e-mail the memo and draft letter to DOS Mail for processing.
- In a joint FISCU exam, consult with your SE and work with the SSA to ensure the exam addresses the credit union's failure to meet its earnings retention requirements without a waiver.
  - If the problem is recognized through other supervision activity, you will follow the procedures outlined in the NSPM and work with the SE to contact the SSA alerting them of the regulatory violation before the notification letter is sent to the FISCU. The SSA will also be copied on the notification letter.

---

[NSPM content](#) last updated July 29, 2015

## B. Regional Office Review

DOS will determine the proper level of controls for monitoring earnings retention waivers. Monitoring may occur through reviewing risk reports or the regions may have procedures in place to identify credit unions not meeting the

regulation or their approved NWRP (if a NWRP was approved with earnings retention less than regulatory guidelines).

*NSPM content last updated July 29, 2015*

### **3. Net Worth Restoration Plans and Revised Business Plans**

District examiners are responsible for monitoring compliance with the proper filing and maintenance of a net worth restoration plan (NWRP) under [§702.206](#) and a revised business plan (RBP) under [§702.306](#). Regional Directors have delegated authority in the management of the NWRP and RBP approval process.

Credit unions with a net worth ratio less than six percent are required to have in place an NCUA-approved NWRP or, in the case of new credit unions, an initial business plan or a RBP. Credit unions classified as complex per [§702.103](#) also need to meet a risk based net worth (RBNW) requirement and if their RBNW requirement exceeds their net worth ratio they are classified as under-capitalized.

A NWRP/RBP questionnaire is available in AIRES. A [sample NWRP/RBP and assumptions workbook](#) is available in the NSPM. NCUA's Office of Small Credit Union Initiatives (OSCUI) is available to assist new credit unions with RBPs, and to assist credit unions that have less than \$10 million in assets with NWRPs.

An eligible credit union can request OSCUI assistance by completing the [Consulting Nomination Form](#) and checking the NWRP box in the Immediate Services Requested section of the form.

*NSPM content last updated July 29, 2015*

#### **A. Processing a Federal Credit Union NWRP/RBP**

##### ***1. Division of Supervision Responsibilities***

Due to the time sensitivity of NWRP/RBP packages, DOS should perform a cursory review of the incoming package for completeness, making sure all the required information as outlined in [§702.206\(c\)](#) or [§702.306\(b\)](#) is included. For substantially incomplete packages, DOS will draft a letter returning the NWRP/RBP and request the missing information.

For substantially complete packages, DOS will prepare:

- A work assignment and send the NWRP/RBP to the examiner and the supervisor with a required response date at least 10 business days before the Regional Director's response deadline
- A letter to the credit union and provide a date by which the Regional Director will respond consistent with [§702.206](#) or [§702.306](#)

## **2. Field Staff Responsibilities**

Upon receipt of a substantially complete package, the examiner will contact the credit union to obtain any missing documentation.

You and your supervisor must analyze the NWRP/RBP and provide a written recommendation in a [Regional Summary](#). You can also reference the optional [PCA Checklist](#) to ensure all components of the plan are present and satisfy regulatory requirements.

You must also submit a draft letter that outlines the [approval](#) or [denial](#) of the NWRP/RBP to DOS Mail through your supervisor. If you recommend denying the plan, the letter must list the specific deficiencies in the plan that warrants denial. The regional office should ensure the delivery method of the letter to the credit union includes a signature. When preparing a Regional Summary where an EDS assisted with the NWRP, examiners will note the EDS assistance in the summary.

---

[NSPM content](#) last updated July 29, 2015

## **B. Processing a Federally Insured, State-Chartered Credit Union NWRP/RBP**

A FISCU will submit its plan to the Regional Director and the SSA. The [processing procedures for federal credit unions](#) apply to FISCUs, in addition to the following steps:

- Supervisors will coordinate all related issues directly with the SSA
- Supervisors will, unless submitted directly to the regional office, obtain documentation of the SSA's approval or denial
- DOS will courtesy copy the appropriate SSA on all signed correspondence between the Regional Director, DOS, and a FISCU including any Regional Director approval or denial letters

---

[NSPM content](#) last updated July 29, 2015

## C. Failure to Submit an NWRP/RBP

DOS will monitor credit unions that fail to submit a NWRP/RBP and contact the supervisor for a status report when the NWRP/RBP is not received by the due date.

When any credit union fails to timely file the NWRP, examiners will draft a Regional Director letter (use the [Notify Credit Union of Need to Submit NWRP/RBP](#) template), through their supervisor. The Regional Director letter will give the credit union 15 calendar days from the receipt of the notice to submit the NWRP in accordance with [§702.206\(a\)\(4\)](#). The supervisor will submit the letter to DOS Mail within three business days of receipt. FISCUs may require SSA consultation.

Sometimes credit unions may be in the process of or choose to seek a merger. The Regional Director can agree to accept a merger plan in lieu of a NWRP/RBP. However, the Regional Director's approval should be subject to the credit union filing an acceptable merger plan or NWRP by a reasonable but specific deadline.

If the merging credit union is critically undercapitalized or undercapitalized the deadline should be set to ensure compliance with [§702.204](#) or [§702.305](#).

*[NSPM content](#) last updated July 29, 2015*

## D. Monitoring NWRPs and RBPs after Approval

Examiners will monitor each credit union operating with a net worth ratio less than 6 percent and provide their supervisor with a [quarterly PCA tracking report](#). Examiners will perform onsite supervision contacts of these credit unions to assess compliance with PCA and overall net worth stability.

Examiners and their supervisor are responsible for monitoring the level of compliance with the NWRP/RBP. Examiners should document their compliance review in the Status Update of each examination or follow-up examination report.

If the review determines the credit union has materially fallen short of the earnings and net worth ratio goals of the plan, examiners will:

- Instruct the credit union to make adjustments to financial and operational strategies to come into compliance with the NWRP/RBP
- Advise, when appropriate, the credit union to develop and submit a revised NWRP/RBP, or
- Pursue additional supervisory remedies, such as administrative action.

If the review determines the existing, approved plan is no longer adequate, examiners will send an e-mail (through their supervisor) to their region's DOS mailbox along with a draft Regional Director letter (use the [Notify CU of Need to Revise or Replace NWRP](#) template) instructing the credit union to submit a revised plan.

Documentation will include a comparison of the credit union's actual performance with its current NWRP/RBP. The [quarterly PCA tracking report](#) outlines a credit union's action plan and quarterly NWRP/RBP targets for net worth ratio, earnings transfer, assets, etc. and can be used to document and track the plan's performance.

Any findings or concerns relating to the NWRP should also be cited in the examination report as appropriate.

---

[NSPM content](#) last updated July 29, 2015

## E. NWRP/RBP that are No Longer Needed

Once a non-new credit union with a NWRP is effectively classified as "adequately capitalized" under PCA and successfully remains so for four consecutive calendar quarters, the credit union is no longer required to operate under a NWRP and the NWRP is no longer in effect.

A new credit union's RBP remains in effect until they are no longer considered new (i.e., the credit union has been in operation more than ten years or has assets greater than \$10 million).

Examiners, with the SE's concurrence, will review the credit union's financial and operational condition, confirm the accuracy of the net worth classification, and draft a memo to the Regional Director confirming the NWRP or RBP is no longer in effect.

- Your memo will include a draft letter advising the credit union that the NWRP is ending. (Use the [Notify Credit Union that NWRP RBP Is No Longer Required](#) template.)

- Your memo will include supervision plans, if necessary, for monitoring PCA compliance (earnings retention) until the credit union becomes "well capitalized."
  - In the case of FISCUs, the supervisor will contact the SSA to discuss the NWRP/RBP ending and ongoing supervision plans. The SSA will receive a courtesy copy of the letter notifying the FISCU the NWRP/RBP is no longer in effect.
- The supervisor will review the recommendation and the draft letter and forward to DOS for processing.
- The regional office will issue the letter to credit unions formally acknowledging the NWRP/RBP is no longer in effect.

---

*[NSPM content](#) last updated July 29, 2015*

## **4. Invoking Discretionary Supervisory Actions and Other Corrective Actions for a Critically Undercapitalized Credit Union**

### **A. Discretionary Supervisory Actions**

NCUA Instruction 3500.01, [\*Discretionary Supervisory Actions \(DSAs\) under Prompt Corrective Action \(PCA\)\*](#) addresses national policy for processing a DSA.

For DSAs, examiners will submit through their supervisor:

- A [Regional Summary](#)
- The credit union's most recent balance sheet and income statement

DOS will review and process the action for Regional Director approval (and NCUA Board approval if necessary).

### **B. Other Corrective Actions for Critically Undercapitalized Credit Unions**

For critically undercapitalized credit unions, NCUA may approve other corrective action (OCA) in lieu of conservatorship or liquidation ([§702.204\(c\)](#)). The Regional Director has delegated authority to approve OCA for credit unions with assets less than \$5 million. The NCUA Board approval as well as concurrence from the Office of Examination and Insurance is required for credit unions greater than \$5 million in assets.

## **1. Processing**

NCUA Instruction 4820, [\*Enforcement Manual\*](#), addresses the required contents of OCA packages. For OCA requiring Regional Director approval only, use the [Regional Summary of OCA RD Approval](#) template.

## **2. Timing of Submission**

Timing of these submissions is critical, especially when NCUA Board approval is required. NCUA has 90 days from the effective date the credit union became critically undercapitalized to approve OCA. The region is responsible for submitting the BAM and obtaining concurrence from E&I and OGC within completion due dates for Board actions.

---

[\*NSPM content\*](#) last updated July 29, 2015

## **3. FISCUs**

Joint actions with the SSA are preferred for FISCUs. However, examiners can recommend actions without SSA concurrence, if necessary. You should note the concurrence or non-concurrence of the SSA in the Regional Summary.

## **5. Applications for Prompt Corrective Action Risk Mitigation Credit**

NCUA publication 8507, [\*Guidelines for Submission of an Application for a PCA Risk Mitigation Credit\*](#), provides detailed information on applications for a PCA Risk Mitigation Credit provided in [§702.108](#).

NCUA publication 8508, [\*Guidelines for Evaluation of an Application for a PCA Risk Mitigation Credit\*](#), provides detailed information for NCUA staff on how to evaluate credit union applications for a PCA Risk Mitigation Credit provided under [§702.108](#) of the [NCUA rules and regulations](#).

Due to the complex analysis necessary for a Risk Mitigation Credit, regions will need to seek the assistance of the appropriate level of expertise within NCUA. This includes E&I with experience in processing prior risk mitigation credits, specific program officers, and senior capital market specialists.

## A. Processing Responsibilities

- DOS will review a request for a Risk Mitigation Credit for complete information. If the information submitted is incomplete or inadequate, DOS will request additional information. The Regional Director has 45 days from the receipt of a complete application to respond to the credit union's request for a Risk Mitigation Credit. DOS will coordinate participation of NCUA staff experts with the region. DOS will forward complete requests to the examiner, through their supervisor, for review, concurrence and a recommendation for approval or denial. Examiners will document sufficient analysis to support the recommended action.
- Examiners will prepare a memo summarizing the application and make a recommendation for approval or denial. The supervisor will review the package and forward it to DOS indicating their concurrence or non-concurrence with the examiner's recommendation. DOS will then review and process the action for Regional Director approval after determining the examiner has provided sufficient support and documentation for the administrative record.

---

[NSPM content](#) last updated July 29, 2015

## 6. Monitoring and Controls

### A. Regional Level Reporting

- Regions will monitor credit union compliance with PCA and maintain records of all PCA actions.
- Each region will submit a PCA status report to E&I each quarter by the 25<sup>th</sup> of the 2<sup>nd</sup> month following quarter end.<sup>1</sup>
- The regional offices are responsible for maintaining the administrative record supporting actions taken.

### B. E&I Level Reporting

E&I will:

---

<sup>1</sup>Until a centralized database/tool is developed, regions will continue to use reporting systems currently in place.

- Review regional activity on a quarterly basis as a means of tracking regional and national trends for consistency and policy formation purposes
- Issue a national summary of the quarterly regional reports analyzing national trends
- Periodically request a sampling of actions taken under this section of the NSPM for quality control purposes as part of an ongoing quality assurance process

---

[\*NSPM content\*](#) last updated July 29, 2015

## 7. Templates

### A. General

- Quarterly PCA Tracking Report
- Regional Summary of DSA Board Approval (E&I format)
- Regional Summary of DSA RD Approval
- Regional Summary of OCA RD Approval

### B. Net Worth Restoration Plans and Revised Business Plans

- Net Worth Category Reclassification Samples
- Sample Pro Forma Financials and Ratios (.xls)
- NWRP/RBP and Assumptions Workbook Sample
- Regional Summary of NWRP/RBP Review
- NWRP/RBP Review Checklist
- Approve NWRP/RBP
- Deny NWRP/RBP
- Notify Credit Union of Need to Revise or Replace NWRP
- Notify Credit Union of Need to Submit NWRP/RBP
- Notify Credit Union that NWRP/RBP Is No Longer Required

---

[\*NSPM content\*](#) last updated July 29, 2015

# Template: Quarterly PCA Tracking Report

## QUARTERLY PCA TRACKING REPORT

<b>Charter/Insurance Number:</b>	
<b>Credit Union Name:</b>	
<b>Plan Version (RD Approval Date):</b>	
<b>Target date to achieve 6% Net Worth Ratio</b>	
<b>Target Release Date</b>	

<b>Plan Tracking Table</b>		Current Qtr	Current Qtr+1	Current Qtr+2	Current Qtr+3
Net Income	Projected \$				
	Actual \$				
	Projected %				
	Actual %				
Assets	Projected \$				
	Actual \$				
Earnings Transfer	Projected \$				
	Actual \$				
Net Worth	Projected %				
	Actual %				
Asset Growth	Projected %				
	Actual %				
Member Business Loans	Projected \$				
	Actual \$				

### Discuss below key items impacting plan compliance or affecting future plan compliance:

If the credit union is not meeting the terms of the plan, what action has been taken? (Require revised NWRP, require response from credit union regarding actions that will allow them to meet future needs terms; none – credit union will meet terms next quarter, other).

<b>Compliance With Mandatory Supervisory Actions:</b>	<b>Yes</b>	<b>No</b>
Earnings Retention?		
Comments:		
Restrict increase in assets?		
Comments:		
Restrict member business loans		
Comments		

<b>Ability to Meet Future Plan</b>	Current Qtr	Current Qtr+1	Current Qtr+2	Current Qtr+3
Plan Projected Net Worth %				
Comments:				

<b>Other Actions Needed</b>	<b>Yes</b>	<b>No</b>
Revised NWRP needed?		
Regional Director Letter requiring additional corrective measures? (attach draft)		
Impose Discretionary Supervisory Actions (DSA)? (identify potential DSA)		
CU eligible for release from NWRP?		
<b>Supervisor concurs?</b>		

# **Template: Regional Summary of DSA Board Approval (E&I format)**

## **Regional Summary for Discretionary Supervisory Actions (DSAs)**

Background information:

- Asset size
- Field of membership
- Date chartered
- CAMEL rating

Current PCA status and history:

- Current Net Worth Ratio (NWR) and Category, recent trend in NWR
- Date first classified as less than “Adequately Capitalized,” NWR and Category at that time
- Date of initial Net Worth Restoration Plan (NWRP) approval (if applicable)
  - NWRP items not addressed
- Any other actions under PCA such as approval and renewals of “Other Corrective Action” in lieu of Conservatorship or Liquidation as provided under §702.204(c)(3)
- If applicable, discuss required merger pursuant to §702.203 (b)(12), if the credit union is “Significantly Undercapitalized” with no prospect of becoming “Adequately Capitalized”
  - Grounds for Title II Conservatorship pursuant to 12 U.S.C. 1786 (h)(1)(F)
  - Grounds for Title II Liquidation pursuant to 12 U.S.C. 1787 (a)(3)(A)(i)

Identify the problems that led to the current net worth position and make reference back to the reasons summarized in the *Intent Notice* why the DSAs will resolve these problems:

- The root problem
- The cause of the problem (comment on managements’ role)
- The impact of the problem
- How long the problem existed

Summary of SSA’s role in DSA(s) (if applicable)

# **Template: Regional Summary of DSA Regional Director Approval**

## **REGIONAL SUMMARY Discretionary Supervisory Action**

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner's Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total net Worth</b>	
<b>Net Worth Ratio</b>	
<b>Net Worth Category</b>	

### **FOM Description**

### **Action Requested**

#### **Reason and Support for Request**

(Include background of events leading to the need of a DSA. Include a discussion of how the DSA will achieve the desired effect and increase net worth.)

#### **Assessment of Management**

(Discuss management's capability and cooperation with the actions.)

#### **Problem Areas and Current Issues**

#### **Prompt Corrective Action**

(Discuss current NWRP/RBP, MSAs, and actions of the credit union.)

#### **Alternatives**

(Discuss alternatives and adverse effects on the credit union and net worth.)

#### **Other Pertinent Information**

#### **SSA Concurrence (if applicable)**

**EXAMINER AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

Examiner Recommendation:

Supervisor Concurrence:

**APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

---

**APPROVE**

**DISAPPROVE**

Regional Director \_\_\_\_\_ Date \_\_\_\_\_

# **Template: Regional Summary of OCA Regional Director Approval**

## **REGIONAL SUMMARY Other Corrective Action In Lieu of Conservatorship or Liquidation**

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total Net Worth</b>	
<b>Net Worth Ratio</b>	
<b>Net Worth Category</b>	

### **FOM Description**

### **Action Requested**

#### **Reason and Support for Request**

(Include background of events leading to the need of an OCA. Include a discussion of how the OCA will achieve the desired effect and increase net worth.)

#### **Assessment of Management**

(Discuss management's capability and cooperation with the actions.)

#### **Problem Areas and Current Issues**

#### **Prompt Corrective Action**

(Discuss current NWRP/RBP, MSAs, and actions of the credit union.)

#### **Alternatives**

(Discuss alternatives – liquidation, conservatorship, other corrective action - and adverse effects on the credit union and net worth.)

#### **Other Pertinent Information**

#### **SSA Concurrence (if applicable)**

**EXAMINER AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

Examiner Recommendation:

Supervisor Concurrence:

**APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

---

**APPROVE**

**DISAPPROVE**

# Samples: Net Worth Category Reclassification

Date

SENT VIA FEDEX – RETURN SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

According to the June 30, 2XXX Call Report that [CU Name] originally submitted to NCUA, your net worth ratio was 6.01 percent, placing the credit union in the “adequately capitalized” net worth category. During the August 2XXX onsite supervision contact, the June 30, 20XX Call Report was corrected based on agreed-upon errors, decreasing your net worth to 1.70 percent, and placing the credit union in the “critically undercapitalized” net worth category.

[Include additional details as necessary]

This letter serves as written notice to [Name of CU], pursuant to 12 CFR 702.101(b)(2), that the date of this letter (above) is the effective date of [Name of CU’s] reclassification to the “critically undercapitalized” net worth category.

[Include description of required actions and timeframes] Within 90 days of the effective date that an insured credit union is classified “critically undercapitalized,” NCUA is required by law to either conserve or liquidate the credit union or to order other corrective action to better achieve the purpose of PCA. 12 U.S.C. 1790d(i)(1); 12 CFR 702.204(c)(1). In [Name of CU’s] case, the 90-day period during which NCUA must act on the statutory mandate closes on December X, 2XXX.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER’S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

As you are aware, Part 702 of the NCUA rules and regulations, Prompt Corrective Action (PCA) requires credit unions with net worth less than 6 percent of assets [or fails to meet its risk-based net worth (RBNW) requirement] to file a net worth restoration plan (NWRP) with NCUA for approval. The NWRP and its supporting documents must meet the minimum standards set forth in Section 702.206(c).

The December 31, 2005, examination [follow-up examination] recently completed by examiner John Smith determined the credit union's correct net worth as of December 31, 2005, was x percent [and your risk-based requirement was y percent]. As of March 4, 2006, the date you received the final examination report, your credit union was reclassified as undercapitalized under PCA (see Section 702.101(b)) and the credit union must now file an NWRP.

As outlined in Section 702.101(b) and 702.206(a), you must submit your NWRP to me by April 18, 2006 [set a response date that is 45 days from the date the credit union received the final examination report; if the contact did not include an examination report, use a reasonable estimate of the date the credit union would receive this notification letter and set the response date 45 days from the receipt of the letter]. I will provide you with my written response within 45 days of the receipt of your plan.

[For credit unions \$10 million or less in need of a NWRP including the following: NCUA's Office of Small Credit Union Initiatives (OSCUI) is available to assist with drafting a NWRP. To request assistance, complete the OSCUI Consulting Nomination Form found at <http://www.ncua.gov/Resources/OSCUI/Documents/ConsultNomination.pdf> and check the Net Worth Restoration Plan box in the Immediate Services Requested section of the form.]

