



**NCUA**  
National Credit Union Administration

# National Supervision

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## Policy Manual

# Introduction

The National Supervision Policy Manual (NSPM) establishes national policies, procedures, and guidelines for effective district management, supervision of credit unions, and quality assurance. Promoting the consistent application of the examination procedures outlined in the NSPM, and vetting and coordinating across the agency the need for more examination policies and procedures furthers its purpose.

While supervisors have the right and responsibility to assign work and manage staff, they should not institute new or added standard operating procedures, a practice often referred to as "layering." Implementing more procedures that apply to all examiners in an SE group or field office, or establishing general policy that is narrower than national guidance, is not appropriate. On a case-by-case basis, supervisors can and should implement procedures to manage risk in specific credit unions or address the development needs of individual employees.

Adoption by field offices or supervisors of any alternative or additional examination policies, procedures, or directives beyond what is addressed in the NSPM and other national guidance must be cleared through the Exam Steering Group and the Office of Examination and Insurance (**E&I**<sup>1</sup>). The Exam Steering Group will review and evaluate field office or SE level specific practices to determine if they require E&I approval.

## Feedback?

Send feedback on the NSPM to [NSPM@NCUA.gov](mailto:NSPM@NCUA.gov)

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<sup>1</sup>Office of Examination and Insurance

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# Welcome to the NSPM

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While supervisors have the right and responsibility to assign work and manage staff, they should not institute new or additional standard operating procedures, a practice often referred to as "layering." Implementing additional procedures that apply to all examiners in an SE group or field office, or establishing general policy that is narrower than national guidance, is not appropriate. On a case-by-case basis, supervisors can and should implement procedures to manage risk in specific credit unions or address the development needs of individual employees.

Adoption by field offices or supervisors of any alternative or additional examination policies, procedures, or directives beyond what is addressed in the NSPM and other national guidance must be cleared through the Exam Steering Group and the Office of Examination and Insurance. The Exam Steering Group promotes the consistent application of the examination procedures outlined in the NSPM, and vets and coordinates the need for any additional examination policies and procedures across the agency by evaluating field office or SE level specific practices to determine if they require **E&I**<sup>1</sup> approval.

General Exam & Supervision	Waivers & Regulatory Actions	Quality Control	Specialized Subject Matter
<ul style="list-style-type: none"> <li>● <a href="#">District Management</a></li> <li>● <a href="#">FCU Program and Procedures</a></li> <li>● <a href="#">FISCU Program and Procedures</a></li> <li>● <a href="#">Administrative Remedies</a></li> </ul>	<ul style="list-style-type: none"> <li>● <a href="#">Regulatory Waivers and Other Regulatory Actions</a></li> <li>● <a href="#">Prompt Corrective Action</a></li> <li>● <a href="#">Change of Officials</a></li> <li>● <a href="#">Derivatives</a></li> </ul>	<ul style="list-style-type: none"> <li>● Quality Assurance Program</li> <li>● <a href="#">Examination Complaints</a></li> </ul>	<ul style="list-style-type: none"> <li>● <a href="#">BSA Supervision</a></li> <li>● <a href="#">Audits, Record-keeping, and Fraud</a></li> <li>● <a href="#">CUSO Reviews</a></li> <li>● <a href="#">Corporate Credit Union Program and Procedures</a></li> </ul>

<sup>1</sup>Office of Examination and Insurance

<b>General Exam &amp; Supervision</b>	<b>Waivers &amp; Regulatory Actions</b>	<b>Quality Control</b>	<b>Specialized Sub- ject Matter</b>
	<a href="#">Authority</a>		

## Navigate the NSPM

Navigate the NSPM using the interactive menu to the left. Click a topic to show content in the reading pane, or to expand a topic and see more information. Use the back button in your browser to go back a page. Links to content outside the NSPM will open in a new browser tab or window.

## Search the NSPM

The search box in the upper right-hand corner of the page will search the NSPM for terms you enter. Search results will appear in the reading pane, and the term you search for will be highlighted on any pages you open from the list of terms. To turn off the highlighting, click the "Remove Highlights" button at the top of the reading pane.

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*Last updated January 22, 2018*

# Administrative Remedies

Administrative remedies are a broad range of actions that, while including formal actions such as published [LUAs](#) and cease and desist orders, also includes informal actions such as [DORs](#), [RDLs](#), unpublished LUAs, and [PWLs](#). These actions are available to prevent or eliminate serious operational and financial problems in credit unions. Administrative remedies provide protection to credit unions, credit union members, creditors, the **NCUSIF**<sup>1</sup>, and the credit union industry. Administrative remedies are tools available to the NCUA to affect problem resolution.

The NSPM provides an overview of administrative actions and establishes expectations, procedures, and controls for developing and processing specific informal and formal actions. This guidance, and the provided correspondence templates, are intended to improve efficiency and consistency in preparing administrative actions. The templates must be modified to make them suitable for the particular facts and circumstances of a given case. The details of the particular problems, as well as the expected timeframes and specific corrective action, should be clearly spelled out in the body of the agreement. **OGC**<sup>2</sup> is available to assist in preparing, reviewing, and negotiating any formal administrative action should such assistance be desired and requested by the regional office.

For more information about administrative remedies, see Supervisory Letter 10-04, [Administrative Remedies](#), NCUA Instruction 4820, [Enforcement Manual](#); and NCUA Instruction 4810, [Special Assistance Manual](#).

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*Last updated November 09, 2021*

## General Responsibilities

### E&I and OGC

- Review administrative actions for concurrence when required under delegated authority

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>The NCUA's Office of General Counsel

- Routinely request reports from the regions and may periodically request a sampling of issued administrative actions for quality control purposes as part of an ongoing quality assurance process
- Review regional activity as a means of tracking regional and national trends for resource, consistency, and policy formation purposes and will issue a semi-annual national summary of administrative actions
- Provide advice and guidance on the use and issuance of administrative actions

## Regional Directors

- Ensure any recommended administrative action is warranted and supported
- Confirm proper monitoring of administrative actions and sufficient progress of problem resolution
- Provide a process to track administrative actions and provide Control Reports as discussed in [BSA Control Reports](#)

## Supervisors

- Confirm examiners adequately recognize and address risk(s) and use the appropriate level of administrative action
- Follow the administrative action processes in this section of the NSPM, while ensuring proper analysis and documentation supports all administrative actions
- Monitor examiners' supervision plans and activities for compliance with appropriate resolution and national requirements
- Confirm compliance with agreed-upon corrective action and timeframes and review examiners' recommended alternative actions based upon the level of resolution
- Ensure documents drafted by examiners are professional and results-oriented

## Exam Staff

- Detect and formulate action plans to resolve credit union problems before they become insurmountable

Address issues during examinations and supervision contacts and recommend elevated actions when appropriate

- Certain administrative actions are expected on all **CAMELS**<sup>1</sup> 4 and 5 credit unions. See Supervisory Letter 10-04, [Administrative Remedies](#), and the Administrative Actions for Troubled Credit Unions section of the NSPM for more information.
- Elevated actions may also be appropriate in the following circumstances
  - The existence of material unsafe or unsound practices in conducting credit union business
  - The credit union poses an abnormal risk to the **NCUSIF**<sup>2</sup>
  - Serious insider abuse involving officials or employees
  - Significant regulatory compliance problems or substantial violations of law
  - Serious problems or weaknesses are not corrected in a timely manner;
  - The credit union's true condition cannot be determined due to inadequate books and records, unreasonable limitations on how, when, or where the examination is conducted, or restrictions on examiner access to personnel, books, and records.
- Adhere to administrative action processes in this section and draft necessary documents
- Work with their supervisor to provide analysis and documentation that supports any recommended action
- Provide correspondence to credit unions that is accurate, easily understood, and results-oriented with clearly established expectations and goals
- Monitor credit union compliance with agreed-upon corrective action and timeframes and recommend necessary alternative actions based upon the level of resolution

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*Last updated November 09, 2021*

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.



# Types of Administrative Remedies

Administrative remedies fall into two different categories: informal actions and formal actions.

Informal Actions	Formal Actions
<ul style="list-style-type: none"><li>• <a href="#">Document of resolution</a></li><li>• <a href="#">Regional director letter</a></li><li>• Non-published <a href="#">letter of understanding and agreement</a></li><li>• <a href="#">Preliminary warning letter</a></li></ul>	<ul style="list-style-type: none"><li>• Published <a href="#">letter of understanding and agreement</a></li><li>• Immediate and/or permanent cease and desist order</li><li>• <a href="#">Civil money penalty</a></li><li>• Involuntary liquidation</li><li>• Conservatorship</li><li>• Removal and/or prohibition</li><li>• Termination of insurance and/or revocation of charter</li><li>• Some <a href="#">PCA</a>-related actions, such as ordering a new election or dismissing a director or senior officer</li></ul>

## Informal Actions

With the exception of a [DOR](#), the RD must approve all informal actions.

## Formal Actions

Formal actions, also known as enforcement actions, are taken when an event triggers a level of concern requiring immediate attention and/or informal actions have not resolved the core concerns to the NCUA's satisfaction. Unlike most informal actions, formal actions are authorized by statute (and, in some cases, mandated), are generally more severe, and may be disclosed to the public. **OGC**<sup>1</sup> must be consulted on all formal actions and they must be approved as outlined in the [NCUA Delegations of Authority](#). When considering a formal action, consult OGC as early in the process as possible.

Before deciding to take formal administrative action, an examiner and their supervisor must clearly understand the nature of a credit union's problems and why any previous attempts to resolve the problems failed. Examiners are responsible for ensuring an administrative record presents a complete, factual, and fully documented history of the credit union's problems and the examiner's concerns about the credit union. Examiners will recommend formal administrative action after consulting with their supervisor. Before proceeding, the supervisor will discuss the action with the Associate Regional Director, who will receive concurrence from the RD. It is critical that the field and region initiate communication early when formal administrative action is recommended.

See NCUA Instruction 4820, [Enforcement Manual](#), for more information about processing formal administrative actions.

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*Last updated March 24, 2017*

## Regional Director Letter

A RD letter is used when a credit union has serious or persistent problem areas that are not being resolved through field supervision alone. Examiners will ensure they fully address the issues through the examination process first, but a letter from the RD is an option to further emphasize the areas of concern. For an example, see the [Sample Regional Director letter](#).

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<sup>1</sup>The NCUA's Office of General Counsel

## Exam Staff Responsibilities

- Discuss the recommendation for an RDL with the supervisor
- Address the primary areas of concern, corrective actions, expectations, and required response(s)
- Be direct, concise, and clear (as a general guideline, RDLs should not be longer than two pages)
- Write from the perspective of the RD and with the appropriate official audience in mind
- Direct the credit union's board of directors to respond in writing to the RD, with a copy to the examiner
- Examiners are responsible for all follow-up to ensure a credit union's response is timely and appropriate.
- Indicate the recommendation of an RDL in the Closed Information Questionnaire
- Email the draft RDL to the supervisor for review and approval when initiating the **PSR**<sup>1</sup> process
- The supervisor will review the report to ensure the letter is appropriate and fully supported. The supervisor will then forward it to their region's **DOS**<sup>2</sup> mailbox when notifying DOS the PSR is ready for their review.
- If the examiner does not include the required notification for downgrades/upgrades to a **CAMELS**<sup>3</sup> 3, 4, or 5 in an exam report (as discussed in the NSPM), the examiner will process an RDL through the supervisor (and then follow normal processing through the regional office) to notify a credit union (only occurs under rare circumstances, and must be justified in the [Closed Information Questionnaire](#))
- Use the [Acknowledge LUA and CAMELS Downgrade](#) template

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<sup>1</sup>Pre-release secondary review

<sup>2</sup>Division of Supervision

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

- If the NCUA did not participate and the SSA has upgraded to a CAMELS 3 or better, but notice of removal of troubled condition cannot be verified, use the [Upgrade FISCO from Troubled Condition Status](#) template.
- If the NCUA did not participate but cannot confirm notice was given to a FISCO, use the [Notify FISCO of Troubled Condition](#) template; this letter is used on an exception basis.

## Division of Supervision Review

- DOS will review all draft RDLs and prepare them for the RD's signature, and may make minor modifications to an RDL
- If major changes to the content are needed (deleting whole paragraphs, adding new or relevant information, changing the original intended message), DOS will contact the supervisor for concurrence with the changes or will return the draft directly to the supervisor for revision.
- DOS will send the RDL to the board chairperson (and copy the **CEO**<sup>1</sup> as appropriate)
- In special cases, DOS may send the RDL to each board member or the supervisor may determine if delivering the letter in person is appropriate.
- If the RD or DOS decides not to issue an RDL, DOS will discuss the decision with the exam supervisor, who will then discuss it with the examiner

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*Last updated October 14, 2021*

## Letter of Understanding and Agreement

A LUA lists a credit union's specific material problems and the corrective actions needed to resolve them. It demonstrates to the credit union officials the problems that are a major concern to the NCUA and formally asks that officials agree to the listed actions in lieu of the agency taking formal administrative action (assuming it is an [unpublished LUA](#); a published LUA is a [formal administrative action](#)). No LUA will have a specific termination date unless the LUA is drafted in conjunction with a newly chartered credit union and not because of significant problems.

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<sup>1</sup>Chief Executive Officer

An examiner's recommendation to issue an LUA is typically based on an examination, follow-up examination, or onsite supervision contact supported by documentation. Examiners will meet with key staff, credit union officials, and the SSA (in the case of joint contacts) during the examination or follow-up examination to develop an LUA.

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*Last Updated October 26, 2022.*

## Issue an LUA

Examiners will document all significant concerns and corrective actions outlined in an LUA in Issues Management. An LUA will address the most significant concerns identified in the DOR; it will not necessarily be an exact duplicate. An item in an LUA, however, must be recorded as a DOR Issue, either at a prior contact or when the LUA is issued, and flow into Issue Management.

LUAs may be either issued/signed at the joint conference, or at a subsequent meeting specifically for the LUA signing after the joint conference and close of the examination. Electronic signatures are acceptable. If an examiner opts to leave an exam open to issue the LUA at the joint conference, they may request a waiver of the 90-day completion requirement, up to 105 total days.

To prepare an LUA, examiners will:

- Obtain supervisor concurrence and document supervisor agreement in the [Closed Information Questionnaire](#), as required by the NSPM
- Discuss the intent and the preliminary content of the LUA during the preliminary meeting with management before signing the LUA
- Work with their supervisor to notify management that the issuance of an LUA is subject to review by the RD
- Draft an LUA and email it to their supervisor when initiating the **PSR**<sup>1</sup> process.

