



DCU BULLETIN

Division of Credit Unions

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Risk Focused Exams Start In November

The Division of Credit Union (DCU) plans to begin risk-focused exams in early November 2002 for Washington state-chartered credit unions. Examiners will be given risk-focus exam training in late August. They will then perform three exams in September using risk-focused techniques to help refine certain exam procedures before implementing the process for all state-chartered credit unions November 4.

When fully implemented, the risk-focused examination process is intended to provide greater effectiveness through:

- Less exam time spent on credit union premises,
- Increased examiner focus on higher risk activities in credit unions,
- Improved communication between the credit union and the Examiner In Charge (EIC) throughout the year, and
- Increased emphasis on the future plans and risk management capacities of the credit union

To support this effort, DCU will be assigning each credit union to an examiner to monitor for a period up to three years. The examiner will generally be the EIC at the exams and will be in contact with the credit union as issues arise about credit union progress or new products offered. The examiner will also be available to the credit union to answer questions throughout the year.

In order to help set the scope of a risk-focused exam, the EIC will need to review:

- current economic conditions,
- prior exam determinations of risk,
- operational and functional changes,
- internal control risks,
- auditor reports (both internal and external) and management/internal control letters,
- management's response to audit and examination reports

- interim key measures of financial progress, and
- requested information provided by the credit union prior to the start of the on-site exam work

DCU has generally been providing advance notice of an examination 8 to 10 weeks prior to an exam. The advance notice also included a Directors and Officers Questionnaire and a list of information the examiners need to access during the exam. Because we are placing more emphasis on the planning phase of the exam, the advance notice letter will now be modified to identify items to be provided to the EIC fifteen business days prior to the scheduled start of the on-site exam work. We strongly encourage credit unions to provide as many of those materials in electronic format as possible. Examinations will typically use financial statements “as of” the most recent quarter end, but examiners will incorporate in their analysis any significant changes that have occurred to the credit union since that quarter end.

National Credit Union Administration is also adopting a similar examination approach and has outlined their approach in Letter to Credit Unions 02-FCU-09, Risk Focused Examination Program. That Letter is available at <http://www.ncua.gov/ref/letters/letters.html> and it discusses the following types of risk for credit union in more detail:

- credit
- interest rate
- liquidity
- transaction
- compliance
- strategic
- reputation

Each of these seven risk types will be assigned a rating of high, medium, or low for scope-setting purposes to reflect the examiner’s evaluation of the current and prospective risk to the credit union in each area. CAMEL ratings will continue to be assigned as well.

Credit unions are encouraged to provide comments or questions about the examination process to Jane Johnson (360) 902-0508 jjohnson@dfi.wa.gov or Mike Delimont (360) 902-8790 or mdelimont@dfi.wa.gov