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

**CREDIT UNION:  
CHARTER:**

	Historical Data						Quarterly Projections										Future Years			
	12/31/02	12/31/03	03/31/04	06/30/04	09/30/04	12/31/04	YTD 2004	03/31/05	06/30/05	09/30/05	12/31/05	YTD 2005	03/31/06	06/30/06	09/30/06	12/31/06	YTD 2006	12/31/07	12/31/08	12/31/09
<b>Capital Ratios</b>																				
Net Worth Ratio	5.60%	6.87%	6.12%	4.50%	4.63%	4.62%	4.62%	4.63%	4.67%	4.77%	4.88%	4.88%	4.93%	5.00%	5.13%	5.26%	5.26%	5.98%	6.60%	7.23%
<b>Asset Quality Ratios</b>																				
Delinquent Loans to Loans	2.50%	7.73%	6.19%	6.17%	5.60%	5.50%	5.50%	5.05%	4.95%	4.86%	4.77%	4.77%	4.68%	4.59%	4.50%	4.42%	4.42%	4.09%	4.04%	3.74%
Charge-Offs to Loans	0.20%	0.66%	-0.04%	0.00%	0.00%	0.00%	-0.01%	0.48%	0.48%	0.47%	0.11%	0.48%	0.51%	0.50%	0.49%	0.12%	0.50%	0.55%	0.61%	0.65%
<b>Earnings Ratios*</b>																				
Return on Assets	2.19%	1.56%	0.53%	-6.58%	0.95%	1.01%	-0.94%	0.65%	0.70%	0.93%	0.97%	0.78%	0.77%	0.81%	1.08%	1.11%	0.90%	1.18%	1.23%	1.31%
Gross Income to Assets	12.37%	12.55%	9.76%	8.52%	8.57%	8.41%	8.36%	8.34%	8.19%	8.23%	8.10%	7.86%	8.11%	7.97%	8.07%	7.95%	8.68%	7.45%	7.00%	6.59%
Cost of Funds to Assets	1.16%	1.19%	0.92%	0.94%	0.94%	0.94%	0.89%	1.31%	1.30%	1.30%	1.30%	1.25%	1.66%	1.66%	1.66%	1.65%	1.79%	1.64%	1.62%	1.61%
Operating Expenses to Assets	8.94%	11.20%	9.39%	16.99%	8.42%	8.16%	10.16%	6.13%	5.95%	5.77%	5.60%	5.60%	5.43%	5.26%	5.11%	4.96%	5.60%	4.39%	3.88%	3.44%
PLL Expenses to Assets	0.15%	0.14%	0.47%	-1.15%	0.00%	0.00%	-0.16%	0.25%	0.24%	0.23%	0.22%	0.22%	0.25%	0.24%	0.23%	0.23%	0.26%	0.24%	0.26%	0.23%
Fixed Assets/Total Assets	1.16%	2.61%	1.80%	1.30%	0.87%	0.56%	0.56%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
<b>Asset/Liability Management Ratios</b>																				
Total Loans to Shares	74.35%	75.75%	63.38%	55.83%	55.29%	54.78%	54.78%	54.24%	53.74%	53.27%	52.82%	52.82%	52.31%	51.82%	51.37%	50.93%	50.93%	49.11%	47.36%	45.67%
Total Loans to Assets	68.61%	68.52%	58.53%	52.46%	51.82%	51.23%	51.23%	50.61%	50.02%	49.48%	48.96%	48.96%	48.37%	47.81%	47.29%	46.79%	46.79%	44.72%	42.74%	40.85%
Non-Member Shares to Total Shares	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Borrowing to Total Shares and Capital	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Growth Ratios*</b>																				
Share Growth	7.19%	0.38%	68.90%	28.63%	12.00%	11.65%	33.15%	12.00%	11.65%	11.32%	11.01%	12.00%	12.00%	11.65%	11.32%	11.01%	12.00%	12.00%	12.00%	12.00%
Net Capital Growth	62.41%	15.93%	15.65%	-118.88%	21.57%	22.24%	-18.75%	14.06%	15.15%	19.94%	20.42%	18.55%	15.78%	16.56%	21.81%	21.92%	20.40%	24.94%	23.60%	23.03%
Loan Growth	2.09%	2.27%	-7.69%	-22.44%	8.00%	7.84%	-3.72%	8.00%	7.84%	7.69%	7.55%	8.00%	8.00%	7.84%	7.69%	7.55%	8.00%	8.00%	8.00%	8.00%
Asset Growth	10.37%	2.42%	59.28%	21.23%	13.00%	12.59%	28.77%	13.00%	12.59%	12.21%	11.85%	13.00%	13.00%	12.59%	12.21%	11.85%	13.00%	13.00%	13.00%	13.00%

\* - Earning and Growth ratios are annualized

# Sample: NWRP/RBP and Assumptions Workbook

---

Net Worth Restoration Plan/Revised Business Plan  
for  
[CREDIT UNION NAME]  
Charter [#####]

---

We (the credit union's officials) submit for approval by the NCUA the following Net Worth Restoration Plan (plan) and its attachments.

*This document does the following:*

- Establishes our net worth ratio as of [EFFECTIVE DATE]
- Sets forth the steps we plan to take to improve our net worth ratio
- Establishes the benchmarks we plan to attain beginning [START OF PLAN] and ending [END OF PLAN]
- Sets forth the mandatory supervisory actions we and the NCUA must take, as required by law or regulation
- Itemizes the types and level of activities we will engage in

**As defined by Part 702, as of [EFFECTIVE DATE].**

## **CURRENT STATUS**

NET WORTH IN TOTAL DOLLARS:	
TOTAL ASSETS CALCULATION METHOD:	
TOTAL ASSETS BASED ON CALCULATION METHOD:	
NET WORTH%:	
NET WORTH CATEGORY:	

**We plan to take the following steps to improve our net worth.**

Plan of Action	Responsible Person Completion Date

**While taking these steps, we will meet or exceed certain financial goals. Our benchmarks follow:**

**Net Worth and Assets.** [DISCUSS RELEVANT FACTORS] Shown below are our quarterly benchmarks.

Period Ending	Asset Growth for Quarter	Net Worth Growth for Quarter	Assets – Not to Exceed	Net Worth – Minimum Amount	Net Worth Ratio

*(Extend projections through the life of the plan plus 4 quarters)*

**Return on Assets, Gross Income, and Expense Ratios.** [DISCUSS RELEVANT FACTORS] Shown below are our quarterly benchmarks.

Period Ending	Year to Date Net Income/Assets	Year to Date Gross Income/Assets	Year to Date Operating Exp./Assets

*(Extend projections through the life of the plan plus 4 quarters)*

**Amount of earnings to be transferred to the Regular Reserve.** [DISCUSS RELEVANT FACTORS] Shown below are our quarterly benchmarks.

Period Ending	Assets – Not to Exceed	Minimum Net Income for Quarter	Required Reserve Transfer	Minimum Total Net Worth	Net Worth Ratio

*(Extend projections through the life of the plan, plus four quarters)*

We plan to make the following changes in the kind of service provided to our members.

- 
-

We agree to take the following corrective actions, as discussed in our most recent examination:

- 
- 

We plan to comply with the following mandatory supervisory actions:

- Increase net worth by at least 1/10<sup>th</sup> percent (0.1%) of total assets each quarter
- Transfer not less than 1/10<sup>th</sup> percent (0.1%) of total assets from undivided earnings to the regular reserve per §702.201(a) of NCUA's rules and regulations each quarter
- Limit asset growth until the NWRP is approved
- Except to fund existing business loan commitments, discontinue extending new credit for member business loans (unless the credit union already has a business loan exception in place)

*We understand the NCUA **may** take discretionary supervisory actions should we fail in our efforts to improve our Net Worth by at least 0.1% of total assets each quarter.*

*We are incorporating a pro forma balance sheet and income statement covering the period until net capital reaches 6% plus a minimum of the next four quarters.*

(Optional) We are also incorporating a copy of our business plan.

This plan is effective until it is replaced or canceled.

- This plan extends until [END DATE]; unless it is replaced by a revised Net Worth Restoration Plan.
- We understand the NCUA [**and the STATE SUPERVISORY AUTHORITY**] will review our performance and compliance with the plan during onsite examinations of the credit union.

Submitted for the [CREDIT UNION NAME]:

\_\_\_\_\_  
Board Chairperson \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_  
Treasurer \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_  
Secretary \_\_\_\_\_ Date \_\_\_\_\_

# Template: Regional Summary of NWRP/RBP Reviews

## REGIONAL SUMMARY Net Worth Restoration Plan / Revised Business Plan

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total Net Worth</b>	
<b>Net Worth Ratio</b>	
<b>Net Worth Category</b>	
<b>Target Date to Achieve 6% Net Worth Ratio</b>	
<b>Target Release Date</b>	

### **FOM Description:**

#### **Reason for Request**

*Provide background of reasons the credit union's net worth is at a level it needs a NWRP/RBP.*

#### **Assessment of Management**

*Provide an assessment of management and their ability to comply with the submitted plan.*

#### **Effectiveness of Action Steps**

*Do the above actions steps address the areas of concerns leading to low net worth?*

#### **Complexity of Plan**

*Does the complexity of the Plan match the credit union's level of ability?*

#### **Goals, Assumptions, and Projections**

*Are the goals, assumptions and projections realistic and attainable? Are they supportable? Is the length of time projected to build net worth to 6% reasonable? Are projected growth and yields reasonable compared to current performance or has/will management make operational changes to achieve projected growth? If the credit union is complex under PCA, does the plan and projections take into account the RBNW requirement?*

#### **Financial Performance Compared to Plan**

*Discuss current financial performance and how this performance compares to the Plan's projections. Is the plan reasonable? Specifically address gross income, expenses, PLLL, and cost of funds. Address any factors which have changed since the submission of the plan. Address if the credit union has a reporting mechanism in place to monitor actual versus budgeted performance.*

## **Regulation Requirements**

*Does the plan meet the requirements of §702.206 (c) and (d) or §702.306 (b) and (c)? In particular, does the plan provide a quarterly timetable of steps the credit union will take to increase its net worth ratio to become "adequately capitalized" or by the end of the term of the plan, and to remain so for four (4) consecutive quarters? Does the plan project the amount of net worth increase and transfer of this amount to the regular reserve account in each quarter of the term of the plan equivalent to not less than 1/10<sup>th</sup> percent (0.1%) of its total assets under §702.201(a), or such lesser amount as the NCUA Board may permit under §702.201(b) or for new credit unions an amount permitted under §702.306(b)(2)?*

## **Other Pertinent Information**

### **Concurrence of SSA (if applicable)**

*For FISCUs, examiners and their supervisor will contact the SSA for concurrence and note in their summary to the Regional Office.*

### **EXAMINER AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

#### *Examiner's Recommendation:*

*Please include with an EDS assisted with the NWRP/RBP.*

#### *Supervisor Concurrence:*

### **APPROVAL/DENIAL RECOMMENDATIONS**

#### **Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

**Review Checklist**  
**Net Worth Restoration Plan and Revised Business Plan**  
 Refer to §702.206(c) for NWRP requirements  
 and §702.306(b) for RBP requirements

Charter Number	
Credit Union Name	
Examiner	
Net Worth Category	
End Date of Plan	

**If you answer no to any question, deny the plan or work with the credit union to resolve the issue(s) within the required timeframe.**

<b>Does the NWRP/RBP contain the following information:</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Quarterly timetable showing net worth reaching "adequately capitalized" and remaining so for four consecutive quarters (Note - Complex CUs should also include the RBNW requirements)			
2. Projected amount of earnings transferred to regular reserves for each quarter of the NWRP/RBP. (Note - To make an earnings transfer, the CU must show positive net income for the quarter. If they project a loss for the quarter, the earnings transfer would be \$0. The plan then serves as an earnings transfer waiver for that quarter.)			
3. Explanation of how CU will comply with mandatory and discretionary supervisory actions			
4. Explanation of the types and levels of activities in which the CU will engage.			
5. Pro forma financial statements for a minimum of two years, or the length of the plan.			
6. Explanation of steps CU will take to correct unsafe or unsound practices/conditions if CU reclassified to a lower NW level.			
7. <u>RBP only</u> - Provide any address changes made since the original business plan approved.			
8. Include a signature page with at least two board officials' signature.			

<b>Does the plan meet the following criteria:</b>			
1. Addresses all items listed above.			
2. Based on realistic assumptions and is likely to succeed in building the CU's net worth.			
3. Would not unreasonably increase the CU's exposure to risk.			

<b>Comments:</b>

## **Template: Approve NWRP/RBP**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Street  
City, State Zip

Dear Mr. Doe:

I am pleased to inform you of the approval of the [Net Worth Restoration Plan or Revised Business Plan] you submitted on June 15, 2XXX. You must continue to make reserve transfers as required by Part 702 of the NCUA rules and regulations until you are considered “well capitalized.” If you fail to achieve a level of earnings sufficient to make these transfers, you will be required to take further action.

The board of directors and management should review the [NWRP or RBP] on a regular basis to ensure the credit union is meeting the plan’s goals. In the event you wish to amend your [NWRP/RBP], you must seek my prior approval as noted in [Part 702.206(h) for NWRP or Part 702.306(g) for RBP] of the NCUA rules and regulations.

Please contact examiner [NAME] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER’S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# Template: Deny NWRP/RBP

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your [Net Worth Restoration Plan or Revised Business Plan] (plan) received on June 15, 2XXX. Unfortunately, I cannot approve the plan because it does not meet all necessary requirements contained in [Section 702.206 (c) for NWRPs] or [Section 702.306(c) for RBPs] of the NCUA *rules and regulations, or lacks support for the projections.* The plan is deficient for the following reasons:

- 
- 

[Add any additional relevant commentary.]

You have 30 days from receipt of this letter to submit a revised [Net Worth Restoration Plan or Revised Business Plan] to this office. [*For credit unions with \$10 million or less in assets, include the following statement:* NCUA's Office of Small Credit Union Initiatives (OSCUI) is available to assist you. To request assistance, complete our online [OSCUI Consulting Nomination Form](#) and check the "Net Worth Restoration Plan" box in the *Immediate Services Requested* section of the form.<sup>1</sup>]

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: SE

---

<sup>1</sup> <http://www.ncua.gov/Resources/OSCUI/Documents/ConsultNomination.pdf>

EX  
SSA (when applicable)

# **Template: Notify Credit Union of Need to Revise or Replace NWRP**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Examiner [NAME] recently reviewed your credit union's compliance with its current net worth restoration plan (NWRP), which I approved [DATE]. As you know, this plan is part of the mandatory supervisory action required under Part 702 of the NCUA rules and regulations, Prompt Corrective Action (PCA), and the credit union is responsible for its performance.

The review identified several deficiencies regarding the credit union's progress implementing the plan and achieving its goals. Those deficiencies include:

- *Quarterly Increases in Net Worth* – The credit union has been unable to increase net worth for the last [NUMBER] quarters ending [list of DATES], consistent with its existing NWRP. As of [DATE], the credit union's net worth ratio was [NUMBER] basis points below its NWRP target of [NUMBER] percent.
- *Earnings Transfers* – The credit union failed to generate sufficient earnings to meet its plan's targeted earnings transfers to regular reserves for the [DATE] and [DATE] quarters and has had to request substantial reductions in the transfer amounts for both quarters.
- *Delinquency Control* – Delinquency has increased since the beginning of [YEAR] due to sponsor layoffs and declining collection activity. As of [DATE], delinquency stood at [NUMBER] percent, which is well above the NWRP's targeted [NUMBER] percent.

These problems indicate that the NWRP is no longer adequate and needs to be revised or replaced if the credit union is going to successfully meet PCA's capitalization requirements.

As outlined in §702.206(a)(3), this serves to notify you that the credit union must submit a new or revised NWRP to me within 30 days of the receipt of this letter. Please ensure the plan and its supporting documents meet the minimum standards set forth in §702.206. I will provide you with my written response within 30 days of the receipt of your plan.

Mr. John Doe  
Date  
Page Two

[For credit unions that have \$10 million or less in assets, include the following statement:  
NCUA's Office of Small Credit Union Initiatives (OSCUI) is available to assist you. To request assistance complete our [OSCUI Consulting Nomination Form](#) and check the "Net Worth Restoration Plan" box in the *Immediate Services Requested* section of the form.<sup>1</sup>]

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

---

<sup>1</sup> <http://www.ncua.gov/Resources/OSCUI/Documents/ConsultNomination.pdf>

# **Template: Notify Credit Union of Need to Submit NWRP/RBP**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

Based on the [DATE] call report, your risk based net worth ratio is [NUMBER] percent and exceeds your net worth ratio of 6.00 percent. As a result, your credit union is classified as undercapitalized as outlined in NCUA rules and regulations Part 702. All federally-insured credit unions classified as undercapitalized must file a Net Worth Restoration Plan (NWRP) outlining the steps they will take to improve net worth.

Enclosed is a sample NWRP. Your plan does not have to be identical, but it should include all of the information included in the sample. I recommend you become familiar with the requirements of Part 702 as soon as possible.

At a minimum, your NWRP must specify:

1. A quarterly timetable of steps your credit union will take to increase its net worth ratio so that it becomes “adequately capitalized” by the end of the term of the Plan, and to remain so for four (4) consecutive calendar quarters
2. The projected amount of earnings to be transferred to the regular reserve in each quarter of the term of the Plan equivalent to not less than 1/10<sup>th</sup> percent (0.1%) of its total assets
3. How your credit union will comply with the mandatory and discretionary supervisory actions imposed on it by the NCUA Board under this subpart
4. The types and levels of activities in which the credit union will engage

In addition, the NWRP must:

1. Note any new services to be provided
2. Identify any planned major fixed asset acquisitions
3. Include pro forma financial statements, including any off-balance sheet items, covering the period until net worth reaches six percent plus a minimum of four additional quarters. The projected data should be more highly detailed and presented in quarterly format for the first two years. Subsequent periods may be represented on an annual basis

Mr. John Doe  
Date  
Page Two

You have until [DATE] to submit a NWRP to this office. NCUA is available to assist in the development of your NWRP. You may request additional assistance by submitting a formal request to my office. [*For credit unions that have \$10 million or less in assets, substitute the following for the previous sentence:* NCUA's Office of Small Credit Union Initiatives(OSCUI) is available to assist you. To request assistance, complete our online [OSCUI Consulting Nomination Form](#) and check the "Net Worth Restoration Plan" box in the *Immediate Services Requested* section of the form.<sup>1</sup>]

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #  
Enclosure

cc:      SE  
          EX  
          SSA (when applicable)

---

<sup>1</sup> <http://www.ncua.gov/Resources/OSCUI/Documents/ConsultNomination.pdf>

# **Template: Notification that NWRP/RBP is No Longer Required**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [Month XX, 20XX], your credit union's Net Worth Restoration Plan (NWRP) was approved by the National Credit Union Administration (NCUA) as required by Part 702 of the NCUA rules and regulations.

Our review of your [Month XX, 20XX], 5300 call report shows your credit union's net worth position has been at least "adequately capitalized" for four consecutive calendar quarters. Therefore, your NWRP is no longer required. I appreciate the hard work and dedication your management team showed in restoring the credit union's financial health.

Although your credit union no longer operates under a net worth restoration plan, you must continue to comply with Part 702 by increasing the dollar amount of your net worth quarterly by at least 0.10 percent of assets and transferring that amount to the regular reserves. This requirement remains in effect until your credit union is well capitalized, with net worth of seven percent or more.

Please note that if the credit union is classified as undercapitalized or lower at some point in the future, it will be necessary to submit a new NWRP to NCUA for approval within 45 days of the new effective date of classification [*or, in the case of a credit union that is still classified as "new" under PCA: Please note if the credit union is classified as moderately capitalized or lower at some point in the future and it is still classified as "new" under Section 702.301(b) it will be necessary to submit a new RBP to NCUA for approval within 30 days of the new effective date of classification.*].

[*For credit unions \$50 million and less, newly chartered (less than three years old) or low income designated consider including the following statement:* In your efforts to improve your financial condition, you may wish to take advantage of programs offered by NCUA's Office of Small Credit Union Initiatives (OSCUI). OSCUI provides guidance and assistance to small, new, and low-income designated credit unions through four primary programs - Training, Grants and Loans, Partnerships and Outreach, and Consulting Services. More information is available from your examiner or at <http://www.ncua.gov/Resources/OSCUI>.]

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)



## Chapter 17. Quality Assurance Program

NCUA's Quality Assurance program includes the assessment and review of all activities relating to the oversight of FICUs. This section of the NSPM will cover the quality assurance processes used to carry out the Agency's safety and soundness mission. NCUA's quality assurance objectives are to evaluate whether the agency's supervision program complies with national requirements and that national requirements keep pace with the ever-changing risks inherent in or introduced into the credit union industry.

This section of the NSPM describes the quality assurance program and the quality control report processes supervisors and the regional DOS use to evaluate and review FCU and FISCU examination reports and supervision work.

### 1. Key Terms and Concepts

Term	Definition
Quality Assurance (QA)	The continuous process of verifying whether supervisory and oversight activities meet NCUA's established requirements  Quality Control Reviews (QCR): Actions taken on items or activities to verify adherence to specified requirements. The QCR element is generally included as a segment of QA.
Quality Control Review Forms	Tools designed to identify risks to the share insurance fund, evaluate whether an individual examination or supervision contact report meets national standards, and provide a written assessment of that report
Supervisor Evaluation Form (SEF)	Tool designed to evaluate an examiner's report for appropriateness of problem resolution, overall report construct (for example, tone, grammar, and proper use of the DOR; the SEF is also a development tool that both the supervisor and examiner can use to identify strengths and areas requiring improvement or further development
State Supervisory Review (SSR) Form	Tool designed to document district examiner review of examination reports submitted by examiners employed by state supervisory authorities
Risk Analysis	A tool used to document quarterly risk reviews of natural per-

<b>Term</b>	<b>Definition</b>
Trending and Evaluation (RATE) Form	son credit unions
Scanned Review	After the examiner uploads the report, a cursory review of select examination data and financial trends to assess the level of risk present and to assist the supervisor in determining the level of review necessary
Documented Secondary CAMEL Review	A review completed in advance of delivery to credit union officials when a credit union meets specific risk criteria
Full Review	A comprehensive and detailed supervisory review of the examiners work product performed after upload and will include applicable work papers and documented using the Supervisory Evaluation Form

[NSPM content](#) last updated January 27, 2016

## 2. Quality Assurance Goals

The following goals describe the broad areas used to evaluate the effectiveness of the overall supervision program:

- Early Identification** Timely identification of credit union problems is a critical component of the supervision program
- Results Driven** Ensure reports are results-oriented and that communication with officials is timely, with recurring issues addressed using the appropriate progressive administrative/enforcement tools
- Consistency** Ensure uniform application of examination, insurance, and supervision policies, procedures, and standards within the agency
- Staff Development** Ensure examiner staff is provided consistent and timely feedback regarding their work to improve the examiner's skills and the supervision program

The three main contributors to the examination and supervision quality assurance program are DOS, supervisors, and E&I. Each quality assurance segment and corresponding responsibilities will be addressed separately in this section of the NSPM.