Upon receiving a draft LUA, supervisors will:

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<sup>1</sup>Pre-release secondary review

- Review the LUA and make a recommendation to either issue it or not
- Notify the appropriate ARD of all LUAs to be issued, regardless of a credit union's asset size
- When notifying **DOS**<sup>1</sup> the PSR is ready for DOS review, forward the draft LUA to the region's DOS mailbox for processing and RD approval

Upon receiving an LUA from a supervisor, DOS will:

- Work with the supervisor and examiner to review the draft LUA in a mutually agreeable timeframe
- Discuss all material changes to the LUA with the field supervisor
- Return the final, approved version of the LUA to the supervisor for delivery to the credit union

To issue the LUA, examiners will:

- Send an electronic copy of the final, approved LUA to credit union officials via ZixMail, before the signing meeting
- Allow officials a minimum of two business days to review the LUA before they sign it
- Print at least two copies of the final approved LUA and present it to the officials in the [manner described in the NSPM](#)

If a quorum of directors signs the LUA, it is understood to be accepted by the board.

DOS and the credit union receive the original signed copies of the LUA. The supervisor and the examiner will receive a scanned electronic copy (from DOS) for their records. In the case of a FISCU, the regional office will decide if a third original copy is necessary.

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*Last updated March 25, 2022*

## **Problem Code Illustration**

Any item in an LUA must be recorded as a DOR with the appropriate Issues in Issue Management and flow through the DOR either at a prior contact or at the same contact the LUA is issued. The Issue should remain unresolved until the

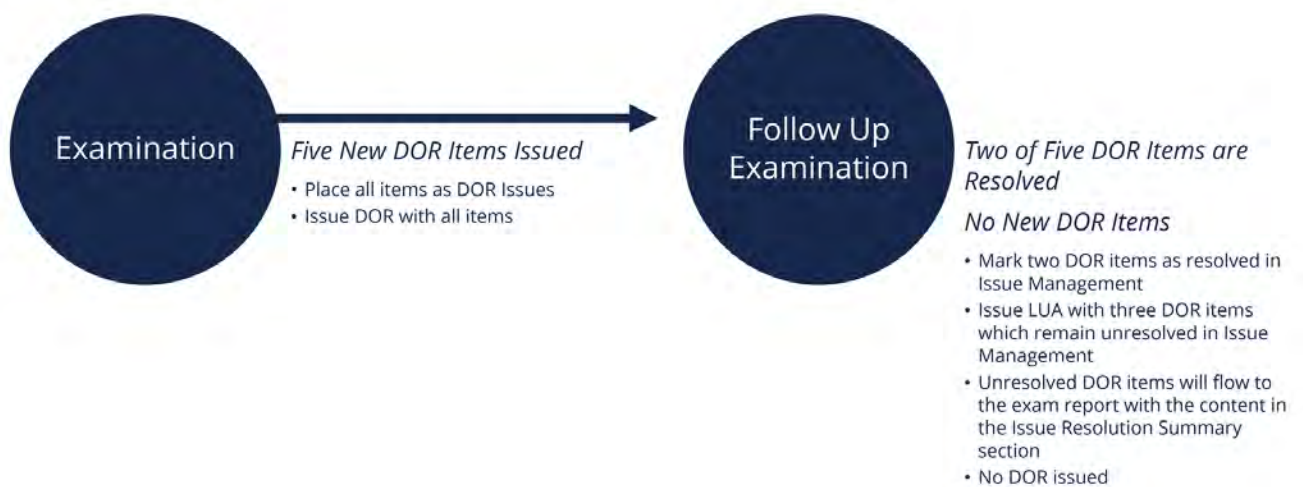
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<sup>1</sup>Division of Supervision

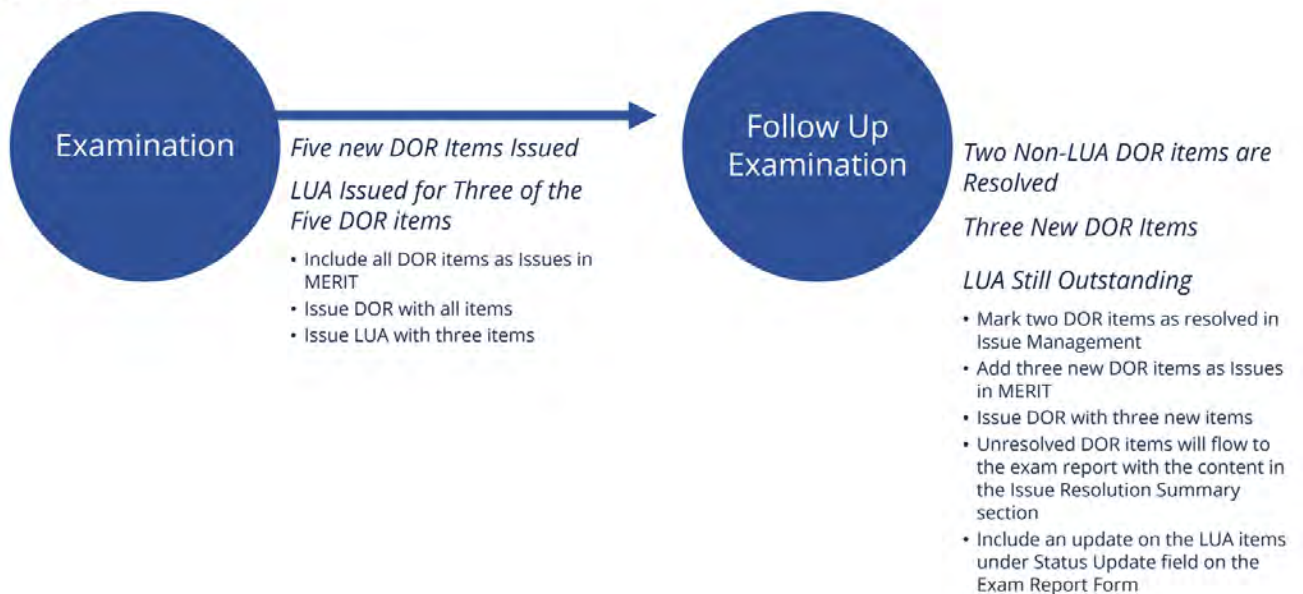
problem is resolved in Issue Management, regardless of whether the problem is outlined in the DOR or LUA.

The scenarios below outline the flow of items through the Issue Management, DOR, and LUA:

### Scenario A



### Scenario B



*Last updated October 26, 2022*

## Deliver an LUA

An examiner and their supervisor will deliver an LUA to the credit union at a board of directors meeting. The supervisor will give the Associate Regional Director advance notice of when the LUA will be delivered and will attend all joint conferences in which an examiner presents an LUA to credit union officials.

When delivering an LUA, examiners will:

- Arrange for delivery of an LUA as soon as possible, but within 14 business days after receiving the final approved version
- Conduct the meeting and explain the LUA to the board of directors
- Document the supervisor's attendance at the meeting
  - For an FCU, document in the [Closed Information Questionnaire](#) of the examination report.
  - For a FISCO, document in the Review of State Exam or a memo summarizing the results of the LUA delivery meeting.
- Collect the signed LUAs after the meeting
  - If the officials refuse to sign an LUA, examiners will prepare a report documenting the refusal and recommend a course of action, such as a [Preliminary Warning Letter](#).
- Scan and email the signed LUAs through their supervisor, to the regional **DOS**<sup>1</sup> within three days of the LUA meeting for the RD's signature

### **1. Deliver a Final, Signed LUA**

After the RD signs an LUA, DOS will:

- Send (either through email or regular mail at the credit union's preference) the original, signed LUAs to the credit union with the [Regional Director cover letter](#)
- Maintain an electronic copy (scanned copy with signature) on the DOS drive
- Scan and email electronic copies of the signed LUA to the examiner and their supervisor if the LUA was not emailed to the credit union with a courtesy copy to examiner and supervisor

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<sup>1</sup>Division of Supervision



- For a jointly issued LUA, DOS will email a copy of the signed LUA to the SSA

If an LUA is issued and the credit union was downgraded to a **CAMELS**<sup>1</sup> 4 or 5, a [Regional Director letter acknowledging the LUA and downgrade](#) may be appropriate. The RD letter acknowledges the LUA, includes a brief synopsis of the problems, and notes the requirements of NCUA regulation § 701.14, [Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition](#), regarding the selection of officials and senior management for troubled credit unions.

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*Last updated October 26, 2022*

## Supervision Contacts for a Credit Union with an LUA

Frequency of examinations, follow-up examinations, and onsite supervision contacts is driven by a credit union's **CAMELS**<sup>2</sup> ratings and overall risk to the **NCUSIF**<sup>3</sup>. Examiners will consider any outstanding administrative actions when planning supervision and assigning the CAMELS ratings. If examiners encounter a credit union with an outstanding administrative action (and associated risk), and the risk is not reflected in the CAMELS ratings (which drive the frequency of supervision), they will discuss with their supervisor and plan supervision accordingly.

Unless there are extenuating circumstances, and approved by the Associate Regional Director, supervision of credit unions with outstanding administrative actions will be in line with national policy for CAMELS 3, 4, or 5 credit unions.

When an LUA is in place, examiners will:

- Prepare and distribute the examination or supervision contact reports in the same manner as other examinations and supervision contacts
- Document compliance with the LUA in the Status Update during each contact
  - List the status of each item as resolved or not resolved. Include comments to support completion status.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

- Document recommendations for future action such as continue, modify, terminate the LUA, or proceed with elevated or formal administrative action
- Recommend removal of the LUA during a follow-up examination or regular examination, if the officials have corrected the problem areas
  - The examiner will prepare a draft letter for the RD's signature explaining why they recommend removal of the LUA
- Recommend elevated administrative action if the officials have not corrected the problem areas within the timeframes outlined in the LUA
  - This could be formal action such as a published LUA, Cease and Desist order, civil money penalty, involuntary liquidation, etc. Refer to NCUA Instruction 4820, [Enforcement Manual](#), for processing procedures of formal administrative actions.
- Document the existence of an LUA

**Note:** In cases of unforeseen circumstances, such as a disaster or pandemic, **exam staff**<sup>1</sup> should be flexible and reasonable with the updated corrected action timeframes (if applicable) and follow up.

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*Last updated May 12, 2022*

## Terminate an LUA

When a credit union meets the specific performance standards outlined in an LUA, examiners will provide the RD with a recommendation to terminate the LUA. Examiners will not inform the credit union that the LUA is terminated before RD approval. Examiners may recommend the termination of an LUA only after completing an examination or onsite contact supported by adequate work papers showing the credit union has corrected the problems cited in the LUA.

When conditions warrant the termination of an LUA, the examiner will:

- Prepare a draft [LUA removal letter](#) to the credit union to explain why the RD is removing the LUA
- Forward the letter to the supervisor with an email explanation supporting the recommendation to terminate the LUA

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

After review, the supervisor will forward the draft letter to **DOS**<sup>1</sup> Mail. DOS will review and process the letter to the credit union for RD signature. When terminating joint LUAs, the NCUA will consult with the SSA.

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*Last updated October 14, 2021*

## Problem Resolution

If a credit union fails to comply with an LUA, examiners should discuss the need for additional enforcement action with the SE. At a minimum, the **CAMELS**<sup>2</sup> and risk ratings need to reflect management's failure to comply with an LUA.

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*Last updated January 22, 2018*

## Preliminary Warning Letter

Examiners will draft a PWL when a credit union's problems are serious or persistent and a credit union's board is unwilling to sign an LUA. A PWL will support formal administrative action such as a published LUA or **C&D**<sup>3</sup> order.

A PWL is a warning of potential formal administrative action if corrective action is not taken. If formal administrative action is taken, then the PWL is automatically removed and all action items in it will be incorporated into the formal administrative action. There may be rare instances where both a PWL and a formal administrative action are necessary to address separate supervisory concerns.

Examiners will only recommend that their supervisor issue a PWL as a result of a regular examination, follow-up examination, or supervision contact. [Sample PWLs](#) and a [BSA-specific PWL](#) are provided as resources for this section of the NSPM.

A PWL is written from the perspective of the RD, and includes:

- Direct, concise, and clear language
- A list of the serious area(s) of concern and citation of the [Federal Credit Union Act](#) or regulation violated

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<sup>1</sup>Division of Supervision

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Cease and desist

- When the primary problem area is poor management, include the following text: "Your credit union is operating in an unsafe and unsound manner for which substantial, immediate, and corrective action must be taken. It is the board of directors' responsibility, as the body providing general direction and control for the credit union, to take necessary corrective actions."
- A statement of impending administrative action by the NCUA
- Required actions and timeframes for resolving the area(s) of concern

## DOS Responsibilities

- Review PWLs for appropriateness and process for RD approval
- Discuss all material changes with the supervisor

## Exam Staff Responsibilities

- Obtain supervisor and ARD concurrence for a PWL before preparing a letter
- E-mail draft PWL to the supervisor for review when initiating the **PSR**<sup>1</sup> process
- The supervisor will review the report to ensure the PWL is appropriate and supported and then forward it to their region's **DOS**<sup>2</sup> mailbox when notifying DOS the PSR is ready for DOS review.

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*Last updated October 14, 2021*

## Deliver a Preliminary Warning Letter

The supervisor will determine whether to hand-deliver or mail a PWL based on the severity of the issues.

