



**NCUA**  
National Credit Union Administration

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Southern Region

# **National Credit Union Administration Updates and Recent Initiatives**

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# Presenter

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# Agenda

- **Firefighter Credit Unions**
- **Supervisory Priorities**
- **Current and Upcoming Initiatives**
- **Regulatory Updates**



# What is AI's Perspective



Prompt: Current Financial Condition of Credit Unions

# Firefighter CU Trends

	Dec 2020	Dec 2021	Dec 2022	June 2023
NW/Total Assets	14.24%	13.92%	14.59%	14.65%
Delq Loans/ Total Loans	0.23%	0.14%	0.18%	0.18%
Net Charge Offs/Avg Loans	0.16%	0.09%	0.14%	0.22%
Share Growth	20.58%	11.99%	3.74%	6.07%
Loan Growth	20.37%	14.22%	8.77%	2.06%
Return on Avg Assets	1.01%	1.21%	1.27%	1.15%
Cash + Short Term Investments/Assets	25.90%	22.82%	19.79%	22.68%
Total Loans/Total Shares	78.97%	80.54%	84.45%	82.81%
RE Loans/Total Loans	58.75%	59.33%	57.07%	56.87%
Avg Asset Size	\$155,968,372	\$173,870,454	\$182,042,450	\$188,422,960

# Firefighter Credit Unions vs National Credit Unions

	Dec 2020	Dec 2020	Dec 2021	Dec 2021	Dec 2022	Dec 2022	June 2023	June 2023
NW/Total Assets	14.24%	10.40%	13.92%	10.32%	14.59%	10.78%	14.65%	10.91%
Delq Loans/Total Loans	0.23%	0.60%	0.14%	0.49%	0.18%	0.61%	0.18%	0.63%
Net Charge Offs/Avg Loans	0.16%	0.45%	0.09%	0.26%	0.14%	0.34%	0.22%	0.53%
Share Growth	20.58%	20.30%	11.99%	12.66%	3.74%	3.42%	6.07%	2.96%
Loan Growth	20.37%	4.94%	14.22%	7.96%	8.77%	20.03%	2.06%	7.31%
Return on Avg Assets	1.01%	0.70%	1.21%	1.07%	1.27%	0.89%	1.15%	0.79%
Cash & Short-Term Inv/Assets	25.90%	18.41%	22.82%	17.14%	19.79%	10.13%	22.68%	11.01%
RE Loans/Total Loans	58.75%	44.18%	59.33%	44.07%	57.07%	43.92%	56.87%	43.93%
Avg Asset Size	\$156 mil	\$391 mil	\$174 mil	\$437 mil	\$182 mil	\$460 mil	\$188 mil	\$468 mil