---

*[NSPM content](#) last updated July 29, 2015*

## **3. Quality Assurance Roles and Responsibilities**

### **A. E&I Responsibilities**

Develop examination and supervision programs for all FICUs, including:

- Select a statistically valid sample of QCRs and SEFs annually, across regions, to evaluate and to report the consistency of the regional quality control programs
- Disseminate results of E&I's quality assurance assessments to the regions, generally within 30 days
- Review and tailor the quality assurance program as needed to remain effective and proactive while still meeting national needs. To accomplish this task, E&I will obtain regional input to enhance the program

### **B. DOS Responsibilities**

- Assess the region's consistency of application and compliance with national goals and directives
- Conduct an independent QCR of examination and supervision reports
- Distribute QCR results to ARDs and supervisors
- Refer QCR Forms with material concerns to the Regional Director for action as appropriate
- Compile completed SEFs using regional tracking procedures

### **C. Regional Director Responsibilities**

- Ensure compliance with regional aspects of the NSPM
- Provide for review of all Supervisor Full Reviews
- Monitor monthly reports to ensure the quality assurance program is fol-

lowing policy requirements and to assess overall program effectiveness

- Take appropriate action to address issues noted

## D. Supervisor Responsibilities

Supervisors are responsible for reviewing and evaluating reports, and for providing consistent and timely feedback regarding the quality of the work and suggestions for improving performance with an emphasis on identification of significant problems and timely and effective resolution of significant problems.

The supervisor will complete a Scanned Review, a Documented Secondary CAMEL Review, or a Full Review of all examinations, insurance reviews, supervision contact reports, and state report reviews completed by examiners in their supervisory group per the [criteria provided in the NSPM](#):

- Perform Scanned Reviews
- Perform Documented Secondary CAMEL Review
- Perform Full Reviews
- Complete other requirements as outlined in the NSPM

## E. Field Staff Responsibilities

Examiners are ultimately responsible for the issuance of the final report and the quality of the examination. To that end, the examiner actively participates in the quality assurance process and has the following responsibilities:

- Submit required documents when requesting a Documented Secondary CAMEL Review from their supervisor (as applicable)
- Review all QCRs of work performed
- Review all supervisor feedback on the provided Supervisor Evaluation Form
- Determine if any adjustments are needed regarding the supervision of the credit union or examination practices
- Consult with the supervisor when a significant disagreement with the QCR and/or Supervisor Evaluation Form is identified

Examiners should discuss their concerns with issues raised in a QCR with their supervisor to determine a course of action (this may include a response memo

addressing disagreements with the QCR as discussed in the QCR Appeal Process section of the NSPM).

---

*[NSPM content](#) last updated January 27, 2016*

## F. Supervisor Evaluations

Supervisors are responsible for regularly reviewing completed examinations and assessing the examiner performance. Supervisor evaluations are intended to be both a learning tool and feedback mechanism for the examiner and supervisor. There are three types of supervisor evaluations:

1. Full Review
2. Scanned Review
3. Documented Secondary CAMEL Review (DSCR)

### **1. Full Review**

A Full Review is the most comprehensive review a supervisor will perform and reflects an in-depth review of the examiner's identification of risk and problem areas, as well as the appropriateness and effectiveness of plans for corrective action.

SEs are expected to import the examination zip file into AIRES to evaluate the quality of the report and ensure the DOR module and other required elements are used properly.

When completing a Full Review on a state report review, supervisors will use the SSR form type. A Full Review of a state report will include a review of the **NCUA WCC 26**, the **state regulator WCC 11**, and the **NCUA WCC 11**, as applicable. Full Reviews of state examinations should not take place until the state regulator examination has been uploaded and the WCC 26 review completed by the NCUA examiner.

Supervisors will use the following minimum evaluation requirements to select reports for a Full Review:

- All reports from examiners who have been employed by NCUA less than one year (i.e., are in probationary status)

- These reviews will be conducted independently of the on-the-job trainer
- A minimum of five (or all if less) regular FCU examinations (WCC 10), FISCU insurance review (WCC 11), or follow-up FCU/FISCU contacts (WCC 22/WCC 23) for each examiner with less than two years' experience
- Each examiner must receive a minimum of three Full Reviews, excluding code 26 state report reviews (or all, if fewer than three reports are available to review)
  - These reviews will be documented on the Supervisor Evaluation Form

Additional reviews will be necessary when a supervisor identifies a developmental need. Supervisors should strive to complete reviews evenly over the calendar year.

Full Reviews will be completed within 45 days of upload of the examination, and should be sent to the examiner, DOS, and the ARDP by email. Supervisors and examiners review and discuss written report reviews with each other as needed to resolve issues or concerns addressed in a written review.

## ***2. Scanned Review***

Scanned Reviews require the supervisor to conduct, at a minimum, a cursory review of key ratios, the Examination Overview, Document of Resolution, and Confidential Section. The judgment of the supervisor will determine the depth of further review necessary (i.e., discussion with the examiner, accessing and reviewing report work papers, etc.). Scanned Reviews will be completed for all credit unions exceeding \$100 million in assets not subject to Full Reviews or Documented Secondary CAMEL Reviews.

Supervisors and examiners review and discuss Scanned Reviews with each other as needed to resolve issues or concerns.

## ***3. Documented Secondary CAMEL Review***

A Documented Secondary CAMEL Review is part of the quality assurance process. The NSPM outlines the [responsibilities of the examiner and supervisor surrounding Documented Secondary CAMEL Reviews](#) and establishes when these must be completed.

These reviews must be shared with the examiner. Supervisors and examiners review and discuss Documented Secondary CAMEL Reviews with each other as needed to resolve issues or concerns.

## G. Supervisor Evaluation Forms Overview

Scanned Reviews and Full Reviews will be completed within 45 days of upload of the examination.

Type of Review	Review Distribution
Full Review	Shared with the examiner, DOS, and the ARDP
Scanned Review	Shared with the examiner, as needed
Documented Secondary CAMEL Review	Shared with the examiner

*[NSPM content](#) last updated January 27, 2016*

## 4. Quality Control Process

The primary quality assurance process for the examination and supervision functions consists of a Quality Control Review (QCR). The QCR form, along with the Supervisor Evaluation Form, are the agency's tools designed to evaluate whether an individual examination or supervision contact report meets national standards, provide a written assessment of the report, and assess the adequacy of ongoing supervision. The QCR form and Supervisor Evaluation Form are intended to be both a learning tool and feedback mechanism for the examiner and supervisor. The evaluation and rating of field staff performance remains the responsibility of the supervisor.

E&I will establish (with regional input), from time to time, the specific contents of the QCR form for each type of examination and supervision contact. The scope of each review may vary in accordance with the type of contact or targeted review objective.

To ensure a consistent risk-focused approach is used to evaluate the effectiveness of the supervision program, the agency will use a national QCR data-

base. The database contains the examination and supervision review forms in addition to the Risk Reviews, and the Supervisor Evaluation Form.<sup>1</sup>

Any examination, follow-up examination, or supervision contact can be selected for a quality control review at the discretion of management.

---

*[NSPM content](#) last updated July 29, 2015*

## **5. Examination and Supervision QCR Minimum Selection Criteria**

### **A. Federal Credit Union Quality Control Selection**

Each region's DOS will perform QCRs on any examinations meeting the following criteria:

- All credit unions coded CAMEL 3 with assets greater than \$100 million
- All credit unions coded CAMEL 3 for longer than 36 months and with assets greater than \$50 million
- All credit unions coded CAMEL 4 or 5 with assets greater than \$10 million
- All credit unions with assets greater than \$250 million

In addition, each region's DOS will perform QCRs on any examination or follow-up examination when a credit union is:

- Issued a published LUA
- Subject to an immediate and/or permanent cease and desist order
- Subject to a prompt corrective action, not including an earnings transfer waiver
- In conservatorship

---

<sup>1</sup>Until these tools are completed, regions will continue to use their existing QCR processes until the NSPM system is fully functional. However, regions should use NSPM QCR selection criteria as of the NSPM's implementation date.

## B. Federally Insured, State-Chartered Credit Union Quality Control Selection

Each region's DOS will perform QCRs on any examinations meeting the following criteria:

- All FISCUs that meet the criteria above, including both joint examinations or independent insurance reviews
- FISCU QCRs will be based upon the lower of the SSA's or NCUA's CAMEL ratings
- FISCU QCRs will encompass review of all insurance risks including both the NCUA and SSA's WCC 11s and the corresponding NCUA WCC 26

## C. Offsite Supervision Quality Control

Each quarter, each region's Division of Supervision will select a five percent sample of risk reviews (RATE Reviews) completed by field staff and conduct a quality control review. These reviews, documented for regional management, will evaluate whether field staff's analysis of risk trends and recommended supervision plans are appropriate.

## D. Additional Discretionary Reviews

In addition to the examination review criteria listed above, each region will further evaluate the effectiveness of its examination and supervision program by selecting additional examination and supervision contacts for Quality Control Reviews through the use of judgmental sampling. The sampling criteria may include, but is not limited to, the following:

- FICU follow-up exams or supervision contacts (evaluate effectiveness of problem resolution)
- Any credit unions that are subject to informal administrative action as discussed in Supervisory Letter 10-04, [Administrative Remedies](#) (June 2010)
- Credit unions that have been upgraded from a CAMEL 3, 4, or 5
- Credit unions that have been downgraded to a CAMEL 3
- Credit unions that exhibit elevated or emerging risks
- A sample of SCUEP defined-scope examinations

## 6. Examination and Supervision Program Review Process

### A. QCR Preparation and Distribution

DOS uses AIRES, including the Scope module, Risk Reports, FICU file, and any other relevant data to evaluate the report; see chapter 22 of the [Examiner's Guide](#). QCRs must be completed within 45 days of upload of the examination.

- A supervision analyst evaluates the report and prepares a QCR Form, including any recommended subsequent actions.
- If the report contains no material issues, the director of supervision (DDOS)<sup>1</sup> reviews and signs off on the QCR Form.
- If the report contains material issues and/or is substandard, DOS will take the following actions:
  - Analyst will discuss the material issues or substandard elements with the DDOS
  - If the DDOS concurs with the issues or elements, they will determine the type of action most appropriate (for example, memo, email, etc.) and proceed accordingly
  - Analyst will note the type of deficiency within the QCR form, the type of action taken, and the date a response is due from the supervisor (if applicable)
  - Flag the QCR form for follow-up, as appropriate
- DOS distributes the completed QCR Forms to the EIC and supervisor simultaneously via email on a flow basis to regional management.
- When possible, DOS will provide informal advanced notice of any memo to the supervisor prior to sending the QCR to the examiner and supervisor.
- Supervisors will review all QCR forms and associated memos (if applicable) and discuss with the examiner (if necessary).

---

<sup>1</sup>For purposes of the QCR requirement, formal DDOS responsibilities may be delegated to the deputy director DOS at each region's discretion.

Analysts are expected to import the examination zip file into AIRES to evaluate the quality of the report and ensure the DOR module and other required elements are used properly.

## B. QCR Corrections and Reconsiderations

A request to correct or reconsider a QCR must be submitted within 30 days of the completion of a QCR form, and must be discussed with the DDOS before being submitted for consideration.

- If an examiner substantially disagrees with significant issues noted in a QCR form, the examiner should discuss the issues with their supervisor.
- If the supervisor agrees with the examiner's position and the concerns are determined to be material, the supervisor first discusses the issues with the DDOS.
- The DDOS will review the request and any supporting documentation provided, as well as the examination report (if necessary) to reassess the QCR form. The DDOS is responsible for revising the form, if appropriate.
  - DDOS must approve or deny a request within 30 days of receipt.
  - If the DDOS denies a request to correct a QCR form, the DDOS will prepare a response to the SE and copy the ARDP, ARDO, and RD.
- If a solution is not reached between the supervisor and DDOS, the examiner will draft a memo to their supervisor outlining the reasons for the disagreement, including any supporting documentation. The supervisor will forward the memo, with their comments, to DDOS with a copy to the ARDP and ARDO.
- DOS reviews the supervisor's memo, documentation, and the examination report to reassess the QCR and revises the QCR Form if appropriate. Absent revision to the QCR Form, DOS prepares a response to the supervisor for the Regional Director's signature.

Supervisors can also initiate a correction or reconsideration of a QCR if they disagree with DOS' comments by contacting DDOS.

# Chapter 18. Regulatory Waivers and other Regulatory Actions

NCUA applies federal statutes, regulations, and directives to achieve strategic goals and ensure uniformity in application of supervision standards. Regulatory waivers afford flexibility in instances where specific criteria are satisfied. NCUA processes waiver requests in accordance with regulatory requirements and internal directives.

This section of the NSPM establishes national policy NCUA staff follow when completing work assignments and examination and supervision of regulatory related waivers and other regulatory related actions. This section is not inclusive of all types of waivers. It reflects [NCUA rules and regulations](#) as of May 17, 2012. E&I will update the NSPM when the NCUA Board adopts a new regulation or revises an existing regulation. Examiners should contact their supervisor for assistance outside the scope of this section of the NSPM.

---

*[NSPM content](#) last updated July 29, 2015*

## 1. General Procedures and Requirements for Waivers

### A. Roles and Responsibilities

#### *1. E&I*

E&I is responsible for monitoring periodic risk reports to review trends and issues related to regulatory waivers and other regulatory related actions. E&I also has oversight of this manual and ensures standards are clear and followed by staff through its quality assurance program. E&I will evaluate compliance with this section during routine monitoring of cases, quality assurance reviews, and review of information submitted on required reports. During periodic updates of the NSPM, E&I will solicit comments from other offices to ensure standards remain current and effective.

#### *2. Regional Office*

Regional offices are responsible for having systems and controls in place to ensure standards of this section are met. When reviewing work related to the standards of this section, regional processes must ensure quality work and accurate administrative records are maintained for regulatory related actions. DOS is responsible for monitoring risk institutionally and on a regional basis.

### **3. Supervisor**

Supervisors are responsible for reviewing and ensuring staff performs quality work which follows the standards of this section of the NSPM. Supervisors are responsible for reviewing and approving work for completeness and accuracy prior to submission to the regional office. Supervisor approval becomes part of the credit union's administrative record. Supervisors are responsible for monitoring risk institutionally and on a group basis.

### **4. Field Staff**

Examiners are responsible for evaluating credit unions' regulatory compliance and identifying potential safety and soundness issues when processing work assignments, completing supervision work, and performing examinations. Examiners will use the national standards established in this section of the NSPM to ensure quality and consistent work. The standards in this section also ensure consistent administrative record documentation. Examiners will create an administrative record for recommendations made and actions taken in meeting standards set forth in this section.

---

[NSPM content](#) last updated July 29, 2015

## **B. Processing a Waiver Request**

In general, the following procedures will be used to process FCU waiver requests. Please refer to each specific waiver type outlined in this section of the NSPM for unique processing steps.

### **5. Division of Supervision Initial Review Responsibilities**

After the regional office receives the credit union's application, DOS will perform a cursory review to determine whether the credit union request is complete.

If considered incomplete:

- Prepare an incomplete/denial letter and send it to the credit union by the region's preferred expedited mail delivery
- Ensure the letter lists the additional information the credit union must submit if they would like the request to be considered. DOS will copy the examiner and supervisor on the letter.

If considered complete:

- Prepare an acknowledgment letter and send it to the credit union by the region's preferred expedited mail delivery service
- Prepare and send a work assignment to the field that includes the credit union's request, application package, supporting documentation, and request a recommendation for approval or denial

## **6. Field Staff Review Responsibilities**

Examiners and their supervisor will evaluate the credit union's net worth, CAMEL and risk ratings, and financial strength, and provide a recommendation whether to grant the request. The scope and depth of the examiner's review will be scaled according to the materiality of the waiver request.

The examiner, with supervisor approval, will determine if an onsite contact is necessary.

After review, examiners will determine if the waiver package is complete, and take the following actions, based on their determination.

If considered incomplete:

- Draft the appropriate incomplete/denial letter (refer to templates provided), or
- Informally contact the credit union to obtain the missing information

If considered complete:

- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial
- Email the approval, partial approval, deferral, or denial letter, Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

If recommending denial, examiners will not discourage any credit union from applying for reconsideration or filing an appeal, if applicable.

## **7. Division of Supervision Processing Responsibilities**

Upon receipt of the field's recommendation, DOS will review and analyze the recommendation for appropriate support and justification. Upon concurrence, DOS will submit the recommendation and proposed response letter to the Regional Director for approval and signature. DOS will mail the signed letter to the credit union using the region's preferred expedited mail delivery service and copy both the examiner and supervisor.

If DOS and/or the Regional Director do not agree with the field's recommendation, the supervisor will be notified of the reasons. The field will be given the opportunity to further support or revise their recommendation in the Regional Summary and draft revised correspondence, if necessary. DOS finalizes the response letter for the Regional Director's signature. Once signed, DOS will mail it to the credit union using the region's preferred expedited mail delivery service and copy both the examiner and supervisor.

---

*[NSPM content](#) last updated July 29, 2015*

## **C. Processing a Waiver Request from a Federally Insured, State-Chartered Credit Union**

Unless otherwise specified by regulation, a FISCU must submit the waiver request to its SSA. If the SSA approves the request, the SSA will forward the request to the Regional Director. A waiver is not effective until approved by the Regional Director. If the SSA denies a request, the Regional Director will also deny it.

[Section 741.204](#) of the [NCUA rules and regulations](#) applies to state-chartered federally insured credit unions and incorporates the [§701.32](#) requirements.

---

*[NSPM content](#) last updated July 29, 2015*

## **D. Waiver Timeframes**

The region will respond within the timeframe specified in the applicable regulation or, where not specified, within 45 days from the date a completed request is received in the regional office.

Reference	Description	Timeframe	Automatic Approval
<a href="#"><u>§722.3</u></a> Appraisal Requirements	Use of an alternative appraisal method or type of appraiser pertaining to member business loans, as outlined in <a href="#"><u>§722.3(a)(9)</u></a> .	45 days	Yes
<a href="#"><u>§701.14 c(2)(i)</u></a> Waiver of Prior Notice – Change in Official or Senior Executive	Parties may petition the appropriate Regional Director for a waiver of the prior notice required. Waiver may be granted if it is found that delay could harm the credit union or the public interest.	None	No
<a href="#"><u>§701.21(h)</u></a> Third-party servicing of indirect vehicle loans	(1) A federally-insured credit union must not acquire any vehicle loan, or any interest in a vehicle loan, serviced by a third-party servicer if the aggregate amount of vehicle loans and interests in vehicle loans serviced by that third-party servicer and its affiliates would exceed: (i) 50 percent of the credit union's net	None	No

Reference	Description	Timeframe	Automatic Approval
	worth during the initial thirty months of that third-party servicing relationship; or (ii) 100 percent of the credit union's net worth after the initial thirty months of that third-party servicing relationship. (2) Regional directors may grant a waiver of the limits in paragraph (h)(1) of this section to permit greater limits upon written application by a credit union.		
<a href="#"><u>§715.9c(6)</u></a> Audit waiver	Specify a target date of delivery of the written reports. Such target date not to exceed 120 days from date of calendar or fiscal year-end under audit (period covered), unless the supervisory committee obtains a waiver from the supervising NCUA Regional Director	None	No
<a href="#"><u>§701.36</u></a> Occupancy waiver	NCUA may waive	Response within 45	No

Reference	Description	Timeframe	Automatic Approval
	<p>the requirement for a credit union to partially occupy premises within six years after the date of acquisition. Partially occupy means occupation and use, on a full-time basis, of at least fifty percent of each premises by the FCU, or the FCU and a CUSO in which the federal credit union has a controlling interest. To seek a waiver, a federal credit union must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director's decision will be based on safety and soundness considerations.</p>	days	
<a href="#"><u>S701.36</u></a> Abandoned premises waiver	<p>NCUA may waive the requirement for a credit union to dispose of abandoned property within five years of abandonment. To seek a</p>	RD response within 45 days	No

Reference	Description	Timeframe	Automatic Approval
	waiver, a federal credit union must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director's decision will be based on safety and soundness considerations.		
<a href="#"><u>§701.32(b)(3)</u></a> Non-member deposits waiver	NCUA may approve a maximum amount of non-member shares in excess of 20% of total shares or \$3 million (whichever is greater). Before accepting non-member shares in excess of the maximum amount, the credit union board of directors must adopt a specific written plan concerning the intended use of these shares and forward a copy of the plan to the Regional Director for determination.	RD response within 30 calendar days Unless otherwise specified by the RD, exemptions are normally for a two-year period.	No
<a href="#"><u>§701.22(b)(5)</u></a> Loan participation waiver	NCUA may approve	RD response within 45 cal-	No

Reference	Description	Timeframe	Automatic Approval
	<p>a waiver from internal policy requirements concerning loan participation purchases. To seek a waiver, the credit union must submit a written request to its Regional Director. Waivers from federally insured state-chartered credit unions required concurrence of the appropriate state supervisory authority.</p>	endar days	

[NSPM content](#) last updated September 15, 2017

## E. Periodic Review and Revocation of Waivers

Examiners will review outstanding regulatory waivers at every examination. Regions will review outstanding regulatory waivers every three years.<sup>1</sup> This requirement applies to any waiver that involves authority for ongoing activity (as opposed to a waiver for a single action).

The Regional Director may revoke a credit union's waiver, in whole or in part, for substantive, documented safety and soundness reasons. When revoking a waiver, the Regional Director must give written notice to the credit union stating the reasons for the revocation. The notice should also discuss where applicable the treatment and/or grandfathering of activities conducted while the waiver was in force. The revocation is effective upon the credit union's receipt of the letter from the Regional Director.