For hand-delivered PWLs:

- The supervisor will notify **DOS**<sup>3</sup> of the planned meeting date so the letter is dated accordingly (approximately two to three weeks from the date

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<sup>1</sup>Pre-release secondary review

<sup>2</sup>Division of Supervision

<sup>3</sup>Division of Supervision

**exam staff**<sup>1</sup> submits the draft letter to DOS)

- Once the letter is approved and signed by the RD, DOS will mail one original copy of the letter directly to the supervisor for hand-delivery and provide scanned copies to the examiner and supervisor for recordkeeping
- The examiner and the supervisor will deliver the PWL onsite to discuss the contents of the letter (usually at a formal meeting with the credit union's board of directors)
- Following the meeting, the examiner will distribute the original, signed copy of the PWL to the credit union officials.
- The examiner and supervisor maintain scanned copies of the signed PWL

For mailed PWLs:

- DOS will send the letter to the board chairperson and copy the **CEO**<sup>2</sup> as appropriate
- In special cases, DOS may send the PWL to each board member.
- DOS will provide scanned copies to the examiner and supervisor for their records
- The examiner and supervisor will maintain scanned copies of the signed PWL

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*Last updated October 14, 2021*

## Supervision Contacts for a Credit Union with a PWL

As described in the [LUA section of the NSPM](#), the frequency of examinations, follow-up examinations, and onsite supervision contacts is driven by a credit union's **CAMELS**<sup>3</sup> ratings and overall risk to the **NCUSIF**<sup>4</sup>. Examiners will consider any outstanding administrative action when planning supervision and assigning the CAMELS ratings. If an examiner encounters a credit union with an outstanding administrative action (and associated risk) and the risk is not reflected in the CAMELS rating (which drives the frequency of supervision), they will discuss with their supervisor and plan their supervision accordingly.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Chief Executive Officer

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>4</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

Unless there are extenuating circumstances, and approved by the ARD, supervision of credit unions with outstanding administrative actions will be in line with national policy for CAMELS 3, 4, and 5 credit unions (perform a follow-up examination at least every 120 or 180 days (from completion date to start date)).

Examiners will:

- Prepare and distribute the examination or supervision contact reports in the same manner as other examinations and supervision contacts
- Document compliance with the PWL in the Status Update during each contact
- The status of each item will be listed as resolved or unresolved. Examiners will include comments to support completion status.
- Document recommendations for future action such as continue, modify, terminate the PWL, or proceed with elevated or formal administrative action
- Examiners will refrain from recommending a PWL be reissued, rewritten, or allowed to remain outstanding for long periods (usually no longer than 12 months).
- Recommend removal of the PWL when it is confirmed during a follow-up examination or regular examination the officials have corrected the problem areas and prepare a draft letter for the RD's signature explaining the recommendation
- Recommend escalated administrative action if a credit union has not corrected the problem areas within the timeframes outlined in the PWL
- Escalated administrative action may include a published [LUA](#), Cease and Desist order, [civil money penalty](#), involuntary liquidation, or others. Refer to NCUA Instruction 4820, [Enforcement Manual](#), for processing procedures for civil money penalties, involuntary liquidations, conservatorships, etc.

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*Last updated March 25, 2022*

## Terminating a Preliminary Warning Letter

When a credit union meets the specific performance standards outlined in a PWL, examiners will recommend termination of the PWL. Examiners will

recommend the termination of a PWL only after they complete an examination or contact supported by adequate work papers showing the credit union has corrected the problems cited in the PWL.

When conditions warrant the termination of a PWL, the examiner will prepare a draft [PWL removal letter](#) to the credit union explaining why the RD is removing the PWL. The examiner will forward the draft letter to the supervisor with an explanation in the email supporting their recommendation to terminate the PWL. After review, the supervisor will forward the draft letter to **DOS**<sup>1</sup> Mail for review and processing for RD signature.

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*Last updated October 14, 2021*

## Civil Money Penalty

The NCUA's authority to impose civil money penalties against federally insured credit unions that do not meet a quarterly Call Report filing deadline is granted under Section 202 of the [Federal Credit Union Act](#) (12 U.S.C. § 1782). The NCUA coordinates with SSAs to assess CMPs against FISCUs, and, as a matter of courtesy and fairness, takes any late-filing fees assessed by the state into account when assessing a CMP.

The NCUA announced that all credit unions must file Call Reports electronically in NCUA Letter to Credit Unions 13-CU-11, [Electronic Filing of Call Reports and Extended Filing Dates for 2014](#).

## E&I Responsibilities

- Identify credit unions that miss a Call Report deadline
- Provide a list of credit unions that miss a Call Report filing deadline to regional offices and state supervisory authorities (generally within two weeks of the regulatory deadline) requesting:
  - Comments for information about any known issues related to the late filing
  - Recommendations on assessing a civil money penalty
  - Information about any SSA fines being assessed, including amount (s) (SSA only)

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<sup>1</sup>Division of Supervision

- Notify credit unions that miss a Call Report filing deadline and process correspondence, including signed stipulations and consents for penalties, as well as orders of assessments
- Adjudicate uncontested civil money penalties for Call Report late filers (director only)
- Decide on requests from credit unions for reduced or waived penalties
- With **OGC**<sup>1</sup> assistance, initiate proceedings before an administrative law judge for cases that cannot be resolved by consent (director only)
- Send received civil money penalty payments to the Department of the Treasury for deposit

Only the **E&I**<sup>2</sup> director can make a final decision to waive or reduce a Call Report civil money penalty.

## Region DOS Director Responsibilities

- Respond to E&I requests for comments on any known issues related to the late filing of a Call Report in the timeframe provided (generally, two weeks)

## Regional Director (can delegate to Associate Regional Director)

- Authorize **exam staff**<sup>3</sup> to file an estimated Call Report if they determine that a credit union's Call Report will be delayed more than 14 days beyond the regulatory limit established by the NCUA
  - The RD must notify E&I when exercising this authority.

## Exam Staff Responsibilities

- Notify the regional office of any known issues or pertinent history when they receive notification that a credit union has missed the Call Report deadline
- If authorized in advance by a RD, ARDO, or ARDP, file an estimated Call Report on behalf of a credit union

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Office of Examination and Insurance

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



- Staff must follow any directions provided by E&I for filing an estimated Call Report.

Exam staff cannot extend the regulatory Call Report filing deadline for any reason.

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*Last updated January 27, 2016*

## Civil Money Penalty Waiver

The **E&I**<sup>1</sup> Director has the delegated authority to reduce or waive a CMP issued due to late filing of a Call Report. The NCUA may elect not to assess a penalty if a credit union files late due to extenuating circumstances such as:

- “Acts of God” such as:
  - A natural disaster or weather event that impairs a credit union’s operation
  - A power failure, internet failure, or failure of a credit union’s core-processing system immediately before or at the filing deadline
  - The death or physical/emotional incapacitation of a key employee (only acceptable if a credit union is too small to have back-up personnel)
  - Turnover of a key position just before the deadline (only acceptable if a credit union is too small to have back-up personnel)
- Robbery of a credit union that impairs the credit union’s ability to file on time
- A [CUOnline](#) filing problem unique to a credit union, not including an error or warning that a filer does not know how to clear or answer (must be supported by a help desk ticket time/date stamped near, but before, the filing deadline)
- Credit union, SSA, or the NCUA accidentally unsubmit a Call Report after successfully submitting it before the deadline
- Merger with another credit union
- Liquidation or conservatorship

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*Last updated January 27, 2016*

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<sup>1</sup>Office of Examination and Insurance

## Status Update

Exam staff will use the Status Update template to document a credit union's compliance with outstanding administrative actions (LUA, PWL, etc.) and net worth restoration plans. For each document, **exam staff**<sup>1</sup> should provide a separate Status Update. For example, if a credit union has an outstanding LUA and NWRP, exam staff will create two Status Update templates, one for each of the outstanding documents.

At a minimum, exam staff will include each outstanding corrective action or goal and the most current status of each in the Status Update.

When upgrading a credit union from a **CAMELS**<sup>2</sup> 4 or 5, or removing an LUA, exam staff must complete the status report.

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*Last updated January 22, 2018*

## Special Assistance Cases

Various types of special assistance are available to help resolve serious credit union problems. Refer to NCUA Instruction 4820, [Enforcement Manual](#), for guidance on special assistance available.

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*Last updated July 29, 2015*

## Control Reports

Control reports serve as a mechanism to ensure the NCUA has a robust examination program that is properly resourced and monitored for adherence to national examination and quality standards.

## E&I Control Reports

**E&I**<sup>3</sup> will routinely request reports from the regions and may periodically request a sampling of issued administrative actions for quality control purposes as part of an ongoing quality assurance process.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Office of Examination and Insurance

E&I will review regional activity as a means of tracking regional and national trends for resource, consistency, and policy formation purposes and will issue a semi-annual national summary of administrative actions.

## Regional Control Reports

The region is responsible for maintaining record of all [informal and formal administrative actions](#) including, but not limited to, issued [RDLs](#), [LUAs](#) and [PWLs](#). The report will include administrative actions newly issued, currently outstanding (with the exception of RD letters), and those canceled (when applicable) since the last report. The region will periodically evaluate the trends, appropriateness and effectiveness of administrative actions.<sup>1</sup>

**Regions**<sup>2</sup> are only responsible for reporting RD letters associated with an examination or supervision contact report and part of the administrative record.

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*Last updated July 29, 2015*

## Administrative Remedies Templates

### Regional Director Communications

- Regional Director Letter Sample

### Troubled Condition Status

- Notify FISCU of Troubled Condition
- Upgrade FISCU from Troubled Condition Status

### Letter of Understanding and Agreement

- Acknowledge LUA and **CAMELS**<sup>3</sup> Downgrade
- LUA Addendum
- LUA Cover Letter

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<sup>1</sup>Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions will ensure their current systems capture the requested information.

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

- Non-published LUA
- Remove LUA

## **Preliminary Warning Letter**

- PWL Sample
- **BSA**<sup>1</sup>-Specific PWL
- PWL Removal Samples

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*Last updated July 29, 2015*

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<sup>1</sup>Bank Secrecy Act

# Audits and Recordkeeping

Supervisory committee audits are required under NCUA regulations part 715, [Supervisory Committee Audits and Verifications](#), or part 741, [Requirements for Insurance](#). They are a critical tool used to evaluate the integrity and fairness of the financial statements. The [Supervisory Committee](#) section of the [Examiner's Guide](#) provides detailed discussion of [Supervisory Committee Audits](#), instructions for reviewing the audit and engagement letter, and information on the review of member account verifications.

Recordkeeping is the process of recording and maintaining sufficient information to trace all transactions to a point of origin. An effective recordkeeping program is bolstered by strong internal controls and facilitates the audit process. Audits rely on financial records to validate data integrity, identify inaccuracies, and decrease the risk of fraud.

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*Last updated August 02, 2021*

## Audit Report Review

Exam staff are responsible for reviewing a credit union's Profile each quarter during the [Call Report, RADAR, or RATE review](#) to determine whether the credit union has received a new audit that fulfills the requirements of NCUA regulations part 715, [Supervisory Committee Audits and Verifications](#) or part [741, Requirements for Insurance](#). If the Profile indicates a new audit has been completed, **exam staff**<sup>1</sup> will request a copy of the audit within 10 business days of reviewing the Profile. Upon receipt of the audit report, exam staff will verify that the audit type and auditor's name is correct.

## Obtaining an Audit Report

For audits performed by the **Supervisory Committee**, exam staff must obtain the audit report directly from the supervisory committee.

For audits conducted by **external auditors**, examiners must obtain a copy of the audit report directly from the external auditor.

Exam staff contacts the supervisory committee first to determine its preference for requesting the report from the external auditor. Exam staff determines whether the supervisory committee would prefer to make the request,

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

the audit firm requires the request come from the credit union, or if it is acceptable for exam staff to contact the auditor directly to request the report. An exception to this might be when an existing arrangement between the credit union, exam staff, and the auditor, or a relationship exists between the exam staff and the auditor.

The external auditor must send the audit report directly to exam staff. Credit unions and external auditors may choose to deliver audit reports using the [RIVIO clearinghouse](#), a service provided by [CPA.com](#). This service allows for credit unions to authorize the release of audit reports from external auditors directly to examiners or other third-parties. Audit reports obtained through RIVIO are authentic and unaltered. Audit reports done by 'other compensated individuals' who are not state licensed can be obtained through RIVIO using the same method.

In some cases, an external auditor will not provide an audit report directly to the examiner or use RIVIO, but is willing to confirm authenticity of the report on a joint communication. In this circumstance, the following steps are acceptable:

1. The external auditor must email the final audit report to the Supervisory Committee chair as an attachment.
2. The Supervisory Committee chair must forward the email, with attachment, back to the external auditor and copy the NCUA exam staff. In the email, the Supervisory Committee chair must acknowledge receipt of the report and request confirmation that the attached report is authentic and unaltered.
3. The external auditor must respond to the Supervisory Committee chair's email, keeping the audit report attached, and copy the NCUA exam staff to confirm that the report received in the forward has been reviewed and is authentic and unaltered.

If an auditor refuses to provide an audit report directly to the exam staff at the request of the supervisory committee or wants to charge a fee to provide a copy, exam staff should consult with their supervisor regarding a course of action (such as ensuring the credit union agrees with the fee). It is not unusual for an auditor to charge fees for the time needed to obtain and or review a report, or to facilitate a review of a report or workpapers at the external auditor's office.

## Reviewing the Audit Report

Upon receiving the report, exam staff will read the audit report to determine if there are any issues. Exam staff should adjust supervision plans and exam scoping as applicable, and follow up on any material problems identified by discussing them with the Supervisory Committee or credit union management and/or scheduling a supervision contact as warranted.

**A review of the audit workpapers is not required as part of the review of the audit report required under this policy.** As part of offsite supervision or pre-exam planning, the NCUA has the discretion to request and review the audit workpapers at any time—however, the external auditor may require the papers to be reviewed onsite.

The time associated with requesting and reviewing an audit report under this policy can be charged to offsite supervision or pre-exam planning.

## Documenting the Audit Report

Exam staff will document they have reviewed the audit report in the credit union's **RADAR**<sup>1</sup> or **RATE**<sup>2</sup> during the scheduled quarterly review cycle. If the requested report is received after the quarterly review cycle closes, exam staff should document their review in the next scheduled RADAR or RATE review cycle. If an audit report relays material concerns that require an immediate onsite contact, examiners should note the concerns in RADAR or RATE and contact their supervisor to schedule an onsite contact.

Exam staff may also close an offsite supervision contact to document any concerns noted in the audit report that cannot be fully documented in RADAR or RATE, provided such issues do not require an immediate onsite contact.

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*Last updated August 03, 2021*

## Audit Workpaper Review

Per NCUA regulation § 715.10, [Audit report and working paper maintenance and access](#), the supervisory committee is responsible for preparing and maintaining, or making available, a complete set of original working papers supporting each supervisory committee audit. The supervisory committee will, upon request, provide NCUA staff unconditional access to such working

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<sup>1</sup>Risk Assessment and Data Analytics Rating

<sup>2</sup>Risk Analysis and Trending Evaluation

papers, either at the offices of the credit union or at a mutually agreeable location, for purposes of inspecting such working papers.

