



DCU BULLETIN

Division of Credit Unions

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Examination Focus for 2016

This Bulletin establishes the Division of Credit Unions' (Division's) examination focus for 2016 and will help credit unions better prepare for their 2016 examinations. The following are the four examination focus areas for 2016:

1. Cybersecurity

Cybersecurity threats represent a significant concern to financial institutions and cybersecurity attacks against credit unions are more frequent, sophisticated and expensive to remedy. Because of this, the Division has allocated more resources to cybersecurity and information technology exams. Specifically, we hired Security Compliance Associates (SCA) to assist us in performing IT security examinations. The main differences that credit unions will see in the Division's 2016 IT security program are: (1) More onsite IT exams will be performed; (2) More IT exam hours will be devoted to each examination; (3) Cybersecurity will be the IT exam focus; and (4) Examiners will stress the importance of credit unions completing the FFIEC cybersecurity self-assessment tool.

The Division believes the FFIEC cybersecurity assessment tool is a good baseline assessment, which will help them assess their cybersecurity preparedness and to advance their IT security programs. Division and SCA examiners will review the FFIEC cybersecurity self-assessment work that has been completed by the credit unions, and as needed, provide specific recommendations to help them complete the cybersecurity self-assessment and to address cybersecurity vulnerability gaps.

It is important that credit union management, including the board of directors, sufficiently address and control IT cybersecurity risks and vulnerabilities.

2. Interest Rate Risk (IRR)

Interest Rate Risk (IRR) continues to be a significant regulatory focus. Credit unions that have high long-term asset concentrations which are funded primarily by short-term deposits will be exposed to low margins and decreased profitability as interest rates rise. Examiners will closely evaluate each credit union's IRR management program and its balance sheet composition to determine whether IRR levels are too high. Examiners will consider these main factors when

evaluating a credit union's overall IRR level and its IRR management program: (1) The current and projected levels of net income and net worth; (2) The ability of management, including the board of directors, to manage and control IRR; (3) The ability of staff and management to accurately measure and assess IRR exposure; (4) The credit union's current IRR trend; and (5) Whether the credit union's asset liability management (ALM) and IRR strategies and practices are consistent with anticipated market interest rate changes and board approved IRR tolerance limits.

The examiners' scope of review on IRR will be more in depth for credit unions with higher levels of long-term fixed rate assets and higher levels of IRR. Credit unions with higher levels of IRR and balance sheet complexity should have more developed IRR policies, procedures, modeling systems, reporting, and control systems in place. Credit unions with limited IRR exposure will not be expected to have extensive IRR management programs.

3. Performing Comprehensive and Effective Due Diligence Over New Program Offerings and Vendors

Examiners will evaluate whether credit unions have strong procedural guidance and programs in place to ensure that satisfactory due diligence is performed on new program offerings and over its vendor management. It is important that credit unions develop and implement new programs which minimize operational and financial risks while keeping the credit union productive and profitable.

Examiners will closely review new program offering, especially new lending programs, to assess whether risks are properly managed and controlled. Examiners will also evaluate whether satisfactory due diligence is performed on new vendors and whether effective vendor oversight is performed on an ongoing basis.

Credit unions must be proactive in performing due diligence over new programs and vendors, rather than being reactive in nature when problems occur. Examiners will factor the credit union's ability to do this into their CAMELS ratings, especially the "Management" rating.

4. Consumer Protection Law Compliance

The Division plans on scheduling at least six separate compliance examinations in 2016 at credit unions with total assets over \$500 million. Examiners will continue to evaluate the following compliance areas during these exams: (1) The effectiveness of the overall compliance management program; (2) The compliance program's ability to detect and self-correct problems; and (3) The credit union's timeliness in implementing new regulatory compliance requirements. This is in addition to examining compliance with the new TILA- RESPA integrated disclosure requirements, the Servicemembers Civil Relief Act, and other specific consumer compliance regulations.

Compliance examination work will also be performed during regularly scheduled safety and soundness examinations. Examiners will focus on the following areas during these exams: (1) The overall effectiveness of the compliance program, given the credit union's asset size and

product offering; (2) BSA/OFAC; (3) The new TILA-RESPA integrated disclosure requirements; and (4) Banking licensed marijuana industry businesses. Other compliance areas may be examined, depending on the risk profile of the credit union.

Conclusion

The Division is committed to using its examiner resources in an effective manner and ensuring a safe and sound and competitive state chartered credit union system in Washington State. Examiners continue to risk focus each individual examination to effectively and efficiently use our limited exam resources. This helps the Division of Credit Unions (Division) better address the safety and soundness and regulatory concerns of the 56 state chartered credit unions under its regulatory purview. Also, the actual examination focus for your individual credit union may or may not correspond with the Division's 2016 exam focus, depending on the credit union's financial condition, its risk profile and its organizational/management structure.

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