---

<sup>1</sup>The three year timeframe review began July 1, 2012.

Examiners should first discuss revocation with their supervisor. Examiners will submit a revocation package to their supervisor consisting of a memo, a draft letter, and any other documentation necessary to justify the revocation. The supervisor will send the revocation package to the region's DOS mailbox. The memo will include a discussion of:

- Background of the credit union and the problems
- Substantive safety and soundness justification
- Net worth and solvency considerations
- Outstanding administrative and/or documented corrective action

DOS will review the recommendation. If in agreement, DOS will prepare a concurrence summary to the Regional Director along with the field memo and draft letter. Upon signature, the revocation letter will be sent via expedited mail with a copy to the examiner and supervisor, and SSA if applicable.

A credit union has 60 days from the date of revocation to appeal the action to the NCUA's Supervisory Review Committee (SRC). If the SRC upholds the revocation, the credit union has 60 days from the date of the SRC's decision to appeal the action to the NCUA Board.

For more information about the Supervisory Review Committee, see IRPS 11-1, [Supervisory Review Committee](#) (as amended by IRPS 12-1).

*NSPM content* last updated July 29, 2015

## F. Waiver Monitoring

DOS and E&I are responsible for monitoring the consistency, soundness and appropriateness of regulatory waivers. E&I is responsible for evaluating consistency with policies and evaluating the overall trends in risk.

### **8. Division of Supervision Reporting Responsibilities**

- DOS will maintain supporting documentation for each approval/denial in the corresponding charter files.

- Regions will maintain reports that will track all regulatory waivers.<sup>1</sup>
- Regions will submit a list of the waivers granted, revoked, and outstanding to E&I on a semiannual basis.<sup>2</sup> At a minimum, listings will include:
  - Charter
  - Name
  - Assets
  - CAMEL rating (composite and component ratings)
  - Type of action
  - Action date
  - Resolution date (where applicable)
  - Status, expiration date (where applicable)
  - Comments
- Regions will provide a posting of all outstanding regulatory waivers on SharePoint and implement a process to review regulatory waivers every three years.

## **9. E&I Reporting Responsibilities**

- Review regional activity on a semiannual basis as a means of tracking regional and national trends for consistency and policy development
- Issue an annual national summary of the regional reports analyzing national trends
- Periodically request a sampling of actions taken under this section of the NSPM for quality control purposes as part of our ongoing quality assurance process

---

[NSPM content](#) last updated July 29, 2015

---

<sup>1</sup>Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions should ensure their current systems capture the required information.

<sup>2</sup>E&I is developing a platform to capture this information.

## 2. Occupancy Waiver

Excess space is only acceptable when a federal credit union bases a purchase on future needs as outlined in [§701.36 of NCUA rules and regulations](#).

The following templates related to occupancy waivers are available:

- [Respond to Incomplete Request for Occupancy Waiver](#)
- [Acknowledge Request for Occupancy Waiver](#)
- [Regional Summary of Occupancy Waiver Request](#)
- [Approve Request for Occupancy Waiver](#)
- [Deny Request for Occupancy Waiver](#)

### A. Acquired Premises for Future Expansion

For premises acquired for the purpose of future expansion, an FCU must partially occupy any within a reasonable period, but no later than six years after the date of acquiring the premises.

Partially occupy means occupation and use, on a full-time basis, of at least fifty percent of each premises by the FCU, or the FCU and a CUSO in which the federal credit union has a controlling interest. An FCU must submit a written request for a waiver from the partial occupancy provision or to exceed the six year timeframe.

### B. Abandoned Property

After premises have been abandoned for four years, an FCU must publicly advertise the property for sale. The federal credit union must complete the sale within five years of abandonment, unless NCUA waives this requirement.

To seek a waiver of either the partial occupancy requirement or disposal of abandoned property, an FCU must submit a written request to its regional office that fully explains why the FCU needs such a waiver. The Regional Director will base his or her decision on the reasonableness of achieving compliance with the occupancy provisions.

Requests which represent an effort to circumvent the occupancy provisions will be denied. The Regional Director will provide the FCU a written response, either approving or denying the waiver request, within 45 days of the completed request.

---

[NSPM content](#) last updated March 24, 2017

## C. Templates

- Respond to Incomplete Request for Occupancy Waiver
- Acknowledge Request for Occupancy Waiver
- Regional Summary of Occupancy Waiver Request
- Approve Request for Occupancy Waiver
- Deny Request for Occupancy Waiver

---

[NSPM content](#) last updated January 27, 2016

# **Template: Respond to Incomplete Request for Occupancy Waiver**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We reviewed your request to waive the partial occupancy / disposal of abandoned property requirement established in §701.36 of NCUA rules and regulations and have determined that the documentation received on Month XX, 20XX is not sufficient to perform an adequate review and make an informed decision. Therefore, I must defer your request at this time.

If you would like me to reconsider your request, please submit the following information, in addition to the information previously received by this office:

1. ???
2. ???
3. ???
4. ???

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Acknowledge Request for Occupancy Waiver**

Date

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We received your request for a waiver of the partial occupancy / disposal of abandoned property requirement established in §701.36 of NCUA rules and regulations on [date]. We will respond to your request by [within 45 days of receipt].

If you have any questions, please contact examiner [examiner name] at [phone number].

Sincerely,

[Name]  
Director of Supervision

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Regional Summary of Occupancy Waiver Request**

<b>REGIONAL SUMMARY Fixed Asset Waiver</b>	
<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total Shares and Retained Earnings</b>	
<b>Net Worth Ratio</b>	

**General FOM Description:**

**Reason for Request:**

**At a minimum, examiner should consider the following when evaluating a request:**

- Current financial statements including balance sheet and income statement
- Most recent FPR and examination report
- Reasonableness of the current strategic plan
- Necessity and purpose of the purchase
- Alternatives considered by the credit union
- Direct and indirect costs associated with the new acquisition as it relates to net income (i.e., increased maintenance, taxes and utilities, opportunity cost of lost investment income)
- Impact the acquisition will have on liquidity, income, and net worth over the next three to five years
- Adequacy of ALM policies and procedures
- FOM
- Appropriateness of the size, location, and value of the purchase
- Accessibility of building (if this is the reason for the waiver) to members
- Any negative local economic factors
- Assessment of management

**Balance sheet and income statement projections and assumptions**

(Are the pro forma financial statements reasonable? Consider direct and indirect costs associated with the new acquisition as it relates to net income (i.e., increased maintenance, taxes and utilities, opportunity cost of lost investment income). Consider whether any fixed assets will be disposed of or any present expenses eliminated as part of the proposed investment. *Consider the impact the acquisition will have on liquidity, income and net worth.*)

**Other pertinent information**

(Consider the appropriateness of the acquisition (i.e., size, location, value). Discuss any negative trends or concerns noted at previous examinations.)

**EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

(Discuss whether a contingency amount, in addition to the acquisition request should be approved (i.e., 1% of requested acquisition amount). Discuss an appropriate limit of future purchases (aggregate per year) (i.e., the dollar amount of annual depreciation).)

*Examiner's Recommendation:*

*SE/DSA Concurrence:*

**APPROVAL/DENIAL RECOMMENDATIONS****Analyst Comments:****APPROVE** **DISAPPROVE** 

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Regional Director \_\_\_\_\_ Date \_\_\_\_\_

# TEMPLATE: Approve Request for Occupancy Waiver

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I approve your request to waive the partial occupancy / disposal of abandoned property requirement established in §701.36 of NCUA rules and regulations on [date].

Based upon a review of all data submitted, you have been granted an additional [XX days/months] to meet the partial occupancy / disposal of abandoned property requirement. This approval will remain effective until Month XX, 20XX. **If you are unable to satisfy the regulatory requirement by Month XX, 20XX, you must submit a request to extend this waiver.**

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Deny Request for Occupancy Waiver**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your request to waive the partial occupancy / disposal of abandoned property requirement established in §701.36 of NCUA's rules and regulations. Based on our review of all data submitted, I cannot approve your request at this time.

Specifically, your request does not support the following:

- 
- 
- 

If you would like me to reconsider your request, please submit additional data/information addressing the items above to further support your fixed asset waiver request.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

### 3. Non-Member Deposits Limitation Waiver

Credit union public unit and nonmember accounts cannot exceed the greater of 20 percent of total shares or \$3.0 million unless approved by the Regional Director.

Nonmember share deposits in low-income designated credit unions accepted to meet the matching requirement for loans granted through the Community Development Revolving Loan Program are not subject to the 20 percent limitation on nonmember deposits. Additionally, credit unions must maintain the increase in the total amount of matching share deposits for the duration of the loan.

The following template letters are available related to nonmember deposit waivers:

- [Respond to Incomplete Request for Non-Member Deposit Exemption](#)
- [Acknowledge Request for Non-Member Deposit Exemption](#)
- [Respond to Violation of Non-Member Deposit Exemption](#)
- [Regional Summary of Non-Member Deposit Exemption](#)
- [Approve Request for Non-Member Deposit Exemption](#)
- [Deny Request for Non-Member Deposit Exemption](#)

If a violation is identified, DOS will respond to the violation using their preferred expedited mail delivery service available, to the credit union advising the board of directors they are in violation of the regulatory limit. The letter will require the board of directors to submit an acceptable plan within 30 days to bring the credit union into compliance (i.e., return nonmember deposits or other reasonable alternative action). If the credit union intends to continue additional nonmember deposit activity, it must submit a waiver package that provides sufficient support in accordance with 701.32(b)(3).

---

*[NSPM content](#) last updated July 29, 2015*

#### A. Templates

- [Respond to Incomplete Request for Non-Member Deposit Exemption](#)
- [Acknowledge Request for Non-Member Deposit Exemption](#)
- [Regional Summary of Non-Member Deposit Exemption](#)

- Approve Request for Non-Member Deposit Exemption
- Deny Request for Non-Member Deposit Exemption
- Respond to Violation of Non-Member Deposit Exemption

---

*[NSPM content](#) last updated July 29, 2015*

# **TEMPLATE: Respond to Incomplete Request for Non-member Deposit Exemption**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your request for an exemption of the 20 percent limitation on nonmember deposits pursuant to Section 701.32 of NCUA's rules and regulations. Unfortunately, the documentation received on Month XX, 20XX, is not sufficient for our staff to perform an adequate review and make an informed recommendation. Therefore, I must deny your request at this time.

You may choose to gather further information and discuss it with your examiner at your upcoming examination. If you wish for us to reconsider your request, please submit the following information, in addition to the information previously received by this office:

- A copy of the credit union's loan and investment policies
- The current plan adopted by the credit union's board of directors concerning the use of new public unit and nonmember shares, including:
  - A statement of the credit union's needs, sources and intended uses of public unit and nonmember shares
  - Provision for matching maturities of public unit and nonmember shares with corresponding assets, or justification for any mismatch
  - Provision for adequate income spread between public unit and nonmember shares and corresponding assets

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc: SE  
EX  
SSA (when applicable)

# **TEMPLATE: Acknowledge Request for Non-Member Deposit Exemption**

Date

SENT VIA FEDEX

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We received your [ DATE ] letter on [ DATE ] requesting an exemption from the nonmember deposit limitations of Section 701.32(b)(1) of the NCUA rules and regulations, which limits payment on shares and deposits from public unit and nonmembers to 20 percent of total shares or \$3.0 million, whichever is greater. *[For state credit unions, add: [name] Credit Union is subject to the limitations per Section 741.204 of the NCUA regulations.]*

My staff is reviewing this matter, and we will respond by [DATE – 30 days from date received].

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Regional Summary of Non-Member Deposit Exemption**

## **REGIONAL SUMMARY Nonmember Deposit Exemption**

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Net Worth Ratio</b>	
<b>Current Non-Member Deposit Balance</b>	
<b>Current Limit</b>	
<b>Proposed Limit</b>	

**General FOM Description:**

### **Reason for Request**

**§701.32(b)(2)) requires a specific written business plan be submitted to the Regional Director that includes a provision for matching maturities of public unit and nonmember shares with corresponding assets, or justification for any mismatch.** Examiners should evaluate the written plan to ensure the credit union includes "a provision for matching maturities of public unit and nonmember shares with corresponding assets, or justification for any mismatch." Per the Regulation, the plan must include:

- A statement of the credit union's needs, sources and intended uses of public unit and nonmember shares
- Provision for matching maturities of public unit and nonmember shares with corresponding assets, or justification for any mismatch
- Provision for adequate income spread between public unit and nonmember deposits and corresponding assets

A federal credit union seeking an exemption from the limits must submit a written request to the Regional Director that includes:

- The new maximum level of public unit and nonmember deposits requested, either as a dollar amount or a percentage of total shares
- The current plan adopted by the credit union's board of directors concerning the use of new public unit and nonmember deposits
- A copy of the credit union's latest financial statement
- A copy of the credit union's loan and investment policies

Examiners will ensure the credit union has documented:

- Maximum level of public unit accounts and nonmember deposits
- The credit union's need and intended use for the nonmember deposits in excess of the maximum amount permitted by §701.32(b) of [NCUA rules and regulations](#)
- Impact on profitability including the anticipated spread between the nonmember deposits and expected use of the funds

*Do you anticipate this request will have a material adverse impact on the credit union's the net worth classification? If yes, why?*

*Are there any anticipated material concerns that approval would have on the credit union's liquidity position? If yes, why?*

#### **Assessment of Management**

**Review of the most recent examination and/or follow-up report and FPR, noting any negative trends**

#### **Other Pertinent Information**

**SSA concurrence (if state-chartered):**

#### **EXAMINER AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

*Examiner's Recommendation:*

*Supervisor Concurrence:*

#### **APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Regional Director \_\_\_\_\_ Date \_\_\_\_\_

# **TEMPLATE: Approve Request for Non-Member Deposit Exemption**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your request for a nonmember deposit limit exemption pursuant to Section 701.32 of NCUA's rules and regulations. I approve your request for an increase in total nonmember deposits to \$XXX,XXX or X percent of shares and deposits. Please be advised only public unit accounts and deposits from other credit unions can be accepted without being designated as a low-income credit union.

This exemption will expire [Insert date, usually two years from approval date].

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Deny Request for Non-Member Deposit Exemption**

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your request for a nonmember deposit limitation exemption pursuant to Section 701.32 of NCUA's rules and regulations. My staff reviewed your written business plan as submitted. Based on the following problems noted during the current examination, I must deny your request at this time:

- Poor loan quality
- Lack of compliance with the Document of Resolution issued at the last examination
- Increasing delinquency
- Significant loan losses
- Uncontrolled loan growth

Upon correction of the above problems, I will be willing to reassess increasing your nonmember deposit limit. You may resubmit your request at that time.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Respond to Violation of Non-Member Deposit Exemption**

Date

SENT VIA FEDEX

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We received your [ DATE ] letter on [ DATE ] requesting an exemption from the nonmember deposit limitations of Section 701.32(b)(1) of the NCUA rules and regulations, which limits payment on shares from public unit and nonmembers to 20 percent of total shares and deposits or \$3.0 million, whichever is greater. *[For state credit unions, add [name] Credit Union is subject to the limitations per Section 741.204 of the NCUA regulations.]*

We cannot approve your request at this time. [DESCRIBE REASON FOR DENIAL]

We expect you to reduce the credit union's nonmember deposits to the regulatory limitation within thirty days of receiving this letter.

You may appeal this decision to the NCUA Board through this office. Please see Section 701.32(b)(2)(iv)(5) of the regulations for the appeals process. If you choose to appeal, submit your appeal request in a timely manner, providing specific reasons why you believe your request should be approved.

*OR*

Although you exceeded the limitation without prior approval, we are willing to allow the credit union to hold the excess nonmember deposits based on the recommendation of Examiner [examiner name]. However, all future exemption requests must be made prior to accepting nonmember deposits above the regulatory limitation.

This exemption authorizes you to accept nonmember deposits up to a maximum limit of [SPECIFY A PERCENTAGE OF TOTAL SHARES OR A DOLLAR AMOUNT]. This exemption is effective immediately and will expire on [SPECIFY A DATE NOT MORE THAN TWO YEARS FROM DATE OF APPROVAL]. Upon expiration of this exemption, you must apply for another exemption or reduce your nonmember deposits to the regulatory limitation of 20 percent of total assets or \$3.0 million, whichever is greater.

Mr. John Doe  
Date  
Page Two

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

## 4. Earnings Transfer Waiver

Sections [702.201](#) and [702.303](#) of the [NCUA rules and regulations](#) address earnings transfer requirements for credit unions subject to prompt corrective actions (PCA).

The following templates related to earnings transfer waivers are available :

- [Respond to Incomplete Request to Decrease Earnings Transfer Requirements](#)
- [Approve Request to Reduce Earnings Transfer Requirement](#)
  - Sections of this template apply onto to FICUs with undivided earnings deficits
- [Deny Request to Reduce Earnings Transfer Requirement](#)
- [Regional Summary of Decrease in Earnings Transfer Requirement](#)

---

*[NSPM content](#) last updated July 29, 2015*

## A. Earnings Retention

Beginning the effective date of classification as “adequately capitalized” or lower (less than seven percent net worth), credit unions must increase the dollar amount of their net worth quarterly by at least 0.1 percent of total assets. The 0.1 percent may be calculated from current quarter earnings or from average earnings over the current and three preceding quarters. A transfer of this amount or greater must be from Undivided Earnings to Regular Reserves on a quarterly basis until the credit union becomes “well capitalized.” New credit unions must also increase their net worth quarterly but by the amount reflected in their approved initial or Revised Business Plan (RBP). In the absence of such a plan a new credit union must increase their net worth quarterly in accordance with [§702.201](#).

There is always a quarter lag between when a credit union becomes less than well capitalized and when it needs to meet the earnings retention requirements and make a required reserve transfer. For example: XYZ Credit Union, whose net worth category declined to “adequately capitalized” as of March 31, is not required to meet the earnings requirement or make a reserve transfer that quarter because the effective date of its net worth classification is not until April 30. However, starting the quarter-ending June 30, the credit union will need to:

- Increase net worth quarterly and make an earnings transfer
- Request a reduction of the Earnings Transfer requirement if it projects it will not meet the quarterly earnings requirement
- Request approval from both the quarterly earnings and reserve transfer requirements if it projects it will not meet the quarterly earnings requirement and also has insufficient Undivided Earnings to make the required quarterly reserve transfer; or
- Request approval to pay dividends from the Regular Reserve as a transfer to the Undivided Earnings account when a deficit in Undivided Earnings exists

---

*[NSPM content](#) last updated July 29, 2015*

## B. Reduction of the Earnings Transfer Requirement

The credit union must submit a written request seeking approval to reduce the amount of Earnings Transfer no later than 14 days before the quarter-end if it cannot meet the earnings and transfer requirements. Examiners should be aware of and work with any credit unions that must meet the quarterly requirements.

At a minimum, requests for approval from the credit union must explain how the reduction in the earnings requirement is necessary to avoid a significant redemption of shares and further the purposes of PCA. "Furthering the purposes of PCA" can be documented by briefly explaining: why the credit union could not meet the quarterly earnings requirement and how management plans to resolve the earnings problem and increase net worth to meet PCA's capitalization requirements in future periods. Requests for approval that do not provide this basic information will not be processed.

Examiners must document and determine a lesser amount a) is necessary to avoid a significant redemption of shares and b) would further the purpose of PCA (as noted in 702.201(b)).

The Regional Director may also approve the reduction in earnings retention and the earnings transfer during the processing and approval of a NWRP. If the credit union projects earnings will not meet the earnings retention requirements during any quarter the plan covers, they may request approval for the quarter(s) when they submit their plan to the regional office.

When the plan is approved, the reduction in Earnings Transfer is also approved. However, if the credit union originally projects that earnings will be sufficient in their plan and then subsequently fails to meet the requirements, the appropriate request for approval must be submitted within the above timeframe.

In the case of a state-chartered credit union, the supervisor will request concurrence via phone or e-mail from the appropriate SSA. The SSA will also be copied on the Regional Director's letter to officials approving or denying the request. Examiners will note whether the SSA concurs with approval or denial for FISCUs in the Regional Summary. Section 702.205(c) no longer includes the earnings retention requirement of [§702.201](#) as a discretionary supervisory action. This means the SSAs cannot unilaterally approve earnings retention waiver requests from FISCUs.

---

*[NSPM content](#) last updated July 29, 2015*

## C. Templates

- Respond to Incomplete Request to Decrease Earnings Transfer Requirements
- Regional Summary of Decrease in Earnings Transfer Requirement
- Approve Request to Reduce Earnings Transfer Requirement
- Deny Request to Reduce Earnings Transfer Requirement

---

*[NSPM content](#) last updated July 29, 2015*

# **Template: Respond to Incomplete Request to Reduce Earnings Transfer Requirement**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I received your [ DATE ] letter requesting approval to waive your quarterly earnings transfer for the quarter ending [ DATE ]. I acknowledge receipt of your request; however, I cannot approve a reduction in the earnings transfer requirement without evidence to support a determination that such a reduction in the earnings transfer is necessary to avoid a significant redemption of shares as stated in 12 CFR §702.201(b).

I will reconsider your request if you provide evidence of your need to pay dividends at your current rates, such as a rate survey of your local area with a comparison to the credit union's rates, by [ DATE – Note – must be approved by last day of month ].