The most recent NCUA Instruction 5000.20, [Examination Scope](#), outlines expectations for reviewing audit workpapers.

If the licensed independent accountant or audit firm denies access to the work papers, **exam staff**<sup>1</sup> reports the situation to the supervisory committee chairman and asks for assistance in resolving the problem. If unsuccessful, exam staff will contact their supervisor for guidance. Exam staff should never sign any document or release to gain access to the work papers unless **OGC**<sup>2</sup> has reviewed the release and advises signature. **E&I**<sup>3</sup> can assist exam staff and supervisors in obtaining OGC review in a timely fashion. Exam staff and supervisors coordinate any assistance from E&I and OGC through **DOS**<sup>4</sup>.

In the event the audit firm is located outside the geographic area of the credit union and exam staff determines it would be advantageous for another region and/or group to review the audit work papers at the firm's office, exam staff will request assistance from another group or region through the supervisor. Exam staff from the requested supervisor group will be responsible for reviewing the independent state-licensed accountant's audit work papers and providing a report summarizing the review to the EIC.

## Audits by Licensed Independent Accountants

Exam staff cannot take independent action if a financial statement audit by a state-licensed independent accountant is unacceptable. NCUA Instruction 4016.01, [Obtaining Concurrence and Advancing an Assertion That an Opinion Audit or Agreed-Upon Procedures are Unacceptable in Meeting NCUA Audit Regulations](#) sets out procedures required to rate a state licensed independent accountant audit unacceptable and requires RD approval and E&I concurrence. The supervisor will evaluate the seriousness of the deficiency and if it is sufficient to warrant recommending rejection of the audit, exam staff or the supervisor will contact DOS and proceed in accordance with NCUA Instruction 4016.01, [Obtaining Concurrence and Advancing an Assertion That an Opinion](#)

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>The NCUA's Office of General Counsel

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>Division of Supervision



### [Audit or Agreed-Upon Procedures are Unacceptable in Meeting NCUA Audit Regulations.](#)

Exam staff can take exception with the supervisory committee if the state licensed independent accountant performed agreed upon procedures rather than a financial statement audit, in the circumstance that the scope of work for which the Supervisory Committee contracted does not meet the requirements NCUA regulation part 715, [Supervisory Committee Audits and Verifications](#).

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*Last updated August 02, 2021*

## **Unacceptable Audits and Member Account Verifications**

Exam staff will consider an audit or verification unacceptable and develop plans of action if they determine:

- Material parts of the audit or verification were not performed
- Material parts of the audit or verification are not supported by work papers
- Material areas of credit union operations were not audited
- The auditor lacks independence from the credit union

## **Audits Conducted by Supervisory Committee or Other External Auditor**

If **exam staff**<sup>1</sup> discovers material deficiencies in a supervisory committee auditor member account verifications conducted by the supervisory committee or an external auditor that is not a licensed independent auditor or certified public accountant, exam staff will:

- Notify their supervisor
- Determine if the deficiencies can be cured promptly (if not, discuss alternatives with their supervisor)
- Rate transaction risk as high
- Prepare a DOR that:

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Provides a reasonable time period for the supervisory committee to correct the deficiencies, not longer than 120 days from the completion date of the exam
- Requires the supervisory committee to provide a monthly status report of their progress to the examiner
- Complete a follow-up supervision contact within 60 days of the DOR due date
  - The supervisor must approve any extension beyond 60 days with notification to the ARDP
  - Exam staff must document any extensions in the Closed Information Questionnaire

Recurring deficiencies for audit and member account verifications are grounds to proceed to administrative actions. Exam staff can consult with their supervisor to develop a more stringent supervision plan if needed, including imposing the requirements of NCUA regulations §§ 715.11, [Sanctions for failure to comply with this part](#) and 715.12, [Statutory audit remedies for Federal credit unions](#). Additionally, the Management component and **CAMELS**<sup>1</sup> composite ratings should reflect management's recurring non-compliance with this critical internal control area.

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*Last updated August 03, 2021*

## Significant Recordkeeping Concerns

Significant recordkeeping concerns include any other issue that presents an unacceptable degree of risk including:

- Incomplete bank reconcilements or over 60 days in arrears
- Records materially in arrears or significant unreconciled differences (including the share and loan download not tying back to member trial balance)

When an examination or supervision contact reveals significant recordkeeping concerns, **exam staff**<sup>2</sup> will:

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Notify their supervisor
- Review all material general ledger accounts including, but not limited to, loans, member deposits, cash, investments, subsidiary ledgers, and the Call Report
- Rate transaction risk as high
- Prepare a detailed DOR that:
  - Provides a resolution date of 180 days or less (for FISCUs, also provide the DOR to the SSA before completion of the contact)
  - Requires the supervisory committee/designated person to provide monthly status reports electronically or by phone
  - Documents the progress made to remedy the recordkeeping problems
- Maintain a [Supervision Chronology](#) until the recordkeeping concerns are resolved
- Start an onsite follow-up supervision contact within 90 days of the NCUA's last contact completion date and an onsite supervision contact every 90 days thereafter, until all problems are resolved
  - The supervisor must approve any extension beyond 90 days in writing and notify the ARD and **DOS**<sup>1</sup>
  - Exam staff must document any extensions and supervisor approval in the Closed Information Questionnaire

## Incomplete Bank Reconcilements or Over 60 Days in Arrears

If the bank or corporate reconcilements are incomplete (unreconciled) or in arrears greater than 60 calendar days, in addition to the steps outlined in the previous section, exam staff will:

- Determine the cause and evaluate the scope of the potential problem
- Reach agreements with management to bring the reconcilements current, usually within 30 calendar days, and involve the supervisory committee in this process

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<sup>1</sup>Division of Supervision

- Consider requiring an outside independent accountant to bring reconciliations current, especially if the supervisory committee is not active or does not possess the skills to adequately oversee the bank reconciliation process

## Records Materially in Arrears or Significant Unreconciled Differences

Exam staff exercises judgment in assessing material recordkeeping problems. In some cases, the size of the unreconciled differences may not reflect the scope of the problem, particularly if the control environment lacks integrity. If records are materially in arrears or there are significant unreconciled differences, exam staff will discuss with their supervisor whether to:

- Extend the examination/supervision contact up to 30 calendar days if the records cannot be brought current during the examination. If this option is taken, exam staff will note the reasons why the examination/contact was extended and the supervisor's concurrence in the Closed Information Questionnaire, or
- Complete the examination using the most current data available. If this option is taken, exam staff will document in [Closed Information Questionnaire](#) whether officials agreed to the correct the recordkeeping concerns.

If the recordkeeping problems are serious and persistent as defined by NCUA regulation § 715.12(c), ["Serious and persistent recordkeeping deficiencies"](#), the EIC may compel a FCU to obtain a financial statement audit performed in accordance with **GAAS**<sup>1</sup> by an independent person who is licensed by the State or jurisdiction in which the credit union is principally located. If the supervisor and EIC determine that a financial statement audit is necessary, the supervisor will notify the ARD. RD approval is required to compel a credit union to obtain a financial statement audit if one is not required by NCUA regulations §§ 715.5, [Audit of Federal Credit Unions](#), or 715.6, [Audit of Federally-insured State-chartered credit unions](#).

If offsite monitoring and/or supervision contacts reveal major areas of concern with ongoing recordkeeping, audits, or verification of members' accounts that have not been properly resolved within 180 days, the EIC will consult their supervisor and determine the appropriate administrative action.

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<sup>1</sup>Generally accepted auditing standards

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*Last updated August 03, 2021*

## Addressing Bond Claims

If the credit union has a bondable loss and has not provided the appropriate notice to the surety company or refuses to do so, examiners will notify their supervisor. The supervisor will discuss the issue with the ARDP or ARDO as appropriate and a decision will be made regarding the NCUA notifying the surety company of a potential bond claim.

During contacts, examiners should:

- Determine whether a bond claim is outstanding, established as a disclosure item (footnote to the financial statements) or a receivable, remains on the books as a loan, other account, or a disclosure, or has been written off
- Determine whether the surety company has committed to paying the claim; and, if so, the amount of the commitment
- Direct the credit union to write off any claims, or portions of claims, considered losses even if this will cause a deficit or insolvency. In evaluating the collectability of claims, examiners will consider:
  - Surety companies do not pay for lost interest or lost opportunity income
  - The credit union must have incurred a loss for a valid claim to exist
  - An examiner's adjusting journal entries must properly reflect the bond claim as an accounts receivable, or loss, after the surety bond company has confirmed the outcome of the claim in writing

Examiners should contact their supervisor when they identify material bond claims or when adjusting entries will cause a deficit in undivided earnings or insolvency. At a minimum, examiners should document shortages in the scope and other sections as appropriate.

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*Last updated July 29, 2015*

## Determine Bondability Status

In some instances, it may be necessary to determine the bondability status of a credit union employee or official. This procedure is usually reserved for fraud, insider dealings, or when we have completed a prohibition and want to

check if the individual's bond has been revoked (open claims typically will not yet have a determination, especially if no criminal charges are involved).

Examiners will work with the appropriate credit union staff to determine the bondability status of a credit union employee or official. Examiners may also evaluate the credit union's process for verifying bondability of all employees. Credit unions should be evaluating each employee during the hiring process to ensure they are bondable and maintain a record of this verification to provide to NCUA examiners (and other outside auditors) when requested. If a credit union has not completed this process and/or cannot provide documentation, the examiner should address the issue in the examination report, as appropriate.

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*Last updated July 29, 2015*

# BSA Supervision

The **FCUA**<sup>1</sup> § 206(q) ([12 USC 1786\(q\)](#)) directs the NCUA to prescribe regulations that require FICUs to establish and maintain reasonably designed procedures to assure and monitor **BSA**<sup>2</sup> compliance. NCUA regulations § 748.2 ([12 CFR 748.2](#)) establishes the BSA compliance and **AML**<sup>3</sup>/**CFT**<sup>4</sup> program responsibilities a FICU must adopt and implement. Together, these procedures form the basis for a FICU's BSA compliance and AML/CFT program.

Per § 206(q) of the FCUA, each FICU examination must include a review of the procedures established and maintained as part of the FICU's AML/CFT program, and the exam report must describe any problem(s) with the AML/CFT program. This section also requires the NCUA to issue a [C&D order](#) for non-compliance in certain circumstances. The NCUA and the other federal banking agencies issued the "[Joint Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements](#)" to enhance transparency regarding how they evaluate enforcement actions that are required by statute when financial institutions fail to meet BSA compliance and AML/CFT obligations.

A [C&D order](#) is required if a FICU has failed to establish and maintain reasonably designed procedures to assure and monitor BSA compliance or has failed to correct any problem with these procedures previously reported by the NCUA to the FICU. See Mandatory **C&D**<sup>5</sup> Orders for more information. Besides ordering an end to certain activities, a C&D order may require affirmative corrective action, such as engaging a third party to complete an independent test or providing proper BSA training to staff.

During exams and supervision contacts that include a BSA review component, NCUA examiners:

- Assess the adequacy of the FICU's AML/CFT program, relative to its risk profile
- Assess the FICU's compliance with applicable BSA regulatory requirements, including reporting and recordkeeping requirements

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<sup>1</sup>Federal Credit Union Act

<sup>2</sup>Bank Secrecy Act

<sup>3</sup>Anti-money laundering

<sup>4</sup>Countering the financing of terrorism

<sup>5</sup>Cease and desist

- Determine whether the FICU has developed and implemented ample processes to identify, measure, monitor, and control the risks associated with **ML/TF**<sup>1</sup> and other illicit financial activities

The NCUA has enforcement authority for the FISCUs it examines but generally relies on SSAs to review BSA compliance during FISCU examinations (see [FISCU BSA Reviews](#) for more information).

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*Last updated May 3, 2024*

## BSA Compliance

Each FICU must have a reasonably designed **AML**<sup>2</sup>/**CFT**<sup>3</sup> program that assures and monitors compliance with **BSA**<sup>4</sup> requirements and with the related regulations issued by the NCUA and **FinCEN**<sup>5</sup>. As required by NCUA regulations [§ 748.2](#), a FICU's AML/CFT program must be written, approved by the board of directors, and reflected in the board minutes.

A FICU's AML/CFT program must have all the following required components, including **CIP**<sup>6</sup>, **CDD**<sup>7</sup>, and beneficial ownership information (if applicable):

- A system of internal controls to assure ongoing compliance.
- Independent testing for compliance to be conducted by credit union personnel or outside parties.
- A designated individual or individuals responsible for coordinating and monitoring daily compliance. The responsible party(ies) must have the proper authority, independence, and access to resources to manage an adequate AML/CFT program that is commensurate with the FICU's **ML/TF**<sup>8</sup> and other illicit financial activity risk profile.
- Training for appropriate personnel.

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<sup>1</sup>Money laundering and terrorist financing

<sup>2</sup>Anti-money laundering

<sup>3</sup>Countering the financing of terrorism

<sup>4</sup>Bank Secrecy Act

<sup>5</sup>Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

<sup>6</sup>Customer identification program

<sup>7</sup>Customer due diligence

<sup>8</sup>Money laundering and terrorist financing



Also, [USA PATRIOT Act § 326](#), NCUA regulation § 748.2(b)(2), [Customer identification program](#), and [31 CFR 1020.220](#) require a FICU's AML/CFT program to include a CIP with:

- Procedures for opening an account that specify the identifying information to be obtained from each member, including name, date of birth for an individual, address, and identification number
- Risk-based procedures that enable the FICU to form a reasonable belief that it knows the true identity of each member

Under [31 CFR 1020.210\(a\)\(2\)\(v\)](#), a FICU's AML/CFT program must include appropriate risk-based CDD procedures for conducting:

- Due diligence at account opening to understand the nature and purpose of member relationships and to develop member risk profiles.
- Ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update member information, including beneficial ownership information of legal entity customers.

[31 CFR 1010.230](#) defines "legal entity customer" (member) as a corporation, limited liability company, or other entity that is created by the filing of a public document with a Secretary of State or similar office, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account. 31 **CFR**<sup>1</sup> 1010.230 also includes exclusions from the definition of "legal entity customer" and exempted accounts.

[31 CFR 1010.230](#) requires FICUs to establish and maintain reasonably designed written procedures that identify and verify beneficial owners of legal entity members for each new legal entity account opened on or after May 11, 2018, and to include such procedures in their AML/CFT programs. A "beneficial owner" is each individual who owns 25 percent or more of the equity interests of a legal entity member, and a single individual with significant responsibility to control, manage, or direct a legal entity member.