**Firefighter Credit Unions**

**All Credit Unions**

# Credit Union Vital Signs in Q1 2023

## Credit Union Vital Signs in Q1

## Notables from Call Report

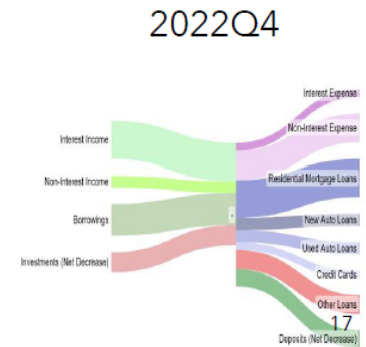
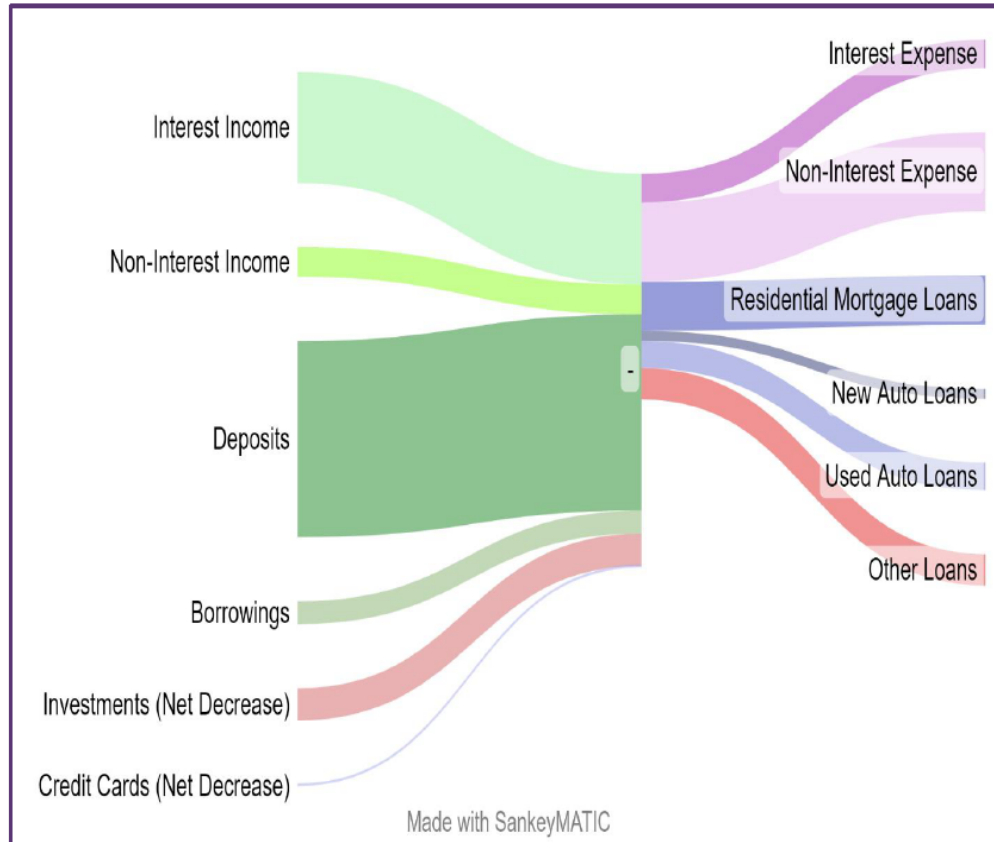
	Quarterly Change	Expected Value Based on Historical Trends and Seasonality	Given Typical Prediction Error, Is Latest Change MUCH Different from Trend?
Number of FICUs	-48	-35	-
Total Members	+1,417,288	+1,510,412	-
Insured Shares and deposits	+2.6%	+4.2%	Much Lower than Prediction
<i>Share Drafts</i>	+3.0%	+8.0%	Much Lower than Prediction
<i>Share Certificates</i>	+22.0%	+3.0%	Much Higher than Prediction
Uninsured deposits	-2.7%	+7.5%	Much Lower than Prediction
Assets	+2.0%	+4.0%	Much Lower than Prediction
Net Worth Ratio	-0.3 ppts	-0.2 ppts	-
Return on Average Assets	-0.1 ppts	-0.1 ppts	-
Loan-to-Share Ratio	-0.4 ppts	-2.1 ppts	-
Loans Outstanding	+1.6%	+1.7%	-
Real Estate Loans	+1.8%	+2.0%	-
<i>RE Residential: 1st Liens</i>	+0.9%	+2.4%	Much Lower than Prediction
<i>RE Residential: 2nd Liens</i>	+4.4%	+3.4%	-
New autos	+1.2%	+2.0%	-
Used autos	+1.7%	+2.5%	-
Credit cards	-0.1%	-2.7%	Much Higher than Prediction
Commercial Loans	+3.3%	+4.9%	Much Lower than Prediction
Delinquent loans (%)	-8.9 bps	-13.1 bps	-
<i>Real Estate 1st Liens (Noncomm.)</i>	-14.7 bps	-14.7 bps	-
Autos	-8.8 bps	-11.4 bps	-
Credit Card	-0.3 bps	-5.5 bps	-

# Credit Union Vital Signs in 2023 Q1

## CU Vital Signs in Q1

### Industry Cash Flows

Industry Cash Flows in 2023Q1





# Agenda

- Firefighter Credit Unions
- **Supervisory Priorities**
- Current & Upcoming Initiatives
- Regulatory Updates



# What is AI's Perspective



Prompt: Inflation Outlook for 2024

# 2023 Supervisory Priorities

Interest Rate  
Risk

Liquidity Risk

Credit Risk

Fraud  
Prevention and  
Detection

Information  
Security  
(Cybersecurity)

Consumer  
Financial  
Protection

# Interest Rate Risk

- Higher interest rates may elevate IRR and exposure to earnings and capital fluctuations
- Recent updates
  - Letter to Credit Unions 22-CU-09, [Updates to Interest Rate Risk Supervisory Framework](#)
  - Supervisory Letter 22-01, [Updates to Interest Rate Risk Supervisory Framework](#)
  - Addition of Sensitivity to Market Risk or “S” component to CAMELS
- Key risk management and control activities

# Liquidity Risk

- **Potential effects of higher interest rates may reduce credit union's asset valuation and borrowing capacity**
- **Large increases in share balances from 2020-2022 may increase share sensitivity and share rolloff**
- **Exam considerations**
  - Sources of liquidity compared to funding needs
  - Liquidity policies, procedures, and risk limits
  - Adequacy of liquidity risk management framework relative to the size, complexity, and risk profile

