

# 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].

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**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)