FICU transactions and accounts are also subject to many reporting and record-keeping requirements.

A credit union's risk assessment serves as a basis for its BSA compliance and AML/CFT program. A risk assessment is currently not required by regulation, but it is an existing supervisory expectation. Each credit union's BSA com-

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<sup>1</sup>Code of Federal Regulations

pliance and AML/CFT program should be tailored to the credit union's particular ML/TF and other illicit financial activity risks.

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*Last updated May 3, 2024*

## Risk-Focused BSA Reviews

During an exam (RFE or **SCUEP**<sup>1</sup>), a **BSA**<sup>2</sup> review's scope depends on a FICU's **ML/TF**<sup>3</sup> and other illicit financial activity risk profile; the quality of risk assessment and management processes to identify, measure, monitor, and control risks; and the adequacy of policies, procedures, and controls established and implemented to comply with BSA regulatory requirements.

Examiners must perform some risk-focused testing during each BSA compliance assessment, which may include transaction testing or analytical reviews. Testing may focus on any of the BSA regulatory requirements and may address different areas of the FICU's **AML**<sup>4</sup>/**CFT**<sup>5</sup> program, but testing may not be needed for every regulation or BSA area examined. See the **FFIEC**<sup>6</sup> BSA/AML Examination Manual for more information about [examination and testing procedures](#) and [risk-focused BSA/AML supervision](#).

Testing helps an examiner with evaluating:

- The adequacy of the FICU's AML/CFT program, relative to its ML/TF risk profile
- The FICU's compliance with BSA regulatory requirements
- Implementation of the FICU's BSA policies, procedures, and controls
- Controls and information technology sources, systems, and processes used for BSA compliance and AML/CFT monitoring

Examiners must document the BSA review results, including the adequacy of the FICU's overall AML/CFT program and of each AML/CFT program [component](#), in the Execution Results section of BSA-related scope tasks in **MERIT**<sup>7</sup>. The Work Performed and Results of Review should provide a brief

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<sup>1</sup>Small Credit Union Examination Program

<sup>2</sup>Bank Secrecy Act

<sup>3</sup>Money laundering and terrorist financing

<sup>4</sup>Anti-money laundering

<sup>5</sup>Countering the financing of terrorism

<sup>6</sup>Federal Financial Institutions Examination Council

<sup>7</sup>Modern Examination and Risk Identification Tool, the examination platform

description of the areas reviewed and any identified concerns. Examiners may also use [supporting workpapers](#), as needed, to fully document the BSA review.

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*Last updated May 3, 2024*

## Confidentiality

SARs contain unconfirmed allegations of possible criminal activity and information regarding activities deemed suspicious by the filing FICU. NCUA regulation [§ 748.1\(d\)\(5\)](#) outlines a FICU's responsibilities for maintaining the confidentiality of SARs.

**Note:** No current or former examiner with knowledge that a SAR was filed may disclose to any person involved in the transaction that the transaction has been reported, other than as necessary to fulfill their official duties ([31 USC 5318\(g\)\(2\)\(A\)\(ii\)](#)). See also [FinCEN Final Rule](#); [FinCEN Advisory FIN-2010-A014](#); and the "[Suspicious Activity Reporting](#)" section of the **FFIEC**<sup>1</sup> **BSA**<sup>2</sup>/**AML**<sup>3</sup> Examination Manual.

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*Last updated May 3, 2024*

## BSA Violations

**BSA**<sup>4</sup> violations may be significant or nonsignificant. In the report to credit union officials, examiners should use the NCUA citation over the equivalent BSA or **FinCEN**<sup>5</sup> citation where possible. For example, if a FICU lacks a designated individual responsible for coordinating and monitoring compliance with the BSA, the examiner should cite NCUA regulation [§ 748.2\(c\)\(3\)](#) in the report to officials, rather than [31 CFR 1020.210\(b\)\(2\)\(iii\)](#).

For CCVs, the Choose Section or Code dropdown in the **MERIT**<sup>6</sup> Issue Details Form will show both citations (NCUA regulations part 748 and BSA or FinCEN regulations) when overlap exists.

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<sup>1</sup>Federal Financial Institutions Examination Council

<sup>2</sup>Bank Secrecy Act

<sup>3</sup>Anti-money laundering

<sup>4</sup>Bank Secrecy Act

<sup>5</sup>Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

<sup>6</sup>Modern Examination and Risk Identification Tool, the examination platform

## Nonsignificant BSA Violations

Nonsignificant BSA violations are isolated or technical deficiencies within what is otherwise an overall, effective **AML**<sup>1</sup>/**CFT**<sup>2</sup> program.

These limited instances of noncompliance generally do not prompt serious regulatory concern or reflect negatively on management's oversight of, or commitment to, BSA compliance, unless the violation was caused by reckless or willful conduct. Typically, nonsignificant violations and deficiencies do not lead to enforcement action and do not warrant a DOR or other administrative remedy. Administrative remedies are a broad range of actions that include informal actions such as [DORs](#), [RDLs](#), unpublished [LUAs](#), and [PWLs](#), and formal actions such as published [LUAs](#) and [C&D orders](#). See the [Administrative Remedies](#) section for details.

Credit union management can generally correct nonsignificant violations during the normal course of business. An examiner will address these violations by creating [Examiner's Findings](#) or by discussing them in other parts of the report (such as [Supplementary Facts](#)). An examiner may also discuss nonsignificant BSA violations in the [Examination Overview](#) section of the exam report, as appropriate.

While nonsignificant BSA violations are generally isolated or technical in nature, many technical violations throughout departments or divisions may imply systemic weaknesses that rise to the level of significant violations.

## Significant BSA Violations

Significant BSA compliance violations are substantive deficiencies that result from the FICU's failure to establish and maintain a reasonably designed AML/CFT program, as required in **FCUA**<sup>3</sup> § 206(q) ([12 USC 1786\(q\)](#)). Such failure exposes the FICU to an unacceptable level of **ML/TF**<sup>4</sup> and other illicit financial activity risk.

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*Last updated May 3, 2024*

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<sup>1</sup>Anti-money laundering

<sup>2</sup>Countering the financing of terrorism

<sup>3</sup>Federal Credit Union Act

<sup>4</sup>Money laundering and terrorist financing

## CCV in Issue Details

. Examiners must accurately report both significant and nonsignificant **BSA**<sup>1</sup> violations as a “CCV” in the Issue Type field of the **MERIT**<sup>2</sup> Issue Details Form, using the correct regulation (“**BSA-S**<sup>3</sup>” or “BSA,” respectively) to identify the violations.

When many violations fall under the same specific regulatory citation, examiners must cite the specific citation only once for a given FICU. For example, one CCV entry would cover deficiencies in the filtering parameters used to detect and alert to suspicious activity, and weak procedural guidance, citing NCUA regulation § [748.2\(c\)\(1\)](#) (no or inadequate system of internal controls).

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*Last updated May 3, 2024*

## Violation Resolution in FCUs

### Nonsignificant BSA Violations

For any nonsignificant **BSA**<sup>4</sup> violations addressed in [Examiner’s Findings](#) or other (non-DOR) sections of the report, resolution would generally be determined during the next exam. However, if the FICU had significant BSA violations as well, examiners should review resolution of the nonsignificant violations as part of any follow-up contacts or exams.

### Significant BSA Violations

#### ***Corrected During Exam***

FCUs are encouraged to resolve any significant BSA deficiencies during the current exam. When a violation is corrected before exam completion, the significant violation can be considered simultaneously identified and resolved.

In this case, the examiner should enter “Reportable (already addressed)” in the **MERIT**<sup>5</sup> Disposition field for both the DOR and CCV and enter “Corrected” in the Management Response field for the CCV. A Disposition of “Reportable

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<sup>1</sup>Bank Secrecy Act

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>Significant BSA violation

<sup>4</sup>Bank Secrecy Act

<sup>5</sup>Modern Examination and Risk Identification Tool, the examination platform

(already addressed)” will ensure the issue is included in the [DOR](#) provided to the FCU but will not require follow-up. Significant BSA violations corrected during an exam must appear in the “Issues Corrected During This Examination” section of the final report to credit union officials to create an administrative record.

### ***Repeat Violations***

When significant violations were resolved (during the prior examination or at some later point) but recur by the next consecutive examination, the agreed-upon corrective actions or the actions taken by FCU management may not have addressed sufficiently the root cause of the problem.

### ***Not Corrected During Exam***

For significant BSA violations that cannot be resolved during the exam, examiners must supervise management’s progress to determine whether the violations are resolved in accordance with agreed-upon corrective actions and timeframes. The FCU should also implement adequate controls to prevent similar violations from occurring in the future.

Some significant BSA violations may take longer to resolve fully, . Agreed-upon timeframes in DORs should be reasonable and realistic, given the significant BSA concern identified and the time it would generally take to correct.

### ***Acceptable Substantial Progress***

During follow-up supervision contacts or exams, examiners should review whether acceptable substantial progress is being made to resolve the significant BSA violation(s), given all relevant facts and circumstances.

In deciding whether a credit union has made acceptable substantial progress, examiners will review the actions taken to date and use judgment.

Examiners should start each follow-up contact or exam with enough time to adequately assess the progress made on the agreed-upon corrective actions and to draft and process any pending administrative action, if necessary. A follow-up contact may be performed onsite or offsite, whichever is more effective and efficient, given the significant BSA violation(s) cited and the degree of review necessary to determine whether acceptable substantial progress is being made.

## Mandatory C&D Orders

When credit union management has not made acceptable substantial progress in correcting significant BSA violation(s), the agreed-upon timeframe for resolution has passed, and no unforeseen external or uncontrollable events have delayed compliance with written agreements to resolve the significant BSA violation(s), further administrative action in the form of a [C&D order](#) is required. Besides notifying the field supervisor, concurrence from the regional office and **OGC**<sup>1</sup> and consultation with **E&I**<sup>2</sup> are required before issuing a **C&D**<sup>3</sup> order. A C&D order is mandatory under the **FCUA**<sup>4</sup> § 206(q)(3)(B) ([12 USC 1786\(q\)\(3\)\(B\)](#)) and the ["Joint Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements"](#) when both of the following are true:

- An FCU fails to correct a significant BSA violation that was reported to the board of directors and senior management in a [DOR](#) and, when warranted, in another administrative remedy (such as an [RDL](#), [LUA](#), or [PWL](#)).
- Acceptable substantial progress toward correcting the significant violation was not made by the agreed-upon completion date and no unforeseen external or uncontrollable events have delayed compliance with written agreements to resolve the significant BSA violation(s).

[CMPs](#) may also be assessed in conjunction with another administrative action. An examiner should consult with the field supervisor if CMPs are believed necessary. **Regional office**<sup>5</sup> concurrence and discussion with OGC and E&I are required before assessing CMPs.

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*Last updated May 3, 2024*

## FISCU BSA Reviews

### NCUA and SSA Roles

In general, the NCUA relies on SSAs to review **BSA**<sup>6</sup> compliance during FISCU examinations. However, RDs may reach agreements with SSAs for NCUA examiners to review BSA compliance at FISCUs; these agreements will vary

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Office of Examination and Insurance

<sup>3</sup>Cease and desist

<sup>4</sup>Federal Credit Union Act

<sup>5</sup>"Regional offices" includes ONES (unless otherwise specified)

<sup>6</sup>Bank Secrecy Act

based on the SSA. The NCUA has BSA enforcement authority for those FISCUs examined by NCUA examiners. "Examined" refers specifically to Contact Type 1 – Examination in **MERIT**<sup>1</sup> (specifically, 1.6 FISCU **SCUEP**<sup>2</sup>, 1.7 FISCU RFE, and 1.8 FISCU RFE **ONES**<sup>3</sup>).

If, during another type of contact, an NCUA examiner identifies BSA concerns not identified by the state examiner or significant BSA violations not resolved within a reasonable timeframe, the scope should be expanded to include a review of BSA compliance. If necessary, the NCUA examiner should also follow up to assess progress and confirm resolution.

## Reviews of SSA Exams

If a state exam report lacks adequate agreements for corrective action, or the state examiner is not adequately addressing the significant BSA violation(s), the NCUA examiner will recommend the field supervisor (or RD) communicate with the SSA. The examiner will document the outcome of such communications and the actions taken in a memo to **DOS**<sup>4</sup>.

## Joint Exams or Supervision Contacts

During a joint exam, either a state examiner or an NCUA examiner may review BSA. If a state examiner performs the BSA review, the NCUA examiner must review the state examiner's work. If the review performed by the state examiner is insufficient, the NCUA examiner should amend the review and document the reason for doing so .

The NCUA examiner must also decide whether:

- The CCV includes the proper regulation ("BSA" or "**BSA-S**"<sup>5</sup>) and specific citation for each violation.
- The required BSA scope tasks are completed.
- The CCV and BSA scope tasks are included in MERIT Contact Type 1 – Examination (1.6, 1.7, or 1.8) or Contact Type 2 – Supervision Onsite

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Small Credit Union Examination Program

<sup>3</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>4</sup>Division of Supervision

<sup>5</sup>Significant BSA violation



(2.9 or 2.10).

- The report includes adequate agreements for corrective action.

## Violation Resolution in FISCUs

Although SSAs are responsible for daily supervision of FISCUs, NCUA examiners work with SSAs to stay abreast of FISCUs' progress in resolving significant BSA violations. For significant BSA violations that have not been resolved in a reasonable timeframe, examiners or field supervisors should follow up with the respective SSA to assess the status of corrective actions and decide whether further administrative action is needed. Rarely, examiners may need to contact the FISCU directly to assess resolution status.

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*Last updated May 3, 2024*

## BSA Reporting and Quality Control

Other responsibilities for **BSA**<sup>1</sup>-related reporting and discussion include:

### Regional DOS

- Monthly:
  - By month end, ensure follow-up contacts or exams have been completed for all FCUs with significant BSA violations still outstanding after 90 days (and for each additional 90 days)
  - Complete a quality control review of all BSA violations reported, both significant and nonsignificant, during the prior month and work with examiners and field supervisors to make needed corrections (for example, incorrect citations, duplicate citations, nonsignificant incorrect "Regulation" field in the CCV's Issue Information section, and incorrect "Corrective Action" field). All significant BSA violations identified incorrectly as nonsignificant and all nonsignificant BSA violations identified incorrectly as significant must be corrected as soon as practicable.
  - Within ten business days following the end of a month, post a memo to the relevant folder , confirming that the quality control review process was completed and identifying whether any administrative actions beyond DORs were issued, including RDLs, LUAs, PWLs, and

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<sup>1</sup>Bank Secrecy Act

**C&D**<sup>1</sup> orders. Include in the administrative actions list whether any FICUs with significant BSA issues were conserved. Also post **FinCEN**<sup>2</sup> Documents (in portable document format – or PDF) for FCUs with significant BSA violations identified but not resolved during exams and contacts completed that month, ensuring any information unrelated to the significant BSA violations is removed.