# Credit Risk

- **Focus on credit risk management and mitigation efforts**
  - Assess the effectiveness of credit unions' systems in identifying, monitoring, and managing credit risk exposure
  - Evaluate how credit risk is changing due to high inflation, higher borrowing costs from high-interest rates, and increased likelihood of an economic downturn
- **Review adjustments credit unions made to underwriting standards, portfolio monitoring practices, and loan loss reserves in response to the current inflationary economic environment**

# Fraud Prevention & Detection

- **Questionnaire Goals**
  - Enhance the detection
  - Reduce losses to credit unions & NCUSIF
  - Increase exam efficiencies
- **Background**
  - Started January 2023 (Sent with Items needed list)
  - Email notification to officials (12/2022)
  - Used by other federal and state Regulators
  - 2021 Pilot
  - Amendments to reduce burden to credit unions

# Fraud Prevention & Detection

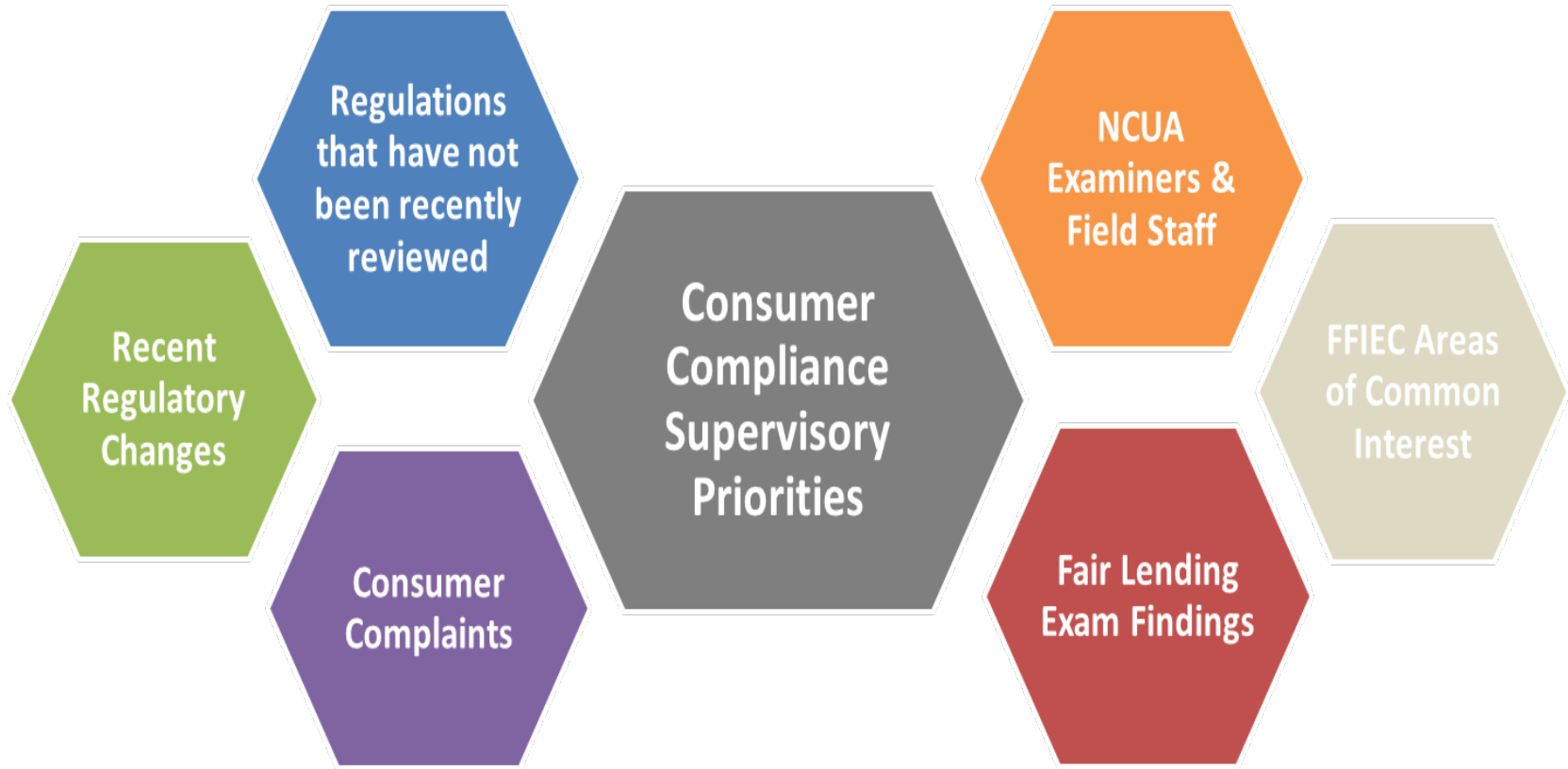
- **Two sections of the questionnaire**
  - Anti-Fraud Program section
  - Board of Directors, Management, and Business Associates section
- **Two versions of the questionnaire**
  - Risk-Focused Exams
  - Small Credit Union Examination Program