In the future, requests to reduce the earnings transfer must be received by this office 14 days prior to the quarter end in which a reduction in the earnings transfer is necessary. You should adjust operations to the extent possible to generate sufficient earnings to make the transfer.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Regional Director Name]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# Template: Regional Summary of Decrease in Earnings Transfer Requirement

EARNINGS WAIVER AND TRANSFER FORM	
<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total Net Worth</b>	
<b>Net Worth Ratio</b>	
<b>Net Worth Category</b>	

**Projected Net Income for the Quarter**

**PCA Required Income for the Quarter (.1%)**

**Is the waiver of the required earnings retention and/or earnings transfer necessary to avoid a significant redemption of shares? (Reason for request)**

**Would the waiver of the required earnings retention and/or earnings transfer further the purpose of PCA? (Is action plan appropriate to increase net worth?)**

**Are projected dividend rates reasonable? (If not included with request, examiner needs to contact CU (or SSA if needed) for documentation)**

**Comments and Other Pertinent Information: (Optional)**

## APPROVAL/DENIAL RECOMMENDATIONS

*Examiner Recommendation:*

*Supervisor Concurrence:*

*Analyst Comments:*

# Template: Approve Request to Reduce Earnings Transfer Requirement

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED (IF APPLICABLE)

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I am responding to your request for a decrease in Earnings Requirements and Reserve Chargeback pursuant to Section 702.201 [and, if applicable, Sections 702.401 and 702.403] of NCUA rules and regulations, received [date] and [date] respectively, necessary due to ABC Federal Credit Union's low net worth position.

## Earnings Transfer Reduction

ABC Federal Credit Union has reported net worth less than seven percent since [date]. Because of this, Section 702.201 of the Regulation requires the credit union to earn sufficient earnings to increase the dollar amount of its net worth by 0.10 percent of assets either in the current quarter or an average over the current and three preceding quarters, and to transfer this amount from Undivided Earnings to Regular Reserves or obtain my approval for a smaller net worth increase and earnings transfer. I have not received any such requests prior to the request at hand. I will not approve decreases in the earnings transfer requirements for prior periods.

However, I will approve a waiver for the quarter ending [date]. This waiver will eliminate the requirement to increase net worth by the 0.10 percent amount and to transfer that amount from Undivided Earnings to Regular Reserves at [date]. However, you must transfer any positive net income for the quarter from Undivided Earnings to Regular Reserves up to 0.10 percent of assets.

[If applicable, Regional Director Response to A FICU's Request to Charge Regular Reserves Where The FICU Has Depleted Its Undivided Earnings And The Charge Will Cause the FICU's Net Worth Classification To Fall Below "Adequately Capitalized"]

## Charge to Regular Reserves

Pursuant to Section 702.401(c) of the Regulation, the ABC Federal Credit Union must have enough funds in Undivided Earnings to cover losses and the payment of dividends. A transfer of funds from Regular Reserves to Undivided Earnings to cover a deficit in Undivided Earnings is possible, but a credit union with your level of net worth must first obtain my approval. I cannot approve your request for a [dollar amount] charge to Regular Reserve as it exceeds your expected deficit in Undivided Earnings. I am authorizing you to transfer from Regular Reserve only the amount necessary to clear (bring to a \$0 balance) the deficit in Undivided Earnings,

estimated as the amount of deficit reported at [date] [dollar amount] minus earnings for the [xx] quarter of [date]

*[If applicable, Regional Director Response to A FICU's Request to Pay Dividends Where The FICU Has Depleted Its Undivided Earnings And The Payment Will Cause the FICU's Net Worth Classification To Fall Below "Adequately Capitalized"]*

*Payment of Dividends*

I am approving your request to pay dividends in accordance with Section 702.403(b)(2) of the Regulation. You are authorized to pay dividends not to exceed the rates submitted in your request [*or proposed Net Worth Restoration Plan, received [date]*]. As a reminder, you must ensure the Allowance for Loan and Lease Loss account is properly funded prior to the payment of dividends.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **Template: Deny Request to Reduce Earnings Transfer Requirement**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I received your [ DATE ] letter requesting approval to reduce the amount of your quarterly earnings transfer for the quarter ending [QUARTER END DATE ]. I acknowledge receipt of your request; however, I cannot approve a reduction in the earnings transfer requirement for [QUARTER END DATE ]. Specifically, I cannot approve your request because [CU NOT MEETING EXPENSE GOALS IN ITS APPROVED RBP/NWRP/LUA, PAYING DIVIDENDS ABOVE CURRENT MARKET, ETC.]. I remind you that any income earned during the quarter must be transferred to the regular reserve even if it does not meet the regulatory requirements.

In the future, you should adjust operations to the extent possible to generate sufficient earnings to make the transfer. Requests to reduce the earnings transfer must be received by this office 14 days prior to the quarter end in which a reduction in the earnings transfer is necessary. Your request must include evidence of your need to pay dividends at your current rates, such as a rate survey of your local area with a comparison to the credit union's rates.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

## 5. Loan Participation Waiver

[Section 701.22\(b\)\(5\)](#) of [NCUA rules and regulations](#) establishes single originator and single borrower concentration limits for federally insured credit unions. Section 701.22(c) permits federally insured credit unions to request a waiver of these limitations from the appropriate Regional Director.

In addition to the information provided in this manual, examiners will reference Supervisory Letter 13-04, [Supervision Guidance on Loan Participation Waivers](#), when reviewing waiver requests under [§701.22\(c\)](#). The supervisory letter was also issued under Letter to Credit Unions 13-CU-07, [Loan Participation Waivers](#).

The following templates related to loan participation waivers are available:

- [Respond to Incomplete Request for Loan Participation Limit Waiver](#)
- [Acknowledge Request for Loan Participation Limit Waiver](#)
- [Regional Summary of Loan Participation Limit Waiver](#)
- [Approve Request for Loan Participation Limit Waiver](#)
- [Deny Request for Loan Participation Limit Waiver](#)

### A. Field Staff Responsibilities

Examiners and their supervisors are responsible for evaluating the risk posed by the loan participation waiver request. During the evaluation, the examiner should review all pertinent documents and information to determine if an onsite contact is necessary.

If this is a new program or the examiner does not have historical information to draw upon, strong consideration to go onsite to evaluate the participation program and the credit union's current business strategy should be given. If the waiver is complex, the examiner and/or supervisor should consider seeking assistance from a regional lending specialist (RLS) who may be able to offer additional support for concurrence or denial.

---

[NSPM content](#) last updated July 29, 2015

## B. Templates

- Respond to Incomplete Request for Loan Participation Limit Waiver
- Acknowledge Request for Loan Participation Limit Waiver
- Regional Summary of Loan Participation Limit Waiver
- Approve Request for Loan Participation Limit Waiver
- Deny Request for Loan Participation Limit Waiver

---

*[NSPM content](#) last updated July 29, 2015*

# **TEMPLATE: Respond to Incomplete Request for Loan Participation Limit Waiver**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your credit union's request for a loan participation limitation waiver pursuant to Section 701.22(b)(5)(ii or iv) of the NCUA rules and regulations. Unfortunately, the documentation received on Month XX, 20XX is not sufficient for my staff to perform an adequate review and make an informed recommendation. Therefore, I cannot act on your request at this time.

Please submit the following information, in addition to the information previously received by this office, in order for us to reconsider your request:

- 1.
- 2.

As a reminder, your request cannot be processed until it has been completed. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Acknowledge Request for Loan Participation Limit Waiver**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

We received your request for a loan participation limitation waiver pursuant to Section 701.22(b)(5)(ii or iv) of the NCUA rules and regulations on [date]. My staff is reviewing this matter, and we will respond to your request by [45 days from date of receipt of completed waiver request, including any written concurrence if required].

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Regional Summary of Loan Participation Limit Waiver**

## **REGIONAL SUMMARY Loan Participation Limitation Waiver**

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Net Worth Ratio</b>	

### **FOM Description**

#### **Type of Waiver and Limit Requested**

#### **Reason for Request**

Include a discussion of the need to raise the limit.

#### **Assessment of Management**

Discuss whether the credit union included documentation supporting its ability to manage the activity.

#### **Financial condition, trends and projections**

#### **Analysis as outlined in Supervisory Letter 13-4:**

- The credit union's financial capacity, management capability, and experience to absorb and manage the type of risk being assumed
  - This includes the credit union's ability to conduct due diligence tailored to the complexity of the third-party relationships involved.
- The credit union's history of financial and operational performance
  - Credit unions need to exhibit financial strength and consistent operating performance to warrant a waiver.
- Loan participation policies and procedures that encompass the types of loans the credit union will purchase, underwriting standards, concentration limits for collateral types, geographical locations, and other key risk factors
- The capability of the credit union's risk management systems and processes including:
  - Quality control procedures such as post-closing review of documents.
  - Quality and comprehensiveness of the master participation agreement(s).
  - Effectiveness of credit administration.

- Monitoring of the liquidity and financial health of the originating lender, servicer or both.

Credit unions requesting blanket waivers need to meet high standards of lending and management capability, including:

- Strong loan underwriting and demonstrated portfolio management expertise that include:
  - Appropriate lending, accounting, and legal expertise
  - Appropriate policies, procedures, quality and internal controls
  - Effective portfolio monitoring techniques, scaled to the size and complexity of the portfolio and types of credit in the portfolio
  - Effective, well developed, corporate governance practices
  - Sufficient levels of net worth consistent with the size, concentrations, and complexity of risks present in the credit unions business model

Considerations of applications for waiver of the single borrower concentration limit:

- The creditworthiness of the borrower as evidenced by appropriate underwriting and risk evaluation procedures for the type of credit
- The quality underwriting for loans previously granted to the specified borrower
- How effectively the credit union appropriately segregates and monitors performance of loans that previously received waivers

### **Other pertinent information**

The review should also include:

- The ability to manage the loan participation program including current performance
- A review of the previous examination report to determine if weaknesses in participation lending exist

### **SSA concurrence (if state-chartered):**

#### **EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

*Examiner's Recommendation:*

*Supervisor Concurrence:*

## **APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

---

**APPROVE**

**DISAPPROVE**

Regional Director \_\_\_\_\_ Date \_\_\_\_\_

# **TEMPLATE: Approve Request for Loan Participation Limit Waiver**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your credit union's request for a loan participation limitation waiver pursuant to Section 701.22(b)(5)(ii or iv) of the NCUA rules and regulations. I authorize your credit union to purchase [enter approval limits]. This waiver extends through [Month XX, 20XX] – *for blanket waivers.*

This approval is contingent upon your credit union's compliance with all other requirements of Part 701 of the NCUA rules and regulations as well as the implementation of safe and sound lending practices. This waiver may be terminated at any time upon violation of any law or regulation governing federally insured credit unions, or if lending practices and procedures are deemed unsafe by NCUA.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

# **TEMPLATE: Deny Request for Loan Participation Limit Waiver**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

I reviewed your credit union's request for a loan participation limitation waiver pursuant to Section 701.22(b)(5)(ii or iv) of the NCUA rules and regulations. As indicated in your letter, you are requesting to raise the credit union's limit from [enter requested limit and type]. Based on the Month XX, 20XX, financial statements, X percent of net worth is \$XXX,XXX.

A loan participation limit of X places undue risk on the balance sheet in relation to the capital position of the credit union. [Expand on reasons]

Based on the above information and the information presented in your letter dated Month XX, 2001, I deny your request to exceed the limitation of Section 701.22.

You may appeal this decision in writing to the NCUA Board. Your appeal must include all information requested in Section 701.22 and why you disagree with the decision. Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[NAME]  
Regional Director

[Office]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:      SE  
          EX  
          SSA (when applicable)

## 6. Secondary Capital

Section 107(6) of the [Federal Credit Union Act](#) authorizes federal credit unions serving predominantly low-income members to receive shares, share drafts and share certificates from non-members. In order to use this authority, a federal credit union must receive a low income designation from its Regional Director. These credit unions are considered low income credit unions. See NCUA's [Low Income Designation Fact Sheet](#) for more information on the low-income designation process.

[NCUA rules and regulations §701.34](#) and [§741.204](#) allow federally insured credit unions designated with low-income status to accept secondary capital accounts from non-natural person members and non-natural person non-members subject to certain conditions (see [Required Information](#)). Increased capital is intended to enable FICUs to support greater lending and improve other financial services for the limited income groups and communities they serve.

Certain restrictions are placed on these accounts. Foremost is the accounts may be offered only to organizational investors, not to natural person members or other natural person investors. The regulation requires written notice from the LICU and Regional Director approval prior to accepting secondary capital accounts.

---

[NSPM content](#) last updated July 29, 2015

### A. Secondary Capital Plans

Low-income designated credit unions may accept secondary capital accounts in accordance with NCUA rules and regulations [§701.34\(b\)](#).

Under §701.34(b)(1), prior to accepting any uninsured secondary capital accounts, a LICU's board of directors must adopt a Secondary Capital Plan and forward it to the appropriate NCUA Regional Director for approval. LICUs that are also FISCUs must submit the plan to both the Regional Director and the state supervisory authority for approval in accordance with [§741.204\(c\)](#).

#### **1. Required Information**

Each secondary capital plan must meet the minimum regulatory requirements outlined in [§701.34\(b\)\(1\)](#), which require a credit union to:

- State the maximum aggregate amount of uninsured secondary capital the LICU plans to accept
- Identify how the secondary capital will be used, and how it will be repaid
- Explain how the LICU will provide for liquidity to repay the secondary capital accounts upon maturity of the accounts
- Demonstrate that the planned uses conform with the LICU's strategic plan, business plan and budget, and
- Include supporting pro-forma financial statements, including any off-balance sheet items, covering a minimum of the next two years

## ***2. Approval Timeframe***

Approval is automatic if a LICU is not notified that the plan was approved or disapproved by the appropriate Regional Director within 45 days of receipt.

## ***3. Secondary Capital Account Requirements***

Secondary capital accounts accepted by aLICU must meet various regulatory requirements, including:

- The secondary capital account must be established as an uninsured secondary capital account or other form of non-share account
- The maturity of the secondary capital account must be a minimum of five years
- The secondary capital account will not be insured by the NCUSIF or any governmental or private entity
- The secondary capital account investor's claim against the LICU must be subordinate to all other claims including those of shareholders, creditors, and the NCUSIF
- Funds deposited into a secondary capital account, including interest accrued and paid into the secondary capital account, must be available to cover losses realized by the LICU that exceed its net available reserves (exclusive of secondary capital and allowance accounts for loan and lease losses), and to the extent the funds are so used, the LICU must not restore or replenish the account under any circumstances

(See [§701.34\(b\)\(7\)](#) for additional requirements related to interest payments and loss distribution for secondary capital accounts.)

- The secondary capital account may not be pledged or provided by the account investor as security on a loan or other obligation with the LICU or any other party
- A secondary capital account contract agreement must be executed by an authorized representative of the account investor and of the LICU reflecting the terms and conditions mandated in [§701.34](#) of NCUA's rules and regulations, and any other terms and conditions not inconsistent with regulatory requirements
- An authorized representative of the LICU and of the secondary capital account investor each must execute a "Disclosure and Acknowledgment" as set forth in the [Appendix to §701.34](#) at the time of entering into the account agreement

See [§701.34](#) for additional accounting and recordkeeping requirements.

#### **4. Division of Supervision Initial Responsibilities**

Within five calendar days of the regional office receiving a plan, DOS will perform a cursory review to determine whether the plan and proposed secondary capital account(s) meet the minimum regulatory requirements.

If a plan does not address the required elements of [§701.34\(b\)\(1\)](#) or the proposed secondary capital account(s) does not meet regulatory requirements, DOS will:

- Contact the credit union to obtain the missing information, or
- Prepare an incomplete or denial letter and send it to the credit union by the region's preferred expedited mail delivery
  - Use the [Respond to Incomplete Proposed Secondary Capital Plan](#) template if the Regional Director opts to defer the request, and ensure the letter lists the required information the credit union must submit for the region to reconsider the plan.
  - Use the [Deny Secondary Capital Plan](#) template if the Regional Director opts to deny the plan.

DOS will copy the examiner, supervisory examiner, and SSA, if applicable, on the letter.

If a plan addresses the required elements of [§701.34\(b\)\(1\)](#) and the proposed secondary capital account(s) meets regulatory requirements, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union using the region's preferred expedited mail delivery service (for a FISCU, DOS will copy the SSA on the letter)
- Prepare and send a work assignment to the field that includes the credit union's request, the plan, supporting documentation, and request a recommendation for approval or denial

## **5. Field Staff Review Responsibilities**

Examiners, their supervisor, and, when appropriate, Regional Capital Markets Specialists will evaluate a credit union's plan. In evaluating the plan, field staff will:

- Complete the [Secondary Capital Questionnaire](#)
  - Field staff may not request credit union officials or employees fill out the questionnaire, which is strictly for NCUA field staff use as a guide when reviewing Secondary Capital Plans. See the Capital Section (under development) of the Examiner's Guide for additional guidance on reviewing Secondary Capital Plans.
- Contact the credit union to conduct an interview with management (field staff may use the [Secondary Capital Questionnaire](#) as a guide for the conversation)
- Complete a [Regional Summary](#) to include an approval or denial recommendation
- For federal credit unions, draft a letter to approve or deny the proposed plan using the appropriate template
  - A letter informing the credit union of denial must identify required documentation under [§701.34\(b\)\(1\)](#) that is missing or insufficient. The denial letter must also discuss any related unsafe and unsound condition, including why it is considered unsafe and unsound. Denial letters should not instruct a credit union to resubmit the plan.
- Email the [approval](#) or [denial](#) letter (for federal credit unions), the Regional Summary, and any supporting documentation to their supervisor

The field supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

## ***6. DOS Processing and Review Responsibilities***

Upon receipt of an examiner's recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the Regional Director do not agree with the field recommendation, the reasons for the different conclusion will be discussed with the field supervisor. The field will be given the opportunity to further support or revise their recommendation. Regions may consult with the Office of Examination and Insurance during the review process.

Regional Directors have the authority to approve secondary capital plans. Concurrence from E&I is not required. E&I is available to provide additional expertise in the analysis and can provide assistance with the correspondence related to the Regional Director's decision.

DOS finalizes the response letter for the Regional Director's signature:

- For federal credit unions, DOS will send the response letter directly to the credit union
- For FISCUs, DOS will send a letter with the Regional Director's concurrence for approval to the SSA
- In the case of disapproval, DOS will send a letter with the Regional Director's disapproval to both the SSA and the credit union

## ***7. Regional Director Responsibilities***

Regional Directors will only approve secondary capital plans if:

- All information required under [§701.34\(b\)\(1\)](#) was included in the plan or provided as support
- The proposed secondary capital account(s), and all other actions outlined in the plan (for example, lending and borrowing), comply with applicable regulatory requirements
- The acceptance and use of the secondary capital does not create an unsafe and unsound condition

For FISCUs, the SSA must grant or deny the request with the concurrence of the Regional Director, in accordance with [§741.204\(d\)](#).

---

*NSPM content* last updated July 31, 2018

## A. Secondary Capital Redemptions

The board of directors of a LICU may submit a written request to redeem secondary capital to the Regional Director for approval. Under [§741.204\(d\)](#), FISCUs must also submit the request to the state supervisory authority, who will approve or deny the request with the concurrence of the Regional Director.

[Section 701.34\(d\)\(1\)](#) contains the minimum requirements to redeem secondary capital:

- The credit union has a post-redemption net worth classification of "adequately capitalized" under [Part 702](#)
- The discounted secondary capital has been on deposit at least two years
- The discounted secondary capital will not be needed to cover losses prior to the final maturity of the account
- The credit union's books and records are current and reconciled
- The proposed redemption will not jeopardize other current sources of funding, if any, to the credit union, and
- The request to redeem is authorized by resolution of the LICU's board of directors

The request to redeem discounted secondary capital may be approved in whole or in part.

### **1. Required Information**

The Secondary Capital Redemption request must be submitted in writing, specify the increment(s) to be redeemed and the schedule for redeeming any part of the eligible increment, and must demonstrate the LICU can meet the minimum requirements of [§701.34\(d\)\(1\)](#).

Credit unions may only redeem secondary capital that is not recognized as net worth under [§701.34\(c\)\(2\)](#) in accordance with the remaining maturity schedule.

## **2. Approval Timeframe**

If a LICU is not notified of approval or denial within 45 days of receipt of a request for approval to redeem, it may proceed to redeem secondary capital as proposed.

## **3. DOS Initial Responsibilities**

Within five calendar days of the regional office receiving the SCR, DOS will perform a cursory review to determine whether the request meets the minimum requirements of [NCUA rules and regulations §701.34\(d\)\(1\)](#).

If the SCR is considered **incomplete**, DOS will:

- Contact the credit union to obtain the missing information, or
- Prepare an incomplete or denial letter and send it to the credit union by the region's preferred expedited mail delivery, and copy the examiner, supervisory examiner, and SSA (if applicable) on the letter
  - Use the Respond to Incomplete Proposed Secondary Capital Redemption template if the Regional Director opts to defer the request. Ensure the letter lists the required information the credit union must submit for the region to reconsider the plan.
  - Use the Deny Secondary Capital Redemption template if the Regional Director opts to deny the plan.

If the SCR is considered **complete**, DOS will determine whether the credit union qualifies for streamlined approval.

To qualify for streamlined approval, the credit union must meet the minimum requirements specified in [§701.34\(d\)\(1\)](#) of [NCUA rules and regulations](#) and the following criteria:

- Composite CAMEL rating of 1 or 2
- The credit union has properly recognized costs and impairments consistent with GAAP
- Net worth trends are stable or growing, and the credit union will have a post-redemption net worth classification of "well capitalized" under [Part 702](#)

- The credit union's post-redemption capital level will remain sufficient relative to any extraordinary risks associated with its financial and operational activities

If the federal credit union meets the requirements for streamlined approval, DOS will prepare an [approval letter](#) and send it to the credit union by the region's preferred expedited mail delivery service. For FISCUs, DOS will send a letter with the Regional Director's concurrence for approval to the SSA.