- Quarterly:
  - Provide field supervisors and district examiners with **E&I**<sup>3</sup>'s report of significant BSA violations outstanding to report progress and the status of corrective action(s).
  - Provide status updates not already provided as part of monthly reporting to E&I for significant BSA violations outstanding.
- Ad Hoc:
  - Give **OGC**<sup>4</sup> and E&I a draft of an LUA considered for publication two business days before delivery of the LUA to credit union officials for signature.
  - Obtain concurrence from OGC and consult with E&I before issuing a C&D order.
  - Consult with OGC and E&I before assessing CMPs.

## E&I

- Monthly:
  - Review FinCEN Documents and memos from the regions regarding BSA violation quality control reviews, BSA-related administrative actions (beyond DORs) issued, and whether any FICUs with significant BSA issues were conserved that month.
  - Provide FinCEN with FinCEN Documents for FCUs with significant BSA violations not resolved during the exam or contact.

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<sup>1</sup>Cease and desist

<sup>2</sup>Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>The NCUA's Office of General Counsel

- Quarterly:
  - Review significant BSA violations corrected during the regions' quality control reviews as part of the quarterly data validation process.
- Annually:

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*Last updated May 3, 2024*

# Change of Officials for Troubled and Newly Chartered Credit Unions

Under NCUA regulation § 701.14, [Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition](#), a federally insured credit union that meets certain conditions (see the [Affected Credit Unions section](#) of the NSPM) must obtain the RD's approval for personnel changes (board of directors, credit or Supervisory Committee, or senior executive officer) at least 30 days before the effective date of the change, or within 48 hours of election at an annual membership meeting. For state-chartered federally insured credit unions, the NCUA will consult with the appropriate SSA before making a final decision.

The regulation requires written notice from the credit union and RD approval before an individual can begin service at the credit union. The only exceptions to this requirement are if a credit union requests, and the RD waives, prior notice per NCUA regulation § 701.14 c(2)(i), [Waiver requests](#), and in the case of the election of a new member of the board of directors or credit committee member, NCUA regulation § 701.14(c)(2)(ii), [Automatic waiver](#).

In the case of a newly elected member of the board of directors or credit committee member, the 30-day prior notice is "automatically waived" and the individual may begin serving but, within 48 hours, a complete notice as required under the regulation must be submitted to the RD. If a RD grants a prior notice waiver or in the case of a new elected director or credit committee member, the RD can still deny the individual and will have 30 days after receipt of the notice and information.

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*Last updated July 29, 2015*

## DOS Responsibilities

### Initial Notice Procedures

Within ten calendar days after receiving the notice, the RD will [acknowledge the application](#) (if it is complete) or [request that the credit union submit specific additional information](#) within 30 calendar days.

## Receipt of Incomplete Package

- RD will issue a written decision within 30 calendar days of receipt of the original notice, plus the amount of time the credit union takes to provide requested additional information
  - If additional information is not submitted within 30 calendar days of the RD's request, he or she may either deny the proposed individual or review and take action on the notice based on the information provided

## Receipt of Complete Package

- Upon receipt of a complete package, **DOS**<sup>1</sup> will
  - Obtain a credit report
    - If the report contains adverse credit information, the RD will issue a letter to the applicant encouraging them to provide an explanation.
  - DOS will provide the applicant a copy of the credit report containing the adverse credit information via certified mail to the applicant's private address. The credit union will not be copied on this correspondence.
- Email the application, credit report, and other information to the supervisor (with a courtesy copy to the examiner) requesting a recommendation for approval or denial
- Conduct a review of the Suspicious Activity Report database to determine if additional investigation into the applicant's background is warranted.
  - **Regions**<sup>2</sup> may request that **OGC**<sup>3</sup> perform a criminal background search on the applicant if determined necessary. However, regions should keep in mind that the results of the criminal background search may not be available until after the statutory response date passes. This does not allow the statutory response date to be extended.
- RD will issue a written decision of approval or denial to the individual and the credit union within 30 calendar days of receipt of the notice

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<sup>1</sup>Division of Supervision

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

<sup>3</sup>The NCUA's Office of General Counsel

- The RD will use the applicable template:
  - [Pre-Adverse Action Disclosure Letter](#)
  - [Deny Change of Officials Due In Part to Adverse Credit](#)

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*Last updated July 29, 2015*

## Exam Staff Responsibilities

- The examiner will recommend approval or denial and email the recommendation to their supervisor.
  - The supervisor reviews the examiner's recommendation. Following the [standard outlined in the NSPM](#), the supervisor will email a final recommendation to the regional office.
- The examiner, supervisor, or **DOS**<sup>1</sup> may request a criminal background search on the individual if concerns arise during a review.

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*Last updated July 29, 2015*

## Affected Credit Unions

- Chartered within the past two years
- For FCUs assigned a **CAMELS**<sup>2</sup> composite rating of 4 or 5 by the NCUA or, for FISCUs, an equivalent of CAMELS 4 or 5 by either the NCUA (after an onsite contact) or its state supervisor; or
- Credit unions granted assistance under § 208 of the [Federal Credit Union Act](#) that remain outstanding and unextinguished

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*Last updated July 29, 2015*

## Required Information

A credit union must submit both a [Notice of Change in Official or Senior Executive Officer](#) (NCUA Form 4063) and an [Individual Application for Approval of Official or Senior Executive Officer](#) (NCUA Form 4063a) to obtain the RD's approval for the replacement of certain credit union employees and all officials.

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<sup>1</sup>Division of Supervision

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

The *Individual Application for Approval of Official or Senior Executive Officer* will be completed and signed by the individual for whom the credit union is seeking approval. FISCUs shall also file a copy of these forms with their state supervisor.

*Last updated July 29, 2015*

## Approval Process

Upon receipt of the examiner's recommendation, **DOS**<sup>1</sup> will review and analyze the recommendation for appropriate support and justification.

If DOS or the RD disagree with the field recommendation, the supervisor will be contacted to discuss further, as time permits. The field will be given the opportunity to further support or revise their recommendation. DOS finalizes the response letter for the RD and upon signature, mails it to the credit union via expedited mail and copies both the examiner and supervisor.

If the application is approved, DOS will send a [letter informing the individual of the NCUA's approval of employment or official association](#) with the credit union with a copy to the credit union, examiner, and supervisor.

## Approval Timeframes

Approval of a change of official is automatic if a completed application is not denied within 30 days of receipt.

Reference	Description	Timeframe	Automatic Approval
§ 701.14 c(2)(i), <a href="#">Waiver requests</a>	Parties may petition the appropriate RD for a waiver of the prior notice required. Waiver may be granted if it is found that delay could harm the credit union or the public interest.	None	No

*Last updated July 29, 2015*

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<sup>1</sup>Division of Supervision

## Waiver of 30 Day Notification Requirement

In some instances, a credit union may request a waiver of the 30 day advance notification requirement and fill a vacancy until the region has time to process their application package. In these cases, the regional office can issue a letter with an interim approval until the region has time to process the request. (Use the [Waive 30-Day Notification Requirement](#) template.)

No waiver request is required for newly-elected members of the board or directors or credit committee. These individuals may begin serving immediately so long as the credit union files a complete notice within 48 hours of the election.

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*Last updated July 29, 2015*

## Grounds for Denial

The RD will provide specific reasons for denial based on the authority of NCUA regulation § 701.14(e), [Notice of disapproval](#). All disapprovals require **OGC**<sup>1</sup> concurrence. The RD should forward any draft disapproval letter to OGC for review and concurrence at least ten calendar days before the expiration date for the RD to respond to the application. Given the short timeframes for acting on these requests regional office staff may contact OGC for assistance at any point during their review process.

The RD will weigh the factors listed below, and will deny the request if, on balance, the issues relating to the individual's competence, experience, character, or integrity are such that it is not in the best interest of the credit union's members or the public for the individual to be employed by or associated with the credit union.

Factors which may support denial include, but are not limited to:

- Criminal convictions
  - Certain criminal convictions may result in an automatic prohibition under § 205(d) of the [Federal Credit Union Act](#) and eliminate any need for any review pursuant to NCUA regulation § 701.14, [Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition](#). Other criminal convictions

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<sup>1</sup>The NCUA's Office of General Counsel



may not. **Regional office**<sup>1</sup> staff should contact OGC whenever an applicant has a criminal conviction.

- Unsatisfactory work performance in the financial sector
- Lack of work experience in relevant areas of financial management
- Poor personal financial condition or credit history, particularly as it relates to losses caused to financial institutions
- Omission of significant information relevant for job consideration

The mere presence of one or more of these factors in a particular case should not automatically result in disapproval. Rather, when determining whether these or other factors are disqualifying it is important to consider whether, given the specific circumstances surrounding the potentially disqualifying factor, it has a sufficient nexus to the competence, experience, character or integrity necessary for the particular position so as to be disqualifying.

NCUA regulation part [713, Fidelity Bond and Insurance Coverage for Federally Insured Credit Unions](#), requires certain minimum bond coverage for credit union employees and officials. Therefore, if an applicant is unable to secure the required minimum coverage they may not serve and there is no need for any review under § 701.14(e), [Notice of disapproval](#).

If the application is not approved, **DOS**<sup>2</sup> will send a copy of the appropriate denial letter to the credit union, the examiner, and the supervisor by using their preferred expedited mail delivery service. DOS will also send the individual a separate denial letter. The letters will:

- Summarize the reasons for denial, providing specific reasoning as to why the application is denied. When the applicant provides an explanation for potentially disqualifying information any denial should discuss why on balance these mitigating factors are insufficient
- Inform the credit union and the individual of their rights to file a written request for reconsideration to the RD within 15 calendar days of receipt of the notice of denial, or file an appeal directly with the NCUA Board

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*Last updated July 29, 2015*

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<sup>1</sup>"Regional offices" includes ONES (unless otherwise specified)

<sup>2</sup>Division of Supervision

## Request for Reconsideration or Appeal

As [stated in the NSPM](#), the NCUA will inform a credit union of its option to request reconsideration by the RD or the option to appeal the decision directly to the NCUA Board in a denial letter. A credit union's request for reconsideration must:

- Be submitted to the RD in writing
- Include any relevant previously omitted material and/or relevant documents not previously available
- Contain the specific reasons why the NCUA should reconsider the denial

Examiners should not discourage a credit union from filing an appeal. There is a 15-day window to file an appeal following notice of denial. The credit union may appeal the decision before or after requesting RD reconsideration. NCUA regulation [part 746, Subpart B-Appeals procedures that do not by Law Require a Board hearing](#), provides guidance for the appeal.

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*Last updated July 29, 2015*

## Application Withdrawal

If a credit union chooses to withdraw an application, the regional office will use the [Acknowledge Request to Withdraw Application](#) template to create a response acknowledging that the NCUA is aware of the credit union's withdrawal.

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*Last updated July 29, 2015*

## Change of Officials for Troubled and Newly Chartered Credit Unions Templates

- Respond to Incomplete Application
- Acknowledge Complete Application
- Waive 30-Day Notification Requirement
- Approve Change of Officials
- Deny Change of Officials Due In Part to Adverse Credit
- Deny Change of Officials Due In Part to Adverse Credit - Applicant Letter

- Deny Change of Officials Not Due to Adverse Credit
- Deny Change of Officials Not Due to Adverse Credit - Applicant Letter
- Pre-Adverse Action Disclosure Letter
- Acknowledge Request to Withdraw Application

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*Last updated July 29, 2015*

# Consent Application Review – Fair Hiring in Banking Act

Under [§ 205\(d\) of the FCUA](#), any person who has been convicted of any criminal offense involving dishonesty or breach of trust, or has agreed to enter into a pretrial diversion or similar program (program entry) in connection with a prosecution for such offense (collectively, covered offenses as defined by [§ 752.3](#)), may not become, or continue as, an institution-affiliated party of an insured credit union; or otherwise participate, directly or indirectly, in the conduct of the affairs of any insured credit union without the NCUA's prior written consent unless the offense is exempt under [§ 752.8](#), as discussed below.

[NCUA regulation part 752, Consent to Service of Persons Convicted of, or Who Have Program Entries for, Certain Criminal Offenses](#), implements [§ 205\(d\) of the FCUA](#), regarding the NCUA's processing of consent applications. To receive consent, an individual or a credit union sponsoring an individual must submit NCUA Form 3250 – FHBA and supporting documentation to the proper regional office as directed by [§ 752.9](#).

## Application Documentation

A complete consent application typically includes the following:

- Completed NCUA Form 3250 – FHBA **(Required)**
- Documentation Supporting Rehabilitation **(Required)**
- Cover Letter **(Optional)**
- Copies of Indictment, or Complaint and Final Decree of Judgment, or documentation to support the completion of a pretrial diversion or similar program. **(Optional)**

Applicants will complete their NCUA Form 3250 – FHBA and submit their supporting documents through an online application portal on NCUA.gov. The documents will be automatically forwarded to the appropriate region via secure email. Credit union sponsored applications from **ONES**<sup>1</sup> credit unions will be automatically forwarded to the region in which the credit union's headquarters

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

is located, and the region must forward the application to [onesmail@ncua.gov](mailto:onesmail@ncua.gov) via secure email.

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*Last updated on November 21, 2024*

## Responsibilities

### Regional DOS and ONES

- Evaluate consent applications
- Provide determinations for consent applications within delegated authority
  - Consult with **OGC**<sup>1</sup> on any denials
  - Consult with OGC on all approvals with position limitations
  - Forward consent applications that require NCUA Board decisioning to OGC with completed application analysis

### Field Staff

- Provide feedback on credit union sponsored application approvals when requested.

### OGC

- Decide whether a recommendation for denial of a consent application is consistent with the [FCUA § 205\(d\)](#)
- Decide whether a region's disapproval of a request for reconsideration of a consent application is consistent with the [FCUA § 205\(d\)](#)
- Complete a review of all consent application packages that require NCUA Board decisioning.