# Information Security (Cybersecurity)

- **Cybersecurity risks remain a significant, persistent and ever-evolving threat**
- **The NCUA has implemented the new Information Security Examination**
- **The Automated Cybersecurity Evaluation Toolbox**
  - Toolbox is voluntary and establishes no new requirements or expectations for credit unions

# Consumer Financial Protection



# Consumer Financial Protection

1. **Overdraft programs**
2. **Fair lending, including appraisal bias**
3. **The Truth in Lending Act/Regulation Z (Auto Lending only)**
4. **The Fair Credit Reporting Act/ Regulation V**

# Consumer Financial Protection

## Overdraft Programs

- **Limited Scope: Federal credit unions with assets totaling \$500 million or more**
- **Examiners will review**
  - Balance calculation methods
  - Settlement processes
  - Website advertising
  - Member statements and disclosures related to PALS II loans
  - Management's actions to address unanticipated overdraft fees

# Consumer Financial Protection

## Fair Lending

**Examiners will review policies and practices related to:**

- Loan pricing discrimination risk
- Steering discrimination risk
- Appraisal bias

# Consumer Financial Protection

## Truth in Lending Act/Regulation Z

- **Limited Scope: Federal credit unions with auto loan portfolios that increased more than 30 % between September 30, 2021, and September 30, 2022**
- **Examiners will review compliance with Regulation Z auto loan disclosure requirements**

# Consumer Financial Protection

## Fair Credit Reporting Act/Regulation V

Examiners will review compliance with certain Regulation V credit reporting protections:

- Adverse Action Notices
- Risk-based pricing disclosures
- Consumer rights disclosures

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# What is AI's Perspective



Prompt: Good Succession Plan

# Not a good Succession Plan



# Current & Upcoming Initiatives

- **Current Expected Credit Loss**
- **Small Credit Union & Minority Depository Institution Support**
- **Succession Planning**
- **Post-Examination Survey**

# Current Expected Credit Losses

## Implementation

- **Most credit unions adopted January 1st**
- **New FAQs on:**
  - CECL Resources webpage
  - Simplified CECL Tool
- **Exception for credit unions with assets under \$10 million**

# Current Expected Credit Losses

**Examiners will evaluate the adequacy of:**

- **ACL policies and procedures**
- **Documentation of an ACL reserving methodology, including logic for model selection and related input data, modeling assumptions, and qualitative adjustments**
- **Adherence to GAAP**

# Small Credit Union & MDI Support

- **Small Credit Union & Minority Depository Institutions (MDI) Support Program**
  - MDI credit unions and credit unions under \$100 million in assets are eligible
  - Allocated hours not part of the typical exam process
- **MDI-Specific Job Aid**
  - Resources for credit unions
  - Metrics for average MDI credit unions

# Small Credit Union & MDI Support

- **ACCESS – Advancing Communities through Credit, Education, Stability, and Support**
  - Continue to identify additional ways to help new, small, low-income designated, and MDI credit unions grow and prosper
- **Resources**
  - Training
  - Community Development Revolving Loan Fund Grants
  - Mentoring Grants

# Succession Planning





# Succession Planning

- **Be Prepared**
- **Succession *Planning* vs. Succession *Plan***
- **Why Succession Planning?**
- **Tailor to Your Credit Union**
- **Credit Union Resources**
- **2023 Reviews**

# Post-Examination Survey

- **Pilot program**
  - Survey
  - Focus groups
- **Results of pilot program**
- **Permanent post-examination survey**

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# What is AI's Perspective



Prompt: Rules & Regulations are Fun

# 2023 NCUA Final Rules

Part(s)	Topic
748	Cyber Incident Notification Requirements
701	Member Expulsions
702	Subordinated Debt
747	Civil Money Penalty Inflation Adjustment
700, 701, 702, 708a, 708b, 750, 790	Asset Threshold for Determining the Appropriate Supervisory Office

# Contact Information

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