If a credit union does not meet the requirements for streamlined approval, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union using the region's preferred expedited mail delivery service (For FISCUs, DOS will copy the SSA on the letter.)
- Prepare and send a work assignment to the field that includes the credit union's request, the SCR, supporting documentation, and request a recommendation for approval or denial

#### ***4. Field Staff Review Responsibilities***

If assigned, the examiner will evaluate the credit union's SCR request. After evaluating the SCR request, the examiner will:

- Complete a [Regional Summary](#) to include an approval or denial recommendation
- Draft a letter to approve (or partially approve) or deny the request using the appropriate template
  - [Approve Request to Redeem Secondary Capital](#)
  - [Deny Request to Redeem Secondary Capital](#)
- Email the letter, the Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

#### ***5. DOS Processing and Review Responsibilities***

Upon receipt of the examiner's recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the Regional Director do not agree with the field recommendation, the reasons for the different conclusion will be discussed with the field supervisor. The field will be given the opportunity to further support or revise their recommendation.

DOS finalizes the response letter for the Regional Director's signature. For federal credit unions, DOS will mail the signed letter to the credit union using the region's preferred expedited mail delivery service and copy both the examiner and supervisor.

For FISCUs, DOS will send a letter with the Regional Director's concurrence for approval to the SSA. In the case of disapproval, DOS will send a letter with the Regional Director's disapproval to both the SSA and the credit union.

---

*[NSPM content](#) last updated July 31, 2018*

## B. Secondary Capital Plan Application Templates

- Respond to Incomplete Proposed Secondary Capital Plan
- Acknowledge Submission of Secondary Capital Plan
- Regional Summary of Secondary Capital Plan Application
- Approve Secondary Capital Plan with Contingency
- Approve Secondary Capital Plan
- Deny Secondary Capital Plan
- Secondary Capital Plan Questionnaire

## C. Secondary Capital Redemption Request Templates

- Acknowledge Request to Redeem Secondary Capital
- Regional Summary of Request to Redeem Secondary Capital
- Approve Request to Redeem Secondary Capital
- Deny Request to Redeem Secondary Capital

---

*[NSPM content](#) last updated July 31, 2018*

# **TEMPLATE: Respond to Incomplete Proposed Secondary Capital Plan**

Date

## **Sent Via – FEDERAL EXPRESS – Signature Required**

Name  
Board Chairperson  
Address  
City, State Zip

Dear Mr./Mrs. Name:

We reviewed your credit union's proposed Secondary Capital Plan and application received on [insert date]. The plan and supporting documents do not meet the requirements of Section 701.34 of the NCUA rules and regulations. The documentation is not sufficient to perform an adequate review and make an informed decision. Therefore, I must defer your request at this time.

If you would like me to reconsider your request, please submit the following information, in addition to the information previously received by this office:

1. XX
2. XX
3. XX

If you have any questions, please contact supervision analyst [insert name] at [phone number].

Sincerely,

[NAME]  
Regional Director

[OFFICE]/DOS/XXX:XX  
FCU/SCU-XX

cc:     Jane Smith, CEO  
         SE  
         EX  
         SSA (when applicable)

# **TEMPLATE: Acknowledge Submission of Secondary Capital Plan**

Date

Mr. John Doe  
Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [insert date], we received your Secondary Capital Plan submitted for our approval pursuant to Section 701.34(b) of the NCUA rules and regulations. We will respond to your request by [45 days from receipt date].

If you have any questions, please contact supervisory examiner [full name] or examiner [full name] at [phone number].

Sincerely,

[NAME]  
Director of Supervision

[Office]/DOS/XXX:XX  
FCU XXXXX-XX

cc:     Jane Smith, CEO  
         SE Name  
         EX Name  
         SSA – State (if applicable)

bcc:    FCU XXXXX  
         ARDP Name  
         Reading

# **TEMPLATE: Regional Summary of Secondary Capital Plan**

<b>REGIONAL SUMMARY</b> <b>Secondary Capital Plan Application</b>	
<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Current Net Worth Ratio</b>	
<b>Proposed Net Worth Ratio</b>	
<b>Proposed Uninsured Secondary Capital Amount</b>	

**General FOM Description:**

**Reason for Request and Strategy for Funds Received:**

At a minimum, the examiner must review the Secondary Capital Plan (Plan) to ensure it was approved by the Board of Directors and addresses the following regulatory requirements from §701.34(b)(1):

- 1. Does the Plan state the maximum aggregate amount of uninsured secondary capital the credit union plans to accept?**
  
- 2. Does the Plan identify the purpose for which the aggregate secondary capital will be used, and how it will be repaid?**
  
- 3. Does the Plan explain how the credit union will provide for liquidity to repay the secondary capital upon maturity of the accounts?**
  
- 4. Does the Plan demonstrate the planned uses of secondary capital conform to the credit union's strategic plan, business plan, and budget?**
  
- 5. Does the Plan include supporting pro forma financial statements, including any off-balance sheet items, covering a minimum of the next two years?**

**Balance sheet and income statement projections and assumptions**

(Consider the impact the secondary capital account will have on liquidity, income, and net worth.)

**Other pertinent information**

(Consider the appropriateness of the secondary capital account. Discuss any negative trends or concerns noted at previous examinations that could impact credit union viability.)

**EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

*Examiner's Recommendation:*

*SE/DSA Concurrence:*

**APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Regional Director \_\_\_\_\_ Date\_\_\_\_\_

# **TEMPLATE: Approve Secondary Capital Plan with Contingency**

Date

Name  
Board Chairperson  
Address  
City, State Zip

Dear Mr./Mrs. Name:

I reviewed your credit union's proposed Secondary Capital Plan and application received on [insert date], followed with additional information that completed your application on [insert date if needed]. The plan and supporting documents meet the requirements of Section 701.34 of the NCUA rules and regulations. I approve your request to accept \$[insert amount] from the National Federation of Community Development Credit Unions (Federation) for a term of XX years with the below condition.

Please note my approval is contingent upon this office receiving copies of the signed loan agreement, note, and disclosure and acknowledgement within 10 days of both parties signing. Please ensure the loan agreement, note, and disclosure and acknowledgement are identical to the final unsigned ones submitted to this office. If these documents are not identical in all regards, you will need to obtain my approval prior to signing and receiving the funds.

If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

[NAME]  
Regional Director

[Office]/DOS/XXX:XX  
FCU/SCU-XX

cc:     Jane Smith, CEO  
         SE  
         EX  
         SSA (when applicable)

bcc:    FCU/SCU \*  
         ARDP or ARDO  
         Reading  
         FU [Date] to SA [insert name]

# **TEMPLATE: Approve Secondary Capital Plan**

Date

Name  
Board Chairperson  
Address  
City, State Zip

Dear Mr./Mrs. Name:

I reviewed your credit union's proposed Secondary Capital Plan and application received on [insert date], followed with additional information that completed your application on [insert date, if needed]. The plan and supporting documents meet the requirements of Section 701.34 of NCUA rules and regulations.

As such, I approve your request to accept \$[insert amount] from the National Federation of Community Development Credit Unions (Federation) for a term of XX years with the below condition.

Please note that my approval is contingent upon this office receiving copies of the signed loan agreement, note, and disclosure and acknowledgement within 10 days of both parties signing. Please ensure the loan agreement, note, and disclosure and acknowledgement are identical to the final unsigned ones submitted to this office. If these documents are not identical in all regards, you will need to obtain my approval prior to signing and receiving the funds.

If you have any questions, please contact supervision analyst [insert name] at [phone number].

Sincerely,

[NAME]  
Regional Director

[Office]/DOS/XXX:XX  
FCU/SCU-XX

cc:     Jane Smith, CEO  
         SE  
         EX  
         SSA (when applicable)

bcc:    FCU/SCU \*  
         ARDP or ARDO  
         Reading  
         FU [Date] to SA [insert name]

# **TEMPLATE: Deny Secondary Capital Plan**

Date

**SENT BY CERTIFIED MAIL**

Name  
Board Chairperson  
Address  
City, State Zip

Dear Mr./Mrs. Name:

We reviewed your credit union's proposed Secondary Capital Plan (plan) and application received on [insert date]; however, we cannot approve your acceptance of secondary capital at this time. We noted the following deficiencies with your request:

1. XX
2. XX
3. XX

If you have any questions, please contact supervision analyst [insert name] at [phone number].

Sincerely,

[NAME]  
Regional Director

[Office]/DOS/XXX:XX  
FCU/SCU-XX

cc: Credit Union CEO  
SE  
EX  
SSA (when applicable)

bcc: FCU/SCU \*  
ARDP or ARDO  
Reading  
FU [Date] to SA [insert name]

# **TEMPLATE: Acknowledge Request to Redeem Secondary Capital**

Date

Mr. John Doe  
Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On Date, we received your request to redeem \$XXXX in secondary capital from the US Treasury Department's Community Development Capital Initiative program. We will respond to your request by [45 days from receipt date].

If you have any questions, please contact supervisory examiner [Full Name] or examiner [Full Name] at [phone number].

Sincerely,

[NAME]  
Director of Supervision

[Office]/DOS/XXX:XX  
FCU XXXXX-XX

cc:     Jane Smith, CEO  
         SE Name  
         EX Name

bcc:    FCU XXXXX  
         ARDP Name  
         Reading

# **TEMPLATE: Regional Summary of Request to Redeem Secondary Capital**

<b>REGIONAL SUMMARY</b> <b>Secondary Capital Plan Redemption</b>	
<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>Supervisor Name</b>	
<b>Examiner Name</b>	
<b>CAMEL Rating / Effective Date</b>	
<b>Financial Data Date</b>	
<b>Total Assets</b>	
<b>Total Shares and Retained Earnings</b>	
<b>Current Net Worth Ratio</b>	
<b>Proposed Net Worth Ratio</b>	
<b>Current Cash and Short-term Investment Ratio</b>	
<b>Proposed Cash and Short-term Investment Ratio</b>	

**General FOM Description:**

**Reason for Request:**

**Strategy for Secondary Capital Plan Funds:**

(Review the credit union's initial submission, document the initial plan for the funds and if implementation was successful. Why or why not?)

**At a minimum, the examiner must consider the following when evaluating a request:**

- The credit union will have a post-redemption net worth classification of "adequately capitalized" under part 702
- The discounted secondary capital has been on deposit at least two years
- The discounted secondary capital will not be needed to cover losses prior to the final maturity of the account
- The credit union's books and records are current and reconciled
- The proposed redemption will not jeopardize other current sources of funding, if any, to the credit union
- The request to redeem is authorized by resolution of the LICU's board of directors

**Balance sheet and income statement projections and assumptions**

(Consider the impact the redemption will have on liquidity, income and net worth.)

**Other pertinent information**

(Consider the appropriateness of the redemption. Discuss any negative trends or concerns noted at previous examinations that could impact credit union viability.)

**EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:**

*Examiner's Recommendation:*

*SE/DSA Concurrence:*

**APPROVAL/DENIAL RECOMMENDATIONS**

**Analyst Comments:**

**APPROVE** **DISAPPROVE** 

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Regional Director \_\_\_\_\_ Date \_\_\_\_\_

# **TEMPLATE: Approve Request to Redeem Secondary Capital**

Date

First Last Name  
Board Chairperson  
Address  
City, State Zip

Dear Mr./Mrs. Name:

I have reviewed your credit union's request for secondary capital redemption for the amount of \$XX.XX that was received on [insert date]. The request and supporting documents meet the requirements of Section 701.34(d)(1) of the NCUA rules and regulations. As such, I approve your request to redeem \$[insert amount] in the prescribed amounts and over the time period stated in your request.

If you have any questions, please contact supervision analyst [insert name] at [phone number].

Sincerely,

[NAME]  
Regional Director

[Office]/DOS/XXX:XX  
FCU/SCU-XX

cc:     Jane Smith, CEO  
         SE  
         EX  
         SSA (when applicable)

bcc:    FCU/SCU \*  
         ARDP or ARDO  
         Reading  
         FU [Date] to SA [insert name]

## 7. Templates

Templates are available for the following regulatory waivers and other regulatory actions:

- [Occupancy Waiver](#)
- [Non-Member Deposits Limitation Waiver](#)
- [Earnings Transfer Waiver](#)
- [Loan Participation Waiver](#)
- [Secondary Capital Plan](#)

---

*[NSPM content](#) last updated September 15, 2017*

## Chapter 19. Unauthorized Access to Member Information

[Part 748, Appendix B](#), of [NCUA rules and regulations](#) requires a credit union to notify the appropriate NCUA Regional Director as soon as possible when it becomes aware of an incident involving unauthorized access to, or use of, sensitive member information. The rule and guidance accompanying the rule call for credit unions to conduct a risk-based evaluation of security breaches, but do not require notice to NCUA in every instance. NCUA's Legal Opinion Letter 06-0332, [Re: Components of Security Response Program.](#), clarifies that credit unions are not required to notify the NCUA if an incident of unauthorized access to member information involves little or no likelihood of harm to the member. Federally insured, state-chartered credit unions must also notify the applicable state supervisory authority in the event of an incident.

NCUA reviews notifications received from credit unions to ensure the agency has direct knowledge of any potential issues, and can follow-up (onsite or off-site) on matters appropriately. The procedures in the NSPM provide a framework for assessing the effectiveness of a credit union's response plan and ensuring supervision plans are commensurate with the risk.

*Member information* is defined in [Appendix A of Part 748](#), and means any record containing nonpublic personal information about a member, whether in paper, electronic, or other form, maintained by or on behalf of a credit union.

*Sensitive member information* means a member's name, address, or telephone number, in conjunction with the member's social security number, driver's license number, account number, credit or debit card number, or a personal identification number or password that would permit access to the member's account. Sensitive member information also includes any combination of components of member information that would allow someone to log onto or access the member's account, such as user name and password or password and account number.

This section of the NSPM includes the following information:

- [Roles and responsibilities](#)
- [Process notifications](#)

- [Assess response plan effectiveness](#)
- [Ensure supervision plans are commensurate with risk](#)

---

[NSPM content](#) last updated September 15, 2017

## 1. Roles and Responsibilities

### A. Field Staff

- Review notifications forwarded by DOS
- Discuss the incident, the credit union's corrective actions, and other relevant factors with the assigned supervisor to [assess the appropriateness of supervision plans](#)
- Coordinate mutually agreeable supervision plans with DOS and the ARDP (or ARDO, for Special Actions cases) if warranted
- Execute supervision plans
- If a 60 day follow-up is warranted, document the results of the review in the [Regional Summary](#), draft the [closing letter](#), and forward to DOS within 60 days of the original notification date
- For FISCUs, collaborate with the SSA in the assessment of the incident and any changes to supervision plans as warranted

Coordination with the SSA will vary, as it depends on the working arrangement with each SSA. For example, some SSAs may review all incidents jointly with NCUA, while others may defer to NCUA's review. After consulting with the SSA, NCUA may defer follow-up to the SSA, and adjust supervision plans to review the results of the SSA's contact. However, there may be instances when the SSA has agreed to review an incident, but NCUA has determined that the complexity of the situation warrants the participation of an NCUA specialist. Overall, the SE is responsible for initial coordination with the SSA on supervision plans.

### B. Regional Division of Supervision

- Review notifications and record them in the appropriate regional tracking system
  - Forward any FISCU notification to the applicable SSA as soon as possible, if the SSA has not already been notified by the credit union

- Forward notifications to the assigned field staff as soon as possible, generally within five business days
- Recommend changes to supervision plans as warranted
- Coordinate with the assigned supervisor to arrive at an agreed upon approach
  - See [Ensure Supervision Plans are Commensurate with Risk](#) for guidance.
  - DOS may use the optional [IT Incident Checklist](#) to coordinate supervision plans with the field.
- Draft an [acknowledgement letter](#) to the credit union no later than 30 days from receipt of a notification
  - Letter should coincide with the agreed-upon supervision plans
  - DOS will copy assigned field staff should when the letter is distributed
- If a 60 day follow-up is warranted (for example, if the scope of a breach is unknown, systems remain compromised, members have not been notified, or appropriate corrective actions have not been taken or planned), DOS will:
  - Draft a [work assignment](#) to the field
  - Review the field's completed [Regional Summary](#) and document a final recommendation in the approval portion of the document
  - Process the [closing letter](#) to the credit union no later than 14 days from receipt of the Regional Summary, and copy assigned field staff when the correspondence is distributed
- Post copies of all original notifications, Regional Summaries, and response letters to the [E&I SharePoint Post Office](#) as documents are finalized

## C. E&I

- Maintain a log of reported instances of unauthorized access to sensitive member information

---

[NSPM content](#) last updated September 15, 2017

## 2. Process Notifications

In practice, the timing and content of notifications of unauthorized access to member information will vary. Some may be provided when a credit union begins its investigation, while others may be provided after a credit union has completed its investigation and has taken corrective actions.

In general, credit unions will send a notification directly to the regional office. However, if field staff are notified of an incident not otherwise reported by a credit union, they should immediately notify their supervisor and determine whether the notification warrants being forwarded to the regional office. Any notifications of unauthorized access to member information received pursuant to [Part 748](#) should be forwarded to DOS for processing.

If NCUA determines that a credit union has not reported an incident (for example, if the field becomes aware of a media article regarding a breach), the [acknowledgment letter](#) sent to the credit union will include commentary on reviewing the credit union's information security program and [Gramm-Leach-Bliley Act](#) compliance at the next examination.

Once a notification is received, DOS is responsible for coordinating with field staff to [assess the effectiveness of a credit union's response plan](#) and for [ensuring supervision plans are commensurate with risk](#).

---

*[NSPM content](#) last updated September 15, 2017*

## 3. Assess Response Plan Effectiveness

When assessing a credit union's response plan and any recommended changes to supervision plans, staff should consider the inherent risk of the compromised information, as well as any corrective actions the credit union has taken.

A notification received at the start of a credit union's investigation may not contain much information other than the credit union's discovery of a breach that could negatively impact members. If a notification indicates there is risk of potential harm to a member, but provides little additional information, field staff should recommend altering supervision plans to promptly follow-up on the issue.

If a notification is received after the credit union has concluded its investigation and implemented corrective actions, a more comprehensive assessment of the

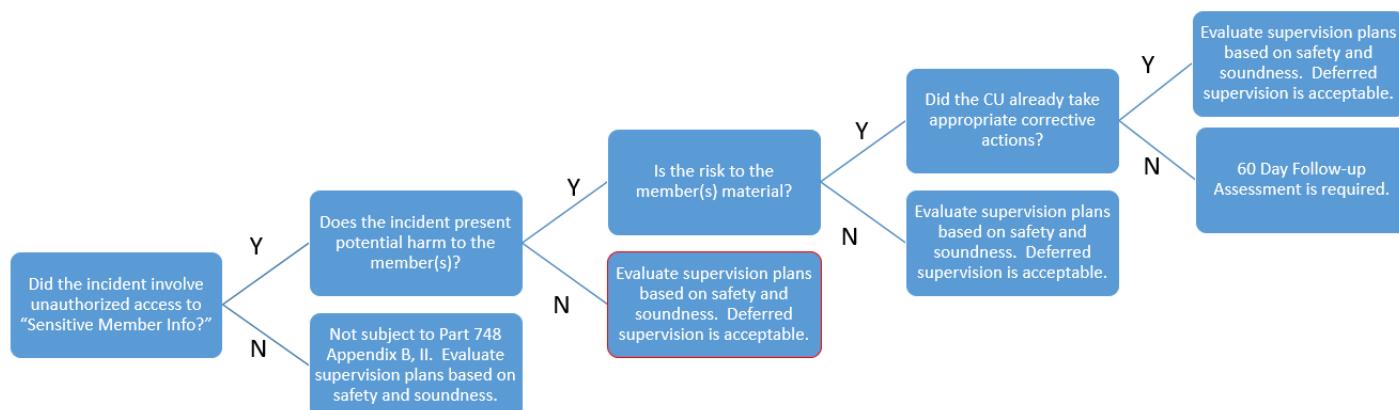
credit union's response plan may be possible, and may result in fewer changes to supervision plans.

*NSPM content last updated September 15, 2017*

## 4. Ensure Supervision Plans are Commensurate with Risk

Supervision plans must be commensurate with risk, and will vary based on the circumstances surrounding an incident. The materiality of unauthorized access to member information is based on the risk to members rather than the risk to the share insurance fund. The urgency and scope of the field's follow-up will coincide with the risk of potential harm to the members affected by a compromise.

To help determine if supervision are commensurate with risk, field staff should refer to the following decision tree:



If a notification indicates there has been unauthorized access to sensitive member information and appropriate corrective actions have not been executed or planned, field staff must alter supervision plans to conduct a follow-up assessment within 60 days and report the results of the review to the regional office.

When evaluating supervision plans based on safety and soundness, if the risk to a credit union is deemed material, more immediate supervision must be scheduled. This is the case even if a credit union has outlined plans to respond to the incident. If the risk is not material from a safety and

soundness perspective, follow-up may be deferred to a later date such as the next scheduled examination or supervision contact (onsite or offsite).

DOS will recommend changes to supervision plans based on the information provided in a notification. DOS should consult with specialists, such as RISOs, for assistance on complex matters as needed.

Field staff will further assess the effectiveness of the credit union's response plan in relation to the risk of potential harm to the members, and DOS's recommended supervision plans. Field staff should also utilize specialist assistance on complex matters as needed, following regional procedures accordingly.

Ultimately, DOS and field staff should come to an agreement on what constitutes appropriate supervision plans after a notification is received. In the event that DOS and field staff do not agree on supervision plans, DOS will escalate the matter to the ARDP (or ARDO for Special Actions cases), who will evaluate the appropriateness and timeliness of supervision plans. Each region will also establish monitoring procedures for completion of 60 day follow-up reviews and any timeframe extensions granted by the ARDP on an exception basis.

Given the nature of the incident, the member notification, and the corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact.

*Example:* A notification indicates there was an incident involving unauthorized access to sensitive member information, and the credit union is in the preliminary stages of a forensic audit to identify the extent of the breach. It is unclear how many members may have been affected.