### OCSM

- Obtain an FBI criminal history record at a region's request.
- Securely provide the criminal history record and other supporting information, as necessary, to the assigned **DOS**<sup>2</sup> Analyst.

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Division of Supervision

- Ensure the applicant receives a copy of the FBI Privacy Act Statement.

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*Last updated on November 21, 2024*

If the offense does not meet the definition of a covered offense or does not require a consent application due to meeting the *de minimis* criteria of [§ 752.8](#), **DOS**<sup>1</sup> will process an RD letter using the [RD Letter Consent App Not Necessary template](#) to the applicant notifying them that a consent application is not required.

If the application is found to be incomplete, DOS will process an RD letter to the applicant that documents the application's missing information using the [Incomplete Application Letter template](#).

If DOS decides the application is complete and is for a covered offense, the region must ask OCSM for an FBI criminal history record. This chapter's [Criminal History Record Request section](#) covers the steps to complete this request.

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*Last updated on November 21, 2024*

## Criminal History Record Request

### Sharing the Criminal History Record with the Applicant

Per NCUA regulation [§ 752.10\(a\)\(2\)](#), the NCUA must provide the subject of an application (that is, the individual, not the credit union in the case of a sponsored application) a copy of their criminal history to review for accuracy.

After receiving a copy of the FBI criminal history, the region will complete the following steps to share the history with the applicant:

1. Contact the applicant to verify their email address. The region should make a reasonable effort to communicate with the applicant within 15 calendar days of receiving the criminal history record.

If the applicant contacts the region regarding inaccuracies in their FBI criminal history report, the region must tell the applicant to address those with the FBI directly by following the steps on the FBI's [Identity History Summary Checks page](#).

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*Last updated on November 21, 2024*

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<sup>1</sup>Division of Supervision

## Evaluating a Consent Application

**DOS**<sup>1</sup> will primarily rely on the FBI criminal history record when reviewing a consent application for a covered offense.

If the covered offense does not meet the *de minimis* criteria as discussed in the [Initial Application Review section](#), DOS will evaluate the consent application utilizing the individual assessment criteria from [§ 752.10\(d\)](#).

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*Last updated on November 21, 2024*

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*Last updated on November 21, 2024*

## SSA or NCUA Field Consultation

Before issuing an approval for a credit union sponsored application, the reviewer will consult with the NCUA District Examiner and Supervisory Examiner assigned to the sponsor credit union. The reviewer must also consult with the appropriate SSA when it is a FICU sponsored application. The purpose of the consultation is to determine if the field or SSA has concerns about the sponsor credit union management's ability to supervise and control the applicant's activity in their requested role.

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*Last updated on November 21, 2024*

## Approval

When a region recommends approval of, and has delegated authority to approve, a consent application, it will issue an approval letter from the RD to the applicant. The approval letter must include the following conditions:

1. All approvals and orders are subject to the condition that the applicant be covered by a fidelity bond to the same extent as similar positions.
2. Individuals issued a consent order must disclose the presence of the conviction(s) or program entry or entries to all insured credit unions in the affairs they wish to participate.

If the applicant's past crimes warrant limitations on the positions they hold at a FICU—such as working solely in non-managerial positions—this condition can be included in the approval letter. If this type of approval condition is included, **DOS**<sup>2</sup> must add a summary of the factors that support this condition

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<sup>1</sup>Division of Supervision

<sup>2</sup>Division of Supervision

in the approval letter and receive **OGC**<sup>1</sup> concurrence before issuing the approval.

Credit union sponsored application approvals are only for the applicant to work at the sponsor credit union. This limitation must be included in all approval letters for credit union sponsored applications.

## Denial

If the region decides an application should be denied, it must get prior concurrence from OGC. DOS must prepare a concurrence package including a [draft denial letter](#) summarizing the relevant factors that led to the recommendation.

## Denial Letter

The denial letter to the applicant must include the following:

1. The specific factors from the individualized analysis required in [§ 752.10 \(d\)](#) that led to the denial.
2. The applicant's right to request reconsideration from the field office, or to file an appeal with the NCUA Board, pursuant to [part 746, subpart B](#) of the NCUA's regulations.
3. A description of appeal filing deadlines and timeframes for agency response.
4. Requirements for the applicant's request for reconsideration or appeal.

## OGC Concurrence

OGC concurrence is needed when the region recommends denial of a consent application or recommends approval with a limitation on the position an applicant can hold at a FICU.

If the application denial is supported and consistent with [FCU Act § 205\(d\)](#), OGC will certify the denial.

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*Last updated on November 21, 2024*

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<sup>1</sup>The NCUA's Office of General Counsel



## Reconsideration Request Reviews

When an application is denied, before appealing the decision to the NCUA Board, an applicant may request reconsideration from the field office that issued the denial. The requirements for a reconsideration request and timing requirements for both the applicant and reviewing office are dictated by [§ 746.203](#) of the NCUA regulations.

When recommending disapproval of a reconsideration request, the region must seek **OGC**<sup>1</sup> concurrence.

If the recommended disapproval of the reconsideration request is supported and consistent with the [FCUA § 205\(d\)](#), OGC will certify the denial.

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*Last updated on November 21, 2024*

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<sup>1</sup>The NCUA's Office of General Counsel

# Corporate Credit Union Program and Procedures

The NCUA Board created **ONES**<sup>1</sup> in July 2012 to evaluate key risk areas and risk management practices in CCUs and the largest consumer credit unions. Since January 1, 2014, ONES has been responsible for supervising CCUs. Rather than conducting a point-in-time examination, supervision activities are conducted routinely as part of an annual supervisory cycle. By evaluating risk qualitatively and quantitatively on an ongoing basis, it allows ONES staff to arrive at informed, supportable, and consistent conclusions about the health and safety of assigned credit unions.

Throughout the NSPM, the term “regional office” includes ONES. The “Regional Director” term includes the ONES Director and “Associate Regional Director” includes the ONES Deputy Director.

This NSPM section describes situations unique to CCUs for consideration in fulfilling ONES’s examination and supervision responsibilities.

## Corporate Policies and Procedures

Besides circumstances in which the NCUA regulations part 704, [Corporate Credit Unions](#), and the related delegated authorities require other processes or procedures, ONES follows the NSPM’s policies and practices for CCUs to the fullest possible extent. ONES staff will follow the general responsibilities, procedures, and requirements in the NSPM’s Regulatory Waivers and other Regulatory Actions section to process waivers, changes of officials, and other regulatory requests.

When ONES cannot use all the automated tools for CCU examinations or supervision contacts, staff should follow existing ONES procedures or processes until CCUs are incorporated into the automated systems. For example, ONES staff should review the monthly Corporate financial performance reports (CFPRs) for financial trend analysis in place of **RADAR**<sup>2</sup>.

*Last updated February 2, 2023*

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term “Regional Director” includes the ONES Director and “associate Regional Director” includes the ONES Deputy Director.

<sup>2</sup>Risk Assessment and Data Analytics Rating

## Corporate Regulatory Waivers

Per NCUA regulation § [704.1\(b\)](#), the NCUA Board can issue orders that vary from part 704, [Corporate Credit Unions](#). For state chartered CCUs, the NCUA will coordinate concurrence from the CCU's SSA before issuing an approval or denial.

The risks associated with each regulatory waiver are unique. Depending on regulatory requirements, materiality, and/or complexity of the request, different CCUs may be required to produce different documentation than what another CCU had to produce.

In general, CCU waiver requests will be processed using the following procedures. Refer to each specific waiver type outlined in this section for unique processing steps.

### Request Requirements

Regulatory waivers have different requirements. A CCU's request for a regulatory waiver should include:

- Justification supporting the request
- Copies of all applicable existing or draft policies and procedures relating to the regulatory waiver being sought
- Proposed systems and personnel needed to manage the program the waiver impacts efficiently and effectively
- A board resolution authorizing submission of an application for the regulatory waiver
- Analysis of the CCU's current capital position and its ability to meet the capital requirements on the date of implementation
- Pro-forma balance sheets, income statements, and capital "what-if" analyses demonstrating the benefits of the proposed regulatory waiver and acceptable risk to capital
- Other documentation supporting the request and the capabilities of the CCU's operational structure

## DOS Initial Responsibilities (Review Request)

Upon **ONES**<sup>1</sup>'s receipt of the credit union's application, **DOS**<sup>2</sup> will perform a cursory review to determine if the credit union request is complete.

If the request is complete, DOS will:

- Prepare and send an acknowledgement letter to the CCU
- Prepare and send a work assignment to the field requesting a recommendation for approval or denial (package includes CCU's request, application materials, and supporting documentation)

If a request is incomplete, DOS will:

- Prepare and send an incomplete/denial letter to the CCU via secure email
  - Ensure the letter lists the additional information the CCU must submit if they would like the request to be considered
- Copy the examiner and supervisor on the letter

## Exam Staff Responsibilities (Review CCU)

Examiners and their supervisors are responsible for evaluating the risk of the regulatory waiver request. The examiner will scale the scope and depth of the review according to the materiality of the regulatory waiver request. During the evaluation, the examiner should:

- Review all pertinent documents
- Evaluate the CCU's management, capital level, CAMEL and risk ratings, and financial strength
- Consult with specialist(s) to determine if additional information is needed
- Contact the CCU to obtain any missing/additional information
- Determine if the materiality and complexity of the waiver request will necessitate a targeted review by the supervisory team or ONES specialized examiners
  - If so, the examiner will develop a project plan and submit it to the **NFS**<sup>3</sup> for approval

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Division of Supervision

<sup>3</sup>National Field Supervisor

- The request will include an estimate of the time needed to complete an effective review of the request and how it may impact the timing of response by ONES on the waiver request itself
- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial
- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor

If recommending denial, examiners will not discourage any CCU from applying for reconsideration or filing an appeal.

## Supervisor Responsibilities (Process Request)

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

## DOS Responsibilities (Process Request)

DOS will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. Upon concurrence, DOS will:

- Review and process the field's approval or denial recommendation and their completed due diligence review
- Prepare a concurrence package for the ONES Director's approval or denial of the waiver request or recommendation of approval to other offices as outlined in the [NCUA Delegations of Authority](#), if applicable
- Obtain necessary concurrences in accordance with the [NCUA Delegations of Authority](#), if applicable
  - Concurrence Package – Table of Contents includes the required documentation for a package that requires **E&I**<sup>1</sup> and **OGC**<sup>2</sup> concurrence and NCUA Board approval of the waiver request
    - ONES will prepare a concurrence request memo to E&I and OGC

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>The NCUA's Office of General Counsel

- ONES should notify OED for waivers that require NCUA Board approval and summarize the proposed transaction
  - ONES will allow ten business days for OED to review and concur
- ONES must follow the Board Secretary-issued instructions and due dates for transactions that require NCUA Board approval
- The ONES Director must submit a notice to the NCUA Board describing each waiver intended for approval within the ONES Director's delegated authority
- Submit the recommendation and proposed response letter to the ONES Director for approval or denial and signature
- Email the signed letter to the CCU (copying the examiner and supervisor)

If DOS or the ONES Director disagree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
- Draft revised correspondence
- Finalize the response letter for the ONES Director's signature
- Email the signed letter to the CCU (copying the examiner and supervisor)

## ***After Approving Regulatory Waiver***

### **Monitoring**

Examiners will ensure the CCU is compliant with the regulations and the requirements for operating under the approved regulatory waiver.

During each annual examination, examiners will document compliance with the approved regulatory waiver. Failure to maintain compliance will result in the revocation of the regulatory waiver.

### **Addressing Violations**

If the examiner identifies a violation of the regulatory waiver during a subsequent examination, the violation will be documented in the examination report and treated as a significant concern. If necessary, the examination will

include corrective action, including ceasing the activity in violation of the regulatory waiver.

At a minimum, the corrective action will direct the CCU to submit a written plan for resolution to the ONES Director. The examiner will evaluate the financial severity or potential risk and decide whether to recommend revocation of the regulatory waiver in consultation with their supervisor.

If the examiner and supervisor determine the violation of the regulatory waiver does not present a heightened material risk to the CCU and believes the CCU will take appropriate corrective action through examination agreements, in the Closed Information Questionnaire examiners will:

- Document the waiver violation
- Provide support for the decision not to recommend revocation
- Attach concurrence from the supervisor

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*Last updated February 2, 2023*

## Processing Corporate Requests for Expanded Authority

NCUA regulation part 704, Appendix B, [Expanded Authorities and Requirements](#), establishes the framework and requirements for managing the additional risk allowed when a CCU applies and is approved for expanded investment authorities. The risks associated with each expanded investment authority are unique; the rule allows a corporate CCU to apply for additional investment authorities it determines are necessary to manage balance sheet risk or to request authority for all expanded authorities. For state-chartered CCUs, the CCU must obtain approval for the expanded authority from the SSA before submitting its request to NCUA.

The risks associated with each expanded investment authority are unique; the rule allows a CCU to apply for additional investment authorities it determines is necessary to manage balance sheet risk or to request authority for all expanded authorities.

The NCUA issued [Guidelines for Submission of Requests for Expanded Authority](#) to help CCUs and examiners evaluate CCU compliance with expanded investment authorities (parts I through IV). The guidelines provide additional

clarity for submitting requests for expanded authorities and help examiners determine the need and qualifications of the CCU that has made a request.

## Request Requirements

As described in NCUA regulation part 704, Appendix B, [Expanded Authorities and Requirements](#), a CCU's request for an expanded authority waiver must include:

- Corporate self-assessment plan

Additionally, a CCU's request for an expanded authority waiver should include:

- Justification supporting the request
- Copies of all existing or draft policies and procedures relating to the expanded authority being sought
- Proposed systems and personnel needed to efficiently and effectively manage the proposed risk activity
- SSA approval for the request if it is a state-chartered CCU

A CCU should provide additional information and documentation if needed.

## DOS Initial Responsibilities (Review Request)

Upon **ONES**<sup>1</sup>'s receipt of the CCU's expanded authority waiver request, **DOS**<sup>2</sup> will perform a cursory review before determine if the request is complete.

