NJ READ

Regulatory Examination Assistance & Development

Vision

We are the 'voice' for credit unions in advancing regulatory relief.

Mission Statement

We provide a collaborative environment for evaluating regulatory and examination processes with the goal of identifying best practices and areas to advocate change.

We work constructively with the regulator community to ensure credit unions have a regulatory environment that is conducive for growth and success.

Current Status

Based on feedback gathered from our credit union members through this 1st quarter survey, the League has identified the following:

- Common areas of strain during the exam process;
- Trends in examiner focus for current exams;
- Positive trends of the exam process; and
- Common operational challenges of complying with existing and proposed regulations.

Credit Unions' Understanding of NCUA's 2012 Examination Scope

- Resolution of Prior DOR Items
- Loans; Concentrations, High Risk, Insider, Extensions, Shares
- Concentrations - in relation to Assets and NW
- Allowance for Loan and Lease Losses
- Supervisory Committee Activities, Audits
- File Maintenance Reports
- Testing of Bank and Corporate Account Reconciliations
- Strategic, Business, and Marketing Plans

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CREDIT UNION EXAMINATION / REGULATORY CHALLENGES & NJ READ RECOMMENDATIONS

I. Document of Resolution (DoR)

Challenges:

1) DoRs are heavier than ever before. There is a feel by credit union leaders that when it comes to DoR items the agency is promoting "Quantity vs. Quality".
2) Items showing up in DoRs that experienced leaders have not seen in their audits in prior exams.
3) Examiner(s) not consistently following NCUA Examiners Guide 20-4 that sets parameters for content of DoRs.
4) When credit union leaders wish to discuss or challenge exam findings beyond the examiner's exit, there is no clear "accountability" for process, credit union rights, and agency chain of command.

Recommendations:

1) Examine and compare sampling of credit unions' DoRs for appropriate content to actual regulatory violations.
2) - 3) Create a *'common understanding of enforcement'* document; from NCUA to credit unions to clarify for examiners and credit union leaders what is eligible to be placed in a DoR vs. what is examiner 'opinion' or 'best business practice' recommendation; could include a process for examiner(s) to document 'opinion' or 'best business practice' recommendations in a memorandum to the credit union separate from the DoR document. Examiners must comply with regulatory guidance on administration of DoRs.
4) Document NCUA's "accountabilities" in a form that can be left with credit union leaders to review and act upon. This information could be standard in the final exam report, at exit, to the credit union. Should list, at minimum;
    a. NCUA exam process chain of command;
    b. Credit union's exam rights; and
    c. Credit union's appeal/process to NCUA.

II. Examiner(s) / Exam Visits

Challenges:

Credit union leaders shared that conflicts arise as a result of several issues, i.e. (not an all inclusive list); examiner lack of knowledge and/or education, last minute scheduling of visits or sudden changes to visit dates/times, some examiners expect accommodations to their expectation of schedule even if a significant conflict personally or professionally to the credit union's personnel.

1) Scheduling conflicts result in;
    a. Stress-filled interaction between examiner and credit union for duration of the exam, especially when examiners are new or unfamiliar with the credit union industry.
    b. DoRs may be heavier than necessary as a result of;
        i. Credit unions not having a reasonable time frame to coordinate or procure examiner requested documents;
        ii. Examiner pressure to produce tangible results.
2) It appears examiners feel pressure from senior management in the agency to justify visitations, which results in forced follow up visits, exam dates/times.
3) Although the majority of credit unions that responded said their examiner(s) were professional and helpful, some credit unions had contrary experiences that they felt may have even impacted the content of their final exam report.
4) Examiners are reluctant to take the time to meet and discuss preliminary exam findings prior to exiting the credit union.

Recommendations:

1) a. – b. NCUA implement a proactive, 'master' examiner assignment schedule to minimize conflicts and place examiner resources at credit unions appropriately. Notification to credit union in a reasonable timeframe prior to examiner(s) visit, especially when documents are a part of the examiners prerequisite to have available during the exam visitation. Create a mentoring program for 'new' examiners or lower "grade" examiners that extends to a probationary period on-the-job.

2) Increase transparency of criteria and expectations for examiner hiring, training, and probationary periods. Fifty-five percent of the credit unions ($50M or under) responded that their examiners were onsite working 5 days or longer. Is that length of time always needed?

3) Credit unions will be provided an opportunity, through future surveys, to provide specific, identifying information regarding their examiner that will assist in evaluating trends that will be shared with NCUA at the quarterly survey meetings or sooner if necessary. Is there a NCUA examiner 'code of conduct' document in place?

4) Exam exit meetings parameters could be enforced if NCUA puts "accountabilities" in a form that can be left with credit union leaders to review and act upon as recommended under Section I.

III. Regulatory Relief

The other area of concern for our survey respondents is regulatory requirements and the fact that their resources are fast being outpaced by regulations. The Consumer Financial Protection Bureau has become dominant in issuing proposed regulation. That trend along with other agencies' contributions to regulation proves daunting to credit unions.

Challenges:

1) The multitude of regulatory changes, along with changes to state laws, has become overly burdensome to credit unions.

2) We urge the agency to seriously consider whether new rules are necessary, as well as to consider amending over burdensome or unnecessary current regulations on the books.

Recommendations:

1) Any actions to minimize regulatory burdens would be a step in the right direction to providing a measure of relief to credit unions.

2) A vetting process should be created consisting of credit union leader participants prior to an Advanced Notice of Proposed Regulation (ANPR).