Supervision plans should be adjusted to actively monitor the situation, and ensure the credit union takes appropriate corrective actions including notifications to affected members. Field follow-up should be completed within 60 days, and the results reported to the regional office.

*Example:* A notification indicates an ATM skimmer compromised the plastic cards used at an ATM over the weekend. The credit union has made any members who reported fraudulent transactions whole, notified all affected members of the incident, and plans to close and reissue the affected cards. Until then, enhanced transaction monitoring is already in place.

Given the nature of the incident, the member notification, and the

corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact. However, review of the credit union's controls over ATM security, including routine physical inspections, may also be recommended for consideration either via offsite contact or at the next scheduled exam or contact.

*Example:* A notification indicates an employee accidentally emailed an auto insurance policy with sensitive member information to the wrong email address. The notification also describes the corrective actions taken including formal notification to the members, additional training for credit union personnel, and providing the affected members with an identity theft protection product.

Given the nature of the incident, the member notification, and the corrective actions taken, no changes to supervision plans appear warranted.

*Example:* A notification indicates the credit union's card processor informed them that cards used at a national retailer may have been compromised. The credit union's notification also references national media coverage of the retailer's public announcement on the matter. The credit union notified all members of the incident via their website, and plans to close and reissue the affected cards. Until then, enhanced transaction monitoring is already in place. Given the nature of the incident, the member notification, and the corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact.

---

[NSPM content](#) last updated September 15, 2017

## 5. Templates

- Acknowledge Notification of Unauthorized Access to Member Data
- Regional Summary of Unauthorized Access to Member Data
- Respond to Notification of Unauthorized Access to Member Data (sample)
- IT Incident Checklist (sample)
- Acknowledge Letter for Deferred Follow-up (sample)
- Acknowledge Letter for 60 Day Follow-up (sample)

- Work Assignment Memo for 60 Day Follow-up (sample)
- Closing Letter (sample)

---

[NSPM content](#) last updated September 15, 2017

# **Template: Acknowledge Notification of Unauthorized Access to Member Data**

[DATE]

Mr. John Doe  
Board Chairman  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [DATE], I received your letter detailing an occurrence of unauthorized access to member data. [IF NOTIFIED BY EXAMINER: On DATE, I was notified of an instance of unauthorized access to member data by EXAMINERNAME.] In particular, [BRIEFLY DESCRIBE INCIDENT].

I have asked supervisory examiner [NAME] to review this matter and provide me his/her findings. [SE NAME] will contact you to discuss the incident and determine what further action may be needed. Once the review is complete, I will provide you with my response no later than [30 DAYS].

If you have any questions in the interim, please contact the Division of Supervision at [PHONE NUMBER].

Sincerely,

[NAME]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]  
SSIC XXXX  
Charter #

cc:            SE  
                EX

# **Template: Regional Summary for Review of Unauthorized Access to Member Information**

## **REGIONAL SUMMARY**

### **Unauthorized Access to Member Information**

<b>Charter Number</b>	
<b>Credit Union Name</b>	
<b>CAMEL Code and Effective Date</b>	
<b>Date Notification Received by DOS</b>	
<b>Regional Tracking System Identifier</b>	
<b>Supervisory Examiner Name</b>	
<b>Examiner/Reviewer Name(s)</b>	
<b>DOS Analyst Name</b>	
<b>Brief Description of the Incident</b>	
<b>Inherent Risk of Harm to Member(s)</b>	
<b>Investigation Steps and Findings</b>	
<b>Corrective Actions and Plans</b>	
<b>Likelihood of Harm to Member(s) After Considering Corrective Actions and Plans</b>	
<b>Other Pertinent Information</b>	
<b>Future Supervision Plans</b> (e.g. Normal, Offsite review of audit, etc.)	

<b>Special Considerations for Closing Letter</b>	
--	--

**Examiner Recommendation:**

**Supervisor Concurrence:**

<b>APPROVE/DENY RECOMMENDATION</b>
------------------------------------

**Analyst Comments:**

**APPROVE**

**DISAPPROVE**

Supervision Analyst \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Director of Supervision \_\_\_\_\_ Date\_\_\_\_\_

**APPROVE**

**DISAPPROVE**

Associate Regional Director \_\_\_\_\_ Date\_\_\_\_\_

---

**APPROVE**

**DISAPPROVE**

Regional Director \_\_\_\_\_ Date\_\_\_\_\_

# **Sample: Respond to Notification of Unauthorized Access to Member Data**

Date

Mr. John Doe  
Board Chairman  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. NAME:

On September 25, 2015, I received your letter concerning an incident of unauthorized access to member data which occurred at your credit union on July 11, 2015.

I understand supervisory examiner Jane Doe discussed this matter with examiner Abraham Lincoln and met with you and the ABC Federal Credit Union board on August 5. After these discussions, we continue to be concerned with your credit union's ability to adequately secure membership data as required by the Gramm-Leach-Bliley Act.<sup>1</sup>

During your meeting with supervisory examiner Jane Doe, your board agreed to seek training in information security and technology concepts, and seek outside assistance to evaluate the credit union's data security. Once you receive this training and consultation, examiner Abraham Lincoln will return to the credit union to review your progress.

If you have any questions, please contact supervisory examiner Jane Doe or examiner Abraham Lincoln at 555-555-1212.

Sincerely,

Captain Kirk  
Regional Director

[OFFICE]/[WRITER'S INITIALS]

SSIC XXXX

Charter #

cc:       SE  
         EX

---

<sup>1</sup> The Gramm-Leach-Bliley Act requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. For more information, see the Gramm-Leach-Bliley Act online at <https://www.gpo.gov/fdsys/pkg/PLAW-106publ102/html/PLAW-106publ102.htm>

# Template: IT Incident Checklist (Unauthorized Access to Member Information)

## IT INCIDENT CHECKLIST Unauthorized Access to Member Information

### Part I (Completed by DOS)

<b>Charter Number</b>			
<b>Credit Union Name</b>			
<b>CAMEL Code and Effective Date</b>			
<b>Date Notification Received by DOS</b>			
<b>Source of Notification</b> (X all that apply)	CU:	NCUA:	SSA:
<b>Regional Tracking System Identifier</b>			
<b>If a FISCU, Date Notification Sent to SSA</b>			
<b>Supervisory Examiner Name</b>			
<b>District Examiner Name</b>			
<b>DOS Analyst Name</b>			

<b>Brief Description of the Incident</b>			
<b>Content of the Notification</b> (X all that apply)			
<b>Identification of Incident</b>			
<b>Other Notifications</b> (to SSA, etc.)			
<b>Scope of Investigation</b>			
<b>Results of Review</b>			
<b>Corrective Actions</b>			
<b>Member Notification</b>			
<b>Additional Plans</b>			
<b>Inherent Risk of Harm to Member(s)</b>			
<b>Likelihood of Harm to Member(s) After Considering Corrective Actions and Plans</b>			
<b>Recommended Supervision Plans</b> (X one)	No Action:	60 Days:	Deferred:
<b>Additional Comments on Supervision Plans</b>			
<b>Other Pertinent Information</b>			

**Part II (Completed by Field Staff)**

<b>Assessment of the CU's Response Plan</b>		
<b>Recommended Supervision Plans</b>	Concur:	Do Not Concur:
<b>Additional Comments on Supervision Plans</b>		
<b>Other Pertinent Information</b>		

**Part III (Completed by DOS only if agreement on supervision plans is not reached)****APPROVE/DENY RECOMMENDATION****Analyst Comments:****APPROVE** **DISAPPROVE** 

Supervision Analyst \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Director of Supervision \_\_\_\_\_ Date \_\_\_\_\_

**APPROVE** **DISAPPROVE** 

Associate Regional Director \_\_\_\_\_ Date \_\_\_\_\_

---

# Sample: Acknowledgement Letter for Deferred Follow-up

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [Date], I received your credit union's notification detailing an incident of unauthorized access to member information. *[Or, if notified by NCUA personnel: On [Date], I was notified of an instance of unauthorized access to member information by Examiner [Name].]* In particular, the notification stated [Brief description].

I understand your credit union has already taken certain corrective actions to address the situation, and the cause of the breach has been remedied. I encourage your board of directors to continue monitoring the situation and take any additional corrective actions deemed necessary.

In addition, as part of our normal supervision program, my staff will plan to review your information security program and Gramm-Leach-Bliley Act compliance at your next examination *[or if a FISCU: my staff will plan to coordinate the review of your information security program and Gramm-Leach-Bliley Act compliance with the SSA during your next examination]*. In the meantime, if you have any questions, please contact Examiner [Name] at [Phone number] *[and if a FISCU: or the SSA]*.

Sincerely,

[RD Name]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]/[LOG #]  
FCU or FISCU [CHARTER #]-[SE and DISTRICT]

cc:      CEO  
          ARD-P  
          SE  
          EX  
          *[If a FISCU: SSA]*

## **Sample: Acknowledgement Letter for 60 Day Follow-up**

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [Date], I received your credit union's notification detailing an incident of unauthorized access to member information. *[Or, if notified by NCUA personnel: On [Date], I was notified of an instance of unauthorized access to member information by Examiner [Name].]* In particular, the notification stated [Brief description].

I understand your credit union has already taken certain corrective actions to address the situation. Given the nature of the incident, I have asked my staff to review the matter further and provide me their findings. NCUA staff will contact you if additional information is required to complete the review.

In the meantime, if you have any questions, please contact Examiner [Name] at [Phone number]  
*[and if a FISCU: or the SSA].*

Sincerely,

[RD Name]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]/[LOG #]  
FCU or FISCU [CHARTER #]-[SE and DISTRICT]

cc:      CEO  
          ARD-P  
          SE  
          EX  
*[If a FISCU: SSA]*

# Sample: Work Assignment Memo for 60 Day Follow-Up

[OFFICE]/[WRITER'S INITIALS]/[LOG #]  
FCU or FISCU [CHARTER #]-[SE and DISTRICT]

SENT BY E-MAIL

**TO:** Supervisory Examiner [Name]  
**FROM:** Director of Supervision [Name]  
**SUBJ:** [CU Name] – Unauthorized Access to Member Information Follow-up Assessment  
**DATE:** [Date]

## **Response Required: [Date]**

DOS recently forwarded you and District Examiner (DE) [Name] copies of the email dated [Date], notifying DOS of an incident of unauthorized access to member information. Specifically, [Brief description of the incident].

Please review the reported instance of unauthorized access to member information, as required by the NSPM chapter on Unauthorized Access to Member Information. Also, please determine whether a designated IS&T SME or RISO should provide assistance in evaluating the incident and response, and coordinate participation as necessary. If warranted, coordinate your review with the appropriate SSA as well. The credit union has been informed that NCUA staff will contact them if additional information is needed for our review.

In completing your review, please consider:

- Whether the source of the compromise has been determined;
- Control weaknesses that contributed to the unauthorized access;
- Corrective actions the credit union has taken or plans to take; and
- The potential for other member accounts or information to be affected.

Please note your response should include a Regional Summary outlining your review, findings, and any recommendations for further action. At your option, you may also draft a response letter to the officials and include that with your response. Otherwise, DOS will draft a letter based on your reported results. Templates are embedded below for your reference.

To facilitate your review, I am copying EX [Name] on this memo. I would appreciate your response by the above due date.

If you have any questions, please contact Supervision Analyst [Name] at [phone number]

Attachments

Page 2

[attach Template Regional Summary]

[attach Sample Closing Letter]

cc: ARD-P  
SE  
EX

[Filepath]

# Sample: Closing Letter

Date

Mr. John Doe  
Board Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On [Date], I received your credit union's notification detailing an incident of unauthorized access to member information. *[Or, if notified by NCUA personnel:* On [Date], I was notified of an instance of unauthorized access to member information by Examiner [Name].] In particular, the notification stated [Brief description]. *If resolved:* My staff informs me that you have taken appropriate corrective actions in response to the incident.

*If still ongoing:* I understand your credit union has already taken certain corrective actions to address the situation, and the cause of the breach has been remedied. I encourage your board of directors to continue monitoring the situation and take any additional corrective actions deemed necessary. In addition, please keep Examiner [Name] informed as to [List of items to be reported to field for supervision purposes, e.g. the receipt of certificates of destruction, the results of the forensic audit].

In addition, as part of our normal supervision program, my staff will plan to review your information security program and Gramm-Leach-Bliley Act compliance at your next examination *[or if a FISCU:* my staff will plan to coordinate the review of your information security program and Gramm-Leach-Bliley Act compliance with the SSA during your next examination]. In the meantime, if you have any questions, please contact Examiner [Name] at [Phone number] *[and if a FISCU:* or the SSA].

Sincerely,

[RD Name]  
Regional Director

[OFFICE]/[WRITER'S INITIALS]/[LOG #]  
FCU or FISCU [CHARTER #]-[SE and DISTRICT]

cc:      CEO  
          ARD-P  
          SE

EX

*[If a FISCU: SSA]*

# Chapter 20. Work Classification Codes

Examiners use work classification codes (WCCs) on weekly time reports. An AIRES upload must be used to report the time in the examination and supervision system for time codes with "AIRES" noted in the definition column of the sections listed below. For any other program time code, an AIRES upload is optional, as directed by regional management.

- [General codes](#)
- [Administrative codes](#)
- [Subject matter examiner codes](#)
- [Economic development specialist codes](#)
- [Office of Consumer Financial Protection codes](#)

## 1. Reporting Bank Secrecy Act Review Time

The Office of Examination and Insurance tracks time spent reviewing BSA compliance during examinations, insurance reviews, and on-site and off-site supervision contacts. Examiners will record the number of hours spent reviewing BSA compliance in the *BSA HRS* column in TMS.NET. Similar to the way SME hours are recorded, total contact hours will include the BSA review hours. If a CC SME is performing the BSA review, time should be included in both the SME hours column and BSA review column of TMS.

## 2. Reporting Specialist Time

Time spent by specialists (RLS, RCMS, RISO, PSS) working in their particular specialty area or providing/receiving training in their specialty area will be recorded in TMS.NET using the *Specialist Type* and *Specialist Hours* columns. This includes examination and supervision work, training, or any other administrative time associated with a specialist area not reported in WCC 05, 07, or 19.

---

*[NSPM content](#)* last updated January 22, 2018

### 3. General Work Classification Codes

Classification	WCC	Definition
OSCUI Consulting Program – Follow-up, Unenrolled, and Field Staff Review	04	EDS time spent following up on credit unions previously enrolled in the consulting program and brief assistance provided to credit unions never enrolled in the consulting program. Also includes time spent by examiners reviewing OSCUI consulting contact reports and completing the EDS feedback survey. (Must include credit union's charter or insurance certificate number in TMS.NET.)
Lending Specialists	05	Analysis of specialized loan programs. Time spent on specialized lending assignments by lending specialists not directly related to a specific credit union or credit union examination (for example, researching loan related topics, developing training materials and training staff, mentoring examiners, and answering examiner inquiries). Charge

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		RLS time spent on detail to E&I to Detail to Central Office (WCC 43).
Chartering and FOM Activities	06	Time spent collecting information, analyzing data, and recommending action on chartering and FOM changes, including community conversions and/or expansions, and underserved area expansion requests. Typically, this time is not associated with SCUP program activities.
Capital Market Specialist-Administrative Time	07	Capital market specialist time spent on investments and asset-liability management (ALM) issues. This pertains to time spent not directly related to a credit union (for example, researching investment and ALM topics, preparing and analyzing risk reports, developing training materials and training staff, mentoring examiners, reviewing AIRES ALM work papers and

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		exam reports, conducting Bloomberg analytics, developing agency guidance, reviewing pilot program applications, and answering examiner inquiries.) Charge RCMS time spent on detail to E&I to Detail to Central Office (WCC 43).
Subject Matter Examiner (SME) Special Program Time	08	Time spent by SMEs not directly related to a credit union examination or supervision contact (for example, developing training materials and training staff, researching examiner or credit union questions, performing data analysis, etc.) Charge time spent providing specialized training during credit union contacts to OJT SME Trainer (WCC 40).
Management/Staff Development Details	09	Time spent completing activities for the Management Development Program or any other type of staff developmental program, such as OMWI's Mentoring Program or the

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		USDA's Executive Leadership Program.
Examination FCU – Regular	10	Regular examination of a federally chartered credit union. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to an examination. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. <i>5000.13, Work Classification Code Definitions.</i> (AIRES)
Examination FISCU – Regular	11	Examination/insurance review of any federally insured, state-chartered credit union (FISCU). Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to an examination/insurance review. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		5000.13, <i>Work Classification Code Definitions.</i> (AIRES)
Examination Corporate FCU	12	Regular examination of a federally chartered corporate. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to an examination. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions.</i> (AIRES)
Examination Corporate SCU	13	Regular examination of a federally insured state-chartered corporate. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to an examination. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		5000.13, <i>Work Classification Code Definitions.</i> (AIRES)
Examination NFICU	15	Examination of a non-federally insured, state-chartered natural person (typically conversion examinations) or corporate credit union. (AIRES)
Information Systems Officer or Payment Systems Specialist Time	19	Information Systems Officer or Payment Systems Specialist time spent on IS&T and Payment System issues. This pertains to time spent not directly related to a credit union, vendor or CUSO (for example, researching IS&T or payment systems topics, developing training materials and training staff, mentoring examiners, reviewing pilot program applications, and answering examiner inquiries).
5300 / 5310 Program FCU	20	Processing of 5300 Call Reports, Financial Performance Report (FPR) trending analysis, and Risk Analysis and Trending Evaluation (RATE) for consumer

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		FCUs. Processing of 5310 reports and Consolidated Balance Sheet (CBS) trending reports for corporate FCUs.
5300 / 5310 Program SCU	21	Processing of 5300 Call Reports, FPR trending analysis, and Risk Analysis and Trending Evaluation (RATE) for consumer FISCUs. Processing of 5310 reports and CBS trending reports for corporate FISCUs.
Supervision On-site – FCU	22	On-site supervision and follow-up exams of FCUs. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to a supervision contact. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions</i> . (AIRES)
Supervision On-site – FISCU	23	On-site supervision and follow-up exams

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		of FISCUs. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to a supervision contact. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions</i> . (AIRES)
Vendor Review	24	Reviews of vendors or third-party service organizations used by credit unions that are not CUSOs. For reviews or examinations of CUSOs, use WCC 29.
Review of State Examinations	26	Evaluation of examination reports completed by state supervisory authorities. (AIRES)
Supervision Off-site – FCU	27	Off-site supervision of FCUs. (AIRES in accordance with NSPM.) If the purpose of the off-site supervision was to follow up with credit unions to assess oper-

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		<p>ational capacity following a natural disaster, document this in the comments section of TMS.NET. Time spent reviewing BSA compliance should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions</i>.</p> <p>Off-site supervision of FCUs. (AIRES in accordance with NSPM.) If the purpose of the off-site supervision was to follow up with credit unions to assess operational capacity following a natural disaster, document this in the comments section of TMS.NET. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to a supervision contact. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Clas-</i></p>

Classification	WCC	Definition
		<i>sification Code Definitions.</i>
Supervision Off-site – FISCU	28	Off-site supervision of SCUs. (AIRES in accordance with NSPM.) If the purpose of the off-site supervision was to follow up with credit unions to assess operational capacity following a natural disaster, document this in the comments section of TMS.NET. Includes any SME or specialist (RCMS, RLS, RISO, PSS) activity directly related to a supervision contact. SME and specialist time, and time spent reviewing BSA compliance, should be reported using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions.</i>
CUSO Review	29	Reviews or examinations of credit union service organizations.
Conservatorship Administration – FCU	50	Time spent administering the conservatorship of a

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		federal chartered credit union. Does not include examination or supervision time related to safety and soundness oversight.
Conservatorship Administration - FISCU	51	Time spent administering the conservatorship of a federally insured state chartered credit union. Does not include examination or supervision time related to safety and soundness oversight.
Fraud Supervision On-site - FCU	90	On-site time spent at a federally chartered credit union specifically related to investigating and/or documenting a probable or known fraud. May be used in combination with other non-fraud related on-site supervision. Includes E&I directed contact due to Fraud Indicator report.
Fraud Supervision On-site - FISCU	91	On-site time spent at a federally insured state chartered credit union specifically related to investigating and/or documenting a probable or known fraud.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		May be used in combination with other non-fraud related on-site supervision. Includes E&I directed contact due to Fraud Indicator report.
Pre-Exam Planning FCU	94	Planning prior to FCU examination. Time spent pre-planning should be reported in the WCC column and assigned a specific credit union charter number. This WCC applies to both natural person and corporate credit unions.
Pre-Exam Planning FISCU	95	Planning prior to FISCUs joint examination or insurance review. Time spent pre-planning should be reported in the WCC column and assigned a specific credit union charter number. This WCC applies to both natural person and Corporate credit unions.
Consumer Compliance Priorities FCU	96	Time specifically allocated to reviewing compliance with federal consumer financial protection laws and regulations in FCUs as directed by man-

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		agement. Not part of safety and soundness examination or supervision activity.
Consumer Compliance Priorities FISCU	97	Time specifically allocated to reviewing compliance with federal consumer financial protection laws and regulations in FISCUs as directed by management. Not part of safety and soundness examination or supervision activity.

[NSPM content](#) last updated January 22, 2018

## 4. Administrative Work Classification Codes

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
Office	30	Miscellaneous examiner office time not directly related to a credit union. Typically, responding to surveys, requests for comments, independently reviewing and developing individual development plans, e-mail, voice mail, hard copy mail, travel vouchers, time reports, purchasing supplies, filing and organizing, trips to post office, making travel arrangements, etc.
Technology Administration	31	Examiner time spent maintaining NCUA-issued technology and software not directly related to any other work code. This includes time related to restoring lost data, repairing hardware, time with the Office of the Chief Information Officer (OCIO) Customer Service Help Desk, etc.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
OJT SME Trainee	34	Time spent receiving specialized SME training during credit union contacts. The SME specialty area should be identified using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions</i> .
SE/DSA Details	35	Examiner time spent as acting supervisory examiner (SE) or director of special actions (DSA).
OCIO Technical Support Desk	36	Examiner details to OCIO, including the OCIO Technical Support Desk. Charge examiner time spent on the Technology Development Team (TDT) developing, testing, or training on AIRES to Detail to central office (WCC 43).
Meetings/Conferences – External and Internal	37	Meetings or conferences external to NCUA such as chapter meetings, meetings with other agencies, and topic presentations outside of NCUA. Also, meetings or conferences internal to NCUA such as SE group meetings, time spent with supervisors to review performance or Individual Development Plans, or private confidential mediation sessions.
Training – Classroom	39	Training courses normally in the classroom setting for senior examiners and new examiners. This time code should also be used for online training.
OJT SME Trainer	40	SME time spent providing specialized training during credit union contacts. The SME specialty area should be identified using the most recent version of NCUA Instruction No. 5000.13, <i>Work Classification Code Definitions</i> .
Training - OJT and	41	Non-productive training time for new exam-

Classification	WCC	Definition
Trainee		inners and their trainers.
Online Meetings, Conferences, and Webinars	42	Online meetings, conferences, and webinars such as webinars providing training on new agency guidance, the Chairman's quarterly webinars with staff, etc.
Detail to Central Office	43	<p>Detail assignments to the central office. Includes:</p> <ul style="list-style-type: none"> <li>• National committee and/or working group assignments</li> <li>• Equal Employment Opportunity (EEO) counselors</li> <li>• <i>Accounting Manual</i> and <a href="#"><i>Examiner's Guide</i></a> revisions</li> <li>• IS&amp;T field (vendor reviews) and office details</li> <li>• Consumer compliance details</li> <li>• RLS and RCMS assignments to the central office, including instructor and training assignments</li> <li>• Commenting on national issuances (for example, instructions, regulations, supervisory letters), etc.</li> </ul> <p>Does not include details to OCIO (see WCC 36) or OSCUI (see WCC 18).</p>
Detail to Regional Office	44	Detail assignments to the regional office, including regional committee assignments, developmental details, regional office training, details to the region's Division of Special Actions or Division of Supervision, etc.
Travel – FCU	45	Travel associated with a FCU
Travel – SCU	46	Travel associated with a SCU

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
Travel - Training/Meetings/Conf.	47	Travel associated with training, meetings, conferences, or details
OMWI Employee Resource Group	48	Field staff participation in OMWI sponsored Employee Resource Group activities or events, once implemented.
Administrative Leave	56	Administrative Leave
Restored Leave	57	Restored Leave is annual leave that was scheduled by later denied by the supervisor. Restored leave would be "Use or Lose" leave.
Award Leave	58	Award Leave
Military Leave	59	Military Leave
Court Leave (Jury Duty)	60	Court Leave (Jury Duty)
Sick Leave – Family Member	61	Sick Leave – Family Member
Sick Leave – Family Funeral	62	Sick Leave – Family Funeral
Sick Leave – Family Adoption	63	Sick Leave – Family Adoption
FMLA for Family	64	FMLA for family
FMLA for Employee	65	FMLA for employee
Holiday	66	Official government holiday
Annual Leave	67	Annual leave
Sick Leave	68	Sick leave
Other Leave	69	Other leave
Union Official Term Negotiations	70	A bargaining unit employee union representative use of approved official time, including applicable travel time, to participate in term and/or reopen negotiations.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		tiations covered in Article 41 of the Collective Bargaining Agreement (CBA) and related bargaining preparation. Hours are separate from the time bank in Article 6.
Union Official Mid-Term Negotiations	71	A bargaining unit employee union representative use of approved official time, including applicable travel time, to participate in negotiations covered by Article 8 of the CBA. Hours are separate from the time bank in Article 6.
Union Official Dispute Resolution	72	A bargaining unit employee union representative use of approved official time, including applicable travel time, to represent employees in activities covered by Articles 28, 29, 30, and 31 as well as to participate in FLRA proceedings. Hours are subject to the time bank and individual limits in Article 6.
Union Official General Labor/Management Relations	73	A bargaining unit employee union representative use of approved official time, including any applicable travel time, for activities related to labor relations such as formal meetings, meetings with BU employees, mid-term bargaining preparation, preparing and maintaining records required by federal agencies. Hours are subject to the time bank and individual time limits in Article 6 of the CBA.
Union Official Partnership Activities	74	A bargaining unit employee union representative use of approved official time, including applicable travel, to participate in approved NCUA/NTEU partnership activities. Hours are separate from the time bank in Article 6 of the CBA.
Union Official B1 Negotiations	75	A bargaining unit employee union rep-

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		representative use of approved official time, including applicable travel time, to participate in bargaining topics covered by the NCUA/NTEU B1 bargaining agreement. Hours are separate from the time bank in Article 6 of the CBA.
Bargaining Unit Employee Official Time (Replaces Prior Code 91)	76	A bargaining unit employee use of approved duty time, including any applicable travel time, to meet with union representatives concerning grievances or other representational matters.
Bargaining Unit Employee Partnership Activities	77	A bargaining unit employee use of approved official time, including applicable travel time, to participate in approved NCUA/NTEU partnership and to participate in bargaining topics covered by the NCUA/NTEU B1 bargaining agreement.
Credit Hours Earned	80	Credit hours earned
Credit Hours Used	81	Credit hours used
Compensatory Time Earned	84	Compensatory time earned
Compensatory Time Used	85	Compensatory time used
Travel Compensatory Time Earned	88	Travel compensatory time earned
Travel Compensatory Time Used	89	Travel compensatory time used
Paid Overtime	98	Paid overtime

---

*[NSPM content](#) last updated January 22, 2018*

## 5. Subject Matter Examiner Time Codes

Subject matter examiners (SMEs) time spent working or training in a particular specialty area will be recorded in TMS.NET using the SME Type column and the SME Hour column. These columns should be used for training, examination or supervision work, or any administrative time associated with an SME area.

Hours reported in the *WCC* column will include the hours reported in the *SME Hours* column. Hours reported in the *SME Hours* column represent the amount of reported WCC hours spent performing SME-related work, and may be less than the hours reported in the *WCC* column. The *SME Hours* column is not expected to reconcile with the hours reported in the *WCC* column.

<b>Classification</b>	<b>SME Type</b>	<b>SME Code</b>	<b>Definition</b>
Capital Markets SME	CMS	1	Productive and administrative time related to Capital Markets SME work
Information Systems & Technology SME	IST	2	Productive and administrative time related to Information Systems & Technology SME work
Payment Systems SME	EPS	3	Productive and administrative time related to Payment Systems SME work
Recordkeeping/Internal Controls SME	RIC	4	Productive and administrative time related to Recordkeeping/Internal Controls SME work
Specialized Lending SME	SL	5	Productive and administrative time related to Specialized Lending SME work
Consumer Compliance SME	CC	6	Productive and administrative time related to Consumer Compliance SME work
Bank Secrecy Act/ Anti Money Laundering SME	BSA	7	Productive and administrative time related to Bank Secrecy Act/Anti Money Laundering SME work.

---

[NSPM content](#) last updated January 22, 2018

## 6. Economic Development Specialist Work Classification Codes

The following work codes are for economic development specialists (EDSs) to record productive time not directly related to a specific credit union. EDSs should record one-on-one credit union direct assistance as WCC 2. Field staff that do not work for OSCUI should not charge time to these work codes.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
Guiding Credit Union Organizers	01	EDS consulting to organizers of potential new federal credit unions
Enrolled Consulting Program - Onsite	02	EDS onsite consulting to credit unions currently ENROLLED in the consulting program (AIRES)
Consulting Program – Follow-up and Unenrolled	04	EDS phone consulting to credit unions enrolled into previous consulting semesters, or those never enrolled. This time code is for limited and follow-up consulting.
OSCUI Projects	14	EDS time spent working on OSCUI defined projects. (Must identify the project by name or ID number in the comments section of TMS.NET)
OSCUI Training	16	EDS time spent on development/implementation of OSCUI events: webinars, videos, workshops, staff meetings, and boot camps
Training at Non-OSCUI Events	17	EDS time spent preparing for and speaking at NON-OSCUI events for the industry and NCUA including examiner group meetings, examiner level training, and presentations at community organizations, trade associations, and government institutions
OSCUI Support	18	EDS time spent drafting OSCUI responses to proposed regulations, and developing/revising OSCUI policies, procedures, and management information systems including projects as assigned

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
		This code captures details to the OSCUI Alexandria office, as well as time spent supporting OSCUI outreach and grant initiative efforts.
Enrolled Consulting Program – Offsite	25	EDS offsite consulting to credit unions currently ENROLLED in the consulting program (AIRES)

[NSPM content](#) last updated January 27, 2016

## 7. Office of Consumer Financial Protection Work Classification Codes

The following work codes are only for use by staff in the Office of Consumer Financial Protection to document consumer compliance reviews related to specific credit unions. Field staff that do not work for OCFP should not charge time to these work codes.

<b>Classification</b>	<b>WCC</b>	<b>Definition</b>
OCFP Onsite Fair Lending Review	03	On-site fair lending reviews of credit unions, including related on-site follow-up contacts. Regional field staff will charge time spent participating with OCFP on fair lending reviews to Detail to Central Office (WCC 43). (AIRES)
OCFP Complaint Review	32	OCFP review of consumer complaints about federally chartered credit union (FCU) matters involving federal consumer protection laws and regulations. (AIRES)
OCFP Off-site Fair Lending Supervision Contact	33	Off-site fair lending reviews of credit unions, including off-site follow-up contacts after on-site examinations. (AIRES) Regional field staff will charge time spent participating on off-site fair lending supervision contacts to Detail to Central Office (WCC 43).

[NSPM content](#) last updated October 27, 2016

# Enforcement Authorities for Credit Unions

Various laws and regulations that apply to credit unions, and the related federal enforcement authorities, are listed below. Although NCUA is not the primary enforcer under some of these regulations, Title II of the [Federal Credit Union Act](#) authorizes the agency to take cease and desist actions for violations of any law.

	<b>Laws / Regulation</b>	<b>FCUs</b>	<b>FISCUs</b>	<b>Non-federally insured CUs</b>
Part I Credit	B – Equal Credit Opportunity	NCUA	FTC	FTC
	E – Electronic Fund Transfers	NCUA	FTC	FTC
	M – Consumer Leasing	NCUA	FTC	FTC
	RESPA – Real Estate Settlement Procedures Act	HUD	HUD	HUD
	Z – Truth in Lending	NCUA	FTC	FTC
Part II Housing	C – Home Mortgage Disclosure	NCUA	NCUA	NCUA
	Flood Disaster Protection Act	NCUA	NCUA	FHA/VA
	FHA Fair Housing Act	HUD	HUD	HUD
Part III Privacy	Bank Secrecy Act	NCUA	NCUA <sup>1</sup>	Dept. of the Treasury (IRS)
	Consumer Privacy	NCUA	NCUA	FTC
	Fair Credit Reporting Act	NCUA	FTC	FTC
	Right to Financial Privacy Act	Private <sup>2</sup>	Private	Private
	CC – Expedited Funds Availability Act	NCUA	NCUA	FRB

<sup>1</sup>For FISCUs examined by NCUA

<sup>2</sup>Cause of action

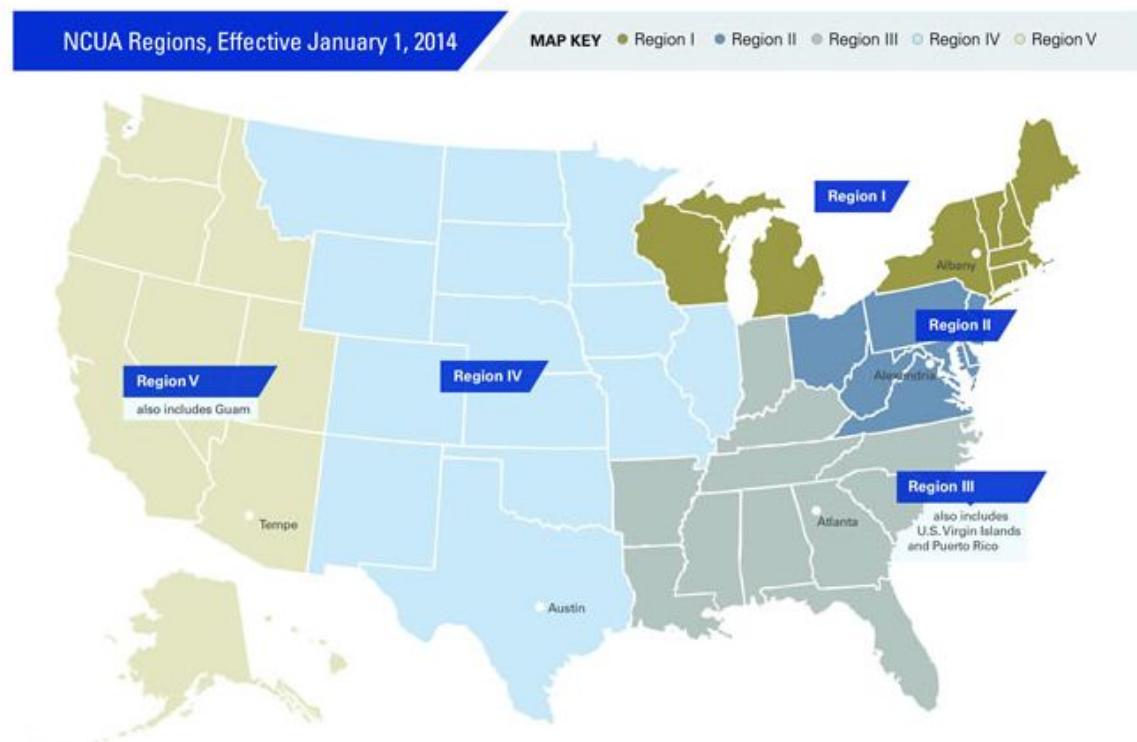
	<b>Laws / Regulation</b>	<b>FCUs</b>	<b>FISCUs</b>	<b>Non-federally insured CUs</b>
	D – Reserve Requirements	FRB	FRB	FRB
	Fair Debt Collection Practices Act	NCUA	FTC	FTC
	Management Officials Interlocks Act	NCUA	NCUA	DOJ
	Service Members Civil Relief Act	Private	Private	Private
	Truth in Savings Act	NCUA	NCUA	NCUA <sup>1</sup>

*[NSPM content](#) last updated December 30, 2016*

---

<sup>1</sup>NCUA has jurisdiction for federal credit unions, federally insured state-chartered credit unions, and credit unions that have accounts eligible to be insured by the NCUSIF.

## Regional Office Map



[NSPM content](#) last updated July 29, 2015

# Glossary

---

## A

---

**AIRES**

Automated Integrated Regulatory Examination System

**AIRES Scope module**

Throughout the NSPM, "AIRES Scope module" also includes the Corporate Exam Work Center (CEWC) for corporate examinations.

**ALCO**

Asset/Liability Committee

**ALM**

Asset/Liability Management

**AMAC**

Asset Management Assistance Center

**ARDO**

Associate Regional Director of Operations

**ARDP**

Associate Regional Director of Programs

## B

---

**BAM**

Board Action Memorandum

**Business day**

Throughout the NSPM, a "business day" is defined as any day in which normal business is conducted. Business days generally exclude weekends and federal holidays.

## C

---

**C&D**

Cease and desist

**CBA**

Collective Bargaining Agreement between NCUA and the National Treasury Employees Union.

**CCPO**

Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

**CCR**

Consulting Contact Report

**CTR**

Currency Transaction Report

**CU**

Credit union

**CUSO**

Credit union service organization

**D**

---

**DCM**

Division of Capital Markets

**DE**

District Examiner

**DOEP**

Designation of Exempt Persons

**DOI**

Division of Insurance

**DOJ**

U.S. Department of Justice

**DOR**

Document of Resolution

**DOS**

Division of Supervision

**DSA**

Division of Special Actions

**DSCR**

Documented Secondary CAMEL Review

**E**

---

**E&I**

Office of Examination and Insurance

**ED**

Executive Director

**EDS**

Economic Development Specialist

**EIC**

Examiner-in-charge

**EICs**

Examiner-in-charge

**EMC**

Examination Management Console (in AIRES)

**ESG**

Exam Steering Group

**Examiner**

Throughout the NSPM, the term “examiner” includes district and principal examiners, problem case officers, examiners and specialized examiners. The term typically refers to DEs, PCOs, and national field examiners. It also refers to any type of specialized examiner (RLS, ALS, RCMS, RISO, etc.).

---

**F**

**FCU**

Federal credit union

**FFIEC**

Federal Financial Institutions Examination Council

**FHA/VA**

Federal Housing Administration / Veterans Administration

**FICU**

Federally insured credit union

**Field office**

"Field office" is synonymous with "regional office," and includes the Office of National Examinations and Supervision (ONES).

**Field staff**

"Field staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners. This term was defined in NCUA Instruction NO. 5000.20 (Rev. 5), Risk-Focused Examination Scope," issued January 10, 2014.

**Field supervisor**

"Field supervisor" includes supervisory examiners, national field supervisors, and directors of special actions. This term was defined in NCUA Instruction NO. 5000.20 (Rev. 5), Risk-Focused Examination Scope," issued January 10, 2014.

**FinCEN**

Financial Crimes Enforcement Network

**FISCU**

Federally insured, state-chartered credit union

**FPR**

Financial Performance Report

**FRB**

Federal Reserve Bank

**FTC**

Federal Trade Commission

**G**

---

**GAAP**

Generally Accepted Accounting Principles

**GAAS**

Generally accepted auditing standards

**H**

---

**HUD**

U.S. Department of Housing and Urban Development

**I**

---

**IRPS**

Interpretive Ruling and Policy Statements are issued by NCUA's Office of General Counsel.

**IRR**

Interest rate risk

**IRS**

Internal Revenue Service

**ISO**

Information System Officer

**L**

---

**LICU**

Low-income credit union

---

**LICUs**

Low-income credit union

**LTV**

Loan-to-value

---

**M**

**MARS**

Management Automated Resource System

**MBL**

Member Business Loan

**Member information**

Any record containing nonpublic personal information about a member, whether in paper, electronic, or other form, maintained by or on behalf of a credit union. Defined in Appendix A of Part 748 of NCUA rules and regulations.

**MLR**

Material Loss Review

---

**N**

**NCUSIF**

The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

**New credit union**

For PCA purposes, a new credit union is one which has been in operation for less than 10 years and has total assets of not more than \$10 million.

**NFICU**

Non-federally insured credit union

**NWR**

Net worth ratio

---

**O**

**OCFP**

Office of Consumer Financial Protection

**OCIO**

Office of the Chief Information Officer

**OGC**

NCUA's Office of General Counsel

**OIG**

Office of the Inspector General

**ONES**

Throughout the NSPM, the term “regional office” includes the Office of National Examinations and Supervision (ONES). The term “Regional Director” includes the ONES director and “associate Regional Director” includes the ONES deputy director.

---

**P**

**PCO**

Problem Case Officer

**PCOs**

Problem Case Officer

**PE**

Principal Examiner

**PEs**

Principal Examiner

---

**R**

**RBP**

Revised Business Plan

**RCMS**

Regional Capital Market Specialist

**RD**

Regional Director

**RDL**

Regional Director letter

**RDLs**

Regional Director letter

**RDs**

Regional Director

**Regional office**

"Regional offices" include the Office of National Examinations and Supervision (ONES). This term was defined in NCUA Instruction NO. 5000.20 (Rev. 5), Risk-Focused Examination Scope," issued January 10, 2014.

**RIC**

Recordkeeping/internal control

**RISO**

Regional Information Systems Officer

**RLS**

Regional Lending Specialist

**RO**

NCUA regional office

**ROs**

NCUA regional office

**S**

---

**SAR**

Suspicious Activity Report

**SARs**

Suspicious Activity Report

**SATEX**

An Excel workbook consisting of a series of linked spreadsheets. The name is an acronym for "Special Actions Trends Expanded." SATEX spreadsheets are used to capture data from a credit union's monthly financial statements and provide a tool for monitoring and analyzing financial trends. Only the data necessary to track a credit union's performance and problem areas should be entered in SATEX.

**SC**

Supervisory Committee

**SCR**

Secondary Capital Redemption

**SCUEP**

Small Credit Union Examination Program

**SCUP**

Small Credit Union Program

**SE**

Supervisory examiner. Replace "SE" with the appropriate term if you have another kind of supervisor (e.g., DSA, etc.).

**SEF**

Supervisor Evaluation Form

**SEs**

Supervisory examiner. Replace "SE" with the appropriate term if you have another kind of supervisor (e.g., DSA, etc.).

**SME**

Subject Matter Examiner

**SMEs**

Subject Matter Examiner

**SSA**

State Supervisory Authority

**Supervisor**

Throughout the NSPM, the term “supervisor” includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace “SE” with the appropriate term if you have another kind of supervisor (e.g., DSA, etc.).

# Index

---

## C

- Control Reports
  - Administrative Remedies 33
  - BSA 84
  - District Management 327
    - E&I Control Reports 327
    - Regional Control Reports 328
- CUSO
  - Corporate CUSO 120
  - CUSO Reviews 135

## T

- Templates 271, 331
  - Administrative Remedies 34
  - Change of Officials 92
  - CUSO Reviews 129, 145
  - Decrease Earnings Transfer Requirements 496
  - Derivatives Authority 234
  - District Management 271, 331
  - Examination Complaints 341, 538
  - Fixed Asset Waiver 475
  - Loan Participation Limit Waiver 503
  - Non-Member Deposits Limitation Waiver 482
  - NWRP and RBP 424

Prompt Corrective Action 424

Regulatory Waivers 531

Secondary Capital Plan 519