If a request is complete, DOS will:

- Prepare and send an acknowledgment letter to the CCU via secure email
- Prepare and send a work assignment to the field requesting a recommendation for approval or denial (package includes CCU's request, application materials, and supporting documentation)

If a request is incomplete, DOS will:

- Prepare and send an incomplete letter to the CCU via secure email
  - Ensure the letter lists the additional information the CCU must submit if they would like the request to be considered

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Division of Supervision



- Copy the examiner and supervisor on the letter

## **Exam Staff Responsibilities (Review Request)**

Examiners and their supervisors are responsible for evaluating the risk posed by an expanded authority request. During the evaluation, the examiner should:

- Review all pertinent documents
- Consult with the assigned capital markets specialist in collaboration with their supervisor to determine if a targeted review is necessary
- Complete the applicable expanded authorities review checklist
- Contact the CCU to obtain any missing/additional information
- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial
- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor

## **Supervisor Responsibilities (Process Request)**

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

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*Last updated February 2, 2023*

## **Evaluating a Request for Expanded Authority**

Examiners and their supervisors are responsible for evaluating the risk posed by an expanded authority request. During the evaluation, the examiner should:

- Review all pertinent documents
- Consult with the assigned capital markets specialist to determine if an onsite contact is necessary
- Complete the applicable expanded authorities review checklist

- Initiate and send a recommendation memo to approve or deny the request to the **ONES**<sup>1</sup> mailbox

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*Last updated July 29, 2015*

## DOS Responsibilities (Process Request)

**DOS**<sup>2</sup> will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. DOS will:

- Review and process the field's approval or denial recommendation and their completed due diligence review
- Prepare a concurrence package for the **ONES**<sup>3</sup> Director's approval or denial of the waiver request or recommendation of approval to other offices as outlined in the [NCUA Delegations of Authority](#), if applicable
  - Concurrence Package – Table of Contents includes the required documentation for a package that requires **E&I**<sup>4</sup> and **OGC**<sup>5</sup> concurrence and NCUA Board approval of the waiver request
    - **ONES** will prepare a concurrence request memo to E&I and OGC
  - **ONES** should notify OED for waivers that require NCUA Board approval and summarize the proposed transaction
    - **ONES** will allow ten business days for OED to review and concur
  - **ONES** must follow the Board Secretary-issued [instructions and due dates](#) for transactions that require NCUA Board approval
  - The **ONES** Director must submit a notice to the NCUA Board describing each waiver intended for approval within the **ONES** Director's delegated authority
- Obtain necessary concurrences in accordance with the NCUA Delegations of Authority, if applicable
- Submit the recommendation and proposed response letter to the **ONES**

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the **ONES** Director and "associate Regional Director" includes the **ONES** Deputy Director.

<sup>2</sup>Division of Supervision

<sup>3</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the **ONES** Director and "associate Regional Director" includes the **ONES** Deputy Director.

<sup>4</sup>Office of Examination and Insurance

<sup>5</sup>The NCUA's Office of General Counsel

Director for approval and signature

- Email the signed letter to the CCU (copying the examiner and supervisor)

If DOS or the ONES Director disagree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
- Draft a revised correspondence
- Finalize the response letter for the ONES Director's review and approval

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*Last updated February 2, 2023*

## **After Approving Corporate Expanded Authority**

### ***Monitoring***

Examiners will ensure the CCU complies with the regulations and requirements for operating under the approved expanded authority.

During each examination, examiners will document compliance with the regulation and investment authority requirements. Failure to maintain compliance will result in the revocation of the expanded authority.

### ***Addressing Violations***

If the examiner identifies a violation of the authorized expanded authority during a subsequent examination, the examiner will document the violation in the examination report and treat it as a significant concern. If necessary, the examination will include corrective action, including ceasing the activity in violation of the expanded authority.

At a minimum, the corrective action will direct the CCU to submit a written plan for resolution to the **ONES**<sup>1</sup> Director. The examiner will evaluate the financial severity or potential risk and decide whether to recommend revocation of the expanded authority in consultation with their supervisor.

If the examiner and supervisor determine the violation of the expanded authority does not present a heightened material risk to the CCU and believes the

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

CCU will take appropriate corrective action through examination agreements, in the Closed Information Questionnaire examiners will:

- Document the waiver violation
- Provide support for the decision not to recommend revocation
- Attach concurrence from the supervisor

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*Last updated February 2, 2023*

## Investment Action Plans

NCUA regulations §§ 704.6(h), [Requirements for investment action plans](#), and 704.10, [Investment action plan](#), state requirements for an IAP. The NCUA expects a CCU will maintain the quality of its investment portfolio in accordance with NCUA regulation part 704, [Corporate Credit Unions](#) by evaluating securities, their issuers, and any counterparties in all investment transactions.

Any CCU in possession of an investment, including a derivative, that fails to meet a part 704 requirement must, within 30 calendar days of the failure, report the failed investment to its board of directors, Supervisory Committee, and the **ONES**<sup>1</sup> Director. If a CCU does not sell the failed investment, and the investment continues to fail to meet a requirement of part 704, it must, within 30 calendar days of the failure, provide a written action plan described in NCUA regulation § 704.10, [Investment action plan](#), to the ONES director .

An investment is subject to the requirements of § 704.10, [Investment action plan](#), if the following regulatory requirements of NCUA regulation § 704.6, [Credit risk management](#), have been violated:

- Appropriate monitoring of investment would reasonably conclude that the investment presents more than a minimal amount of credit risk
- Investment is part of an asset class or group of investments that exceeds the issuer, sector, or sub-sector concentration limits of § 704.6, [Credit risk management](#)

For measurement purposes, each new credit transaction must be evaluated in terms of the CCU's capital at the end of the transaction. An investment that

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

fails a requirement of this section because of subsequent reduction in capital will be deemed non-conforming. CCUs are required to exercise reasonable efforts to bring nonconforming investments into conformity within 90 calendar days. Investments that remain nonconforming for more than 90 calendar days will be deemed to fail a requirement of this section, and the CCU must comply with § 704.10, [Investment action plan](#).

A CCU with a security that an IAP covers is subject to monthly monitoring and reporting requirements.

## Request Requirements

As described in NCUA regulations § 704.10, [Investment action plan](#), a CCU's written IAP must include:

- The investment's characteristics and risks
- The process to obtain and adequately evaluate the investment's market pricing, cash flows, and risk
- How the investment fits into the CCU's asset and liability management strategy
- The impact that either holding or selling the investment will have on the CCU's earnings, liquidity, and capital in different interest rate environments
- The likelihood the investment may again pass the requirements of this part

## DOS Initial Responsibilities (Review Request)

Upon ONE's receipt of the CCU's IAP, **DOS**<sup>1</sup> will perform a cursory review to determine if the request is complete.

If a request is complete, DOS will:

- Prepare and send an acknowledgment letter to the CCU via secure email
- Prepare and send a work assignment to the field requesting a recommendation for approval or denial (package includes CCU's request, application materials, and supporting documentation)

If a request is incomplete, DOS will:

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<sup>1</sup>Division of Supervision

- Prepare and send an incomplete/denial letter to the CCU via secure email
  - Ensure the letter lists the additional information the CCU must submit if they would like the IAP to be considered
  - Copy the examiner and supervisor on the letter

## **Exam Staff Responsibilities (Review Request)**

- Examiners and their supervisors are responsible for evaluating a CCU's investment strategy and policies and the specific investments that resulted in the violation of part 704 and the need for the CCU to file an IAP. During the evaluation, the examiner should:
  - Review all pertinent documents, including both pre- and post-purchase analyses
  - Consult with the assigned capital markets specialist to ensure appropriate analysis and recommendation
  - Contact the CCU to obtain any missing/additional information
  - Complete a Regional Summary to include an approval or denial recommendation
  - Draft a letter for approval, partial approval, deferral, or denial
  - Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor

## **Supervisor Responsibilities (Process Request)**

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

## **DOS Responsibilities (Process Request)**

DOS will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. DOS will:

- Review all supporting documentation, including both pre- and post-purchase analyses
- Provide additional comments in the Regional Summary and include an approval or denial recommendation

- Edit the draft letter for approval, partial approval, deferral, or denial
- Submit the recommendation and proposed response letter to the ONES Director for approval and signature
- If DOS and/or the ONES Director disagree with the field's recommendation, DOS will:
  - Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
  - Draft a revised correspondence
- Finalize the response letter for the ONES Director's review and signature

## **After Approving an Investment Action Plan**

### ***Monitoring***

Examiners will monitor monthly to ensure the CCU complies with the regulation and the requirements of any approved IAP. Monitoring will include ensuring that the CCU conducts periodic evaluations to determine the need to continue to hold or sell out of compliance investments.

During each annual examination, examiners will document compliance with the regulation and approved IAP. Failure of a CCU to maintain compliance and meet reporting requests may result in the revocation of an approved IAP.

### **Addressing Violations**

If the examiner identifies a violation of the approved IAP or additional regulatory violations that were unreported during a subsequent examination, the examiner will document the violation in the examination report and treat such violation as a significant concern. The examination will include corrective action, including directing the CCU to sell out-of-compliance investments.

At a minimum, the corrective action will direct the CCU to submit a written plan for resolution to the ONES Director. The examiner will evaluate the financial severity or potential risk and decide, in consultation with their supervisor, and the ONES Director, whether to recommend revocation of the IAP.

If the examiner and supervisor determine the violation of the investment authority does not present a heightened material risk to the CCU and believes

the CCU will take appropriate corrective action through examination agreements, in the Closed Information Questionnaire examiners will:

- Document the waiver violation
- Provide support for the decision not to recommend revocation
- Attach concurrence from the supervisor

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*Last updated February 2, 2023*

## Capital Restoration Plans

DEs are responsible for monitoring compliance with the proper filing and maintenance of a **CRP**<sup>1</sup> under NCUA regulation § 704.4, [Prompt corrective action](#). The **ONES**<sup>2</sup> Director has delegated authority to manage the CRP and approval process.

### Capital Restoration Plan Requirements

Any undercapitalized CCU must have in place an NCUA-approved CRP. A CCU must file a written CRP with the NCUA within 45 days of the date that the CCU receives notice or is deemed to have notice that the CCU is undercapitalized, significantly undercapitalized, or critically undercapitalized, unless the NCUA notifies the CCU in writing that the plan is to be filed within a different period. A CRP must specify:

- Steps the CCU will take to become adequately capitalized
- Levels of capital to be attained during each year the plan will be in effect
- How the CCU will comply with the restrictions or requirements in effect under PCA
- Types of levels of activities in which the CCU will engage

Refer to the NSPM's CCU PCA section for more information on capital classifications.

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<sup>1</sup>Capital Restoration Plan

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.



## ***DOS Initial Responsibilities (Review Request)***

Due to the time sensitivity of CRP packages, **DOS**<sup>1</sup> should perform a cursory review of incoming packages for completeness, ensuring all the required information as outlined in NCUA regulation § 704.4(e)(2), [Contents of plan](#), is included.

For a **substantially incomplete package**, DOS will draft a letter to request the missing information and return the CRP.

For a **complete package**, DOS will prepare:

- A work assignment and send the CRP to the examiner and the supervisor with a required response date at least ten business days before the ONES Director's response deadline
- A letter to the CCU and provide a date by which the ONES Director will respond consistent with NCUA regulation § 704.4(e)(4), [Review of capital restoration plans](#)

## ***Exam Staff Responsibilities (Review Request)***

During the evaluation, the examiner should:

- Review all pertinent documents
- Contact the CCU to obtain any missing/additional information
- Complete a Regional Summary to include an approval or denial recommendation
- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor
  - If the examiner recommends denying the plan, the letter must list the plan's specific deficiencies that warrant denial

## ***Supervisor Responsibilities (Process Request)***

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

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<sup>1</sup>Division of Supervision

## ***DOS Responsibilities (Process Request)***

DOS will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. DOS will:

- Review the CRP and all supporting documentation
- Provide additional comments in the Regional Summary and include an approval or denial recommendation
- Edit the draft letter for approval, partial approval, deferral, or denial
- Submit the recommendation and proposed response letter to the ONES Director for approval and signature

If DOS and/or the ONES Director disagree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
- Draft a revised correspondence
- Finalize the response letter for the ONES Director's review and signature
- Email the signed letter to the CCU (copying the examiner and supervisor)

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*Last updated February 2, 2023*

## **Processing a Capital Restoration Plan**

### ***Federal Credit Union CRP***

Upon receipt of a substantially complete **CRP**<sup>1</sup> package from a FCU, the examiner will contact the credit union to obtain any additional documentation necessary for processing.

Examiners and supervisors must analyze the CRP and provide a written recommendation in a [Regional Summary](#). You can also reference the Corporate Supervisory Instruction 12-01, *PCA for Corporate Credit Unions*, for additional information.

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<sup>1</sup>Capital Restoration Plan

Examiners must submit a draft letter that outlines approval or denial of the CRP to **ONES**<sup>1</sup> Mail through their supervisor. Employees can modify the [Approve NWRP/RBP](#) and [Deny NWRP/RBP](#) templates for corporate use. If you recommend denying the plan, the letter must list the specific deficiencies in the plan that warrant denial. ONES **DOS**<sup>2</sup> should ensure the delivery method of the letter to the credit union includes a signature.

### ***Federally Insured, State-Chartered Credit Union CRP***

A FISCU will submit its CRP to the ONES director and SSA. The processing procedures listed for FCUs will apply, along with the following steps:

- Supervisors will coordinate all related issues directly with the SSA
- Unless submitted directly to ONES, supervisors will obtain documentation of the SSA's approval or denial
- DOS will courtesy copy the appropriate SSA on all signed correspondence between the director, DOS, and the FISCU, including any director's approval or denial letters

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*Last updated July 29, 2015*

### ***Failure to Submit a CRP***

**DOS**<sup>3</sup> will monitor CCUs that fail to submit a **CRP**<sup>4</sup> and contact the supervisor for a status report when the CRP is not received by the due date.

When any CCU fails to file the CRP on time, examiners will draft a letter to the CCU through their supervisor notifying the CCU that it is out of compliance with NCUA's regulations. The supervisor will submit the letter to **ONES**<sup>5</sup> Mail within three business days of receipt.

A CCU that is undercapitalized and fails to submit a written capital restoration plan within 45 days of the date the CCU receives notice it is undercapitalized will, upon the expiration of the 45 days, be subject to all of the provisions of NCUA regulation § 704.4, [Prompt corrective action](#), applicable to significantly undercapitalized CCUs.

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Division of Supervision

<sup>3</sup>Division of Supervision

<sup>4</sup>Capital Restoration Plan

<sup>5</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

## ***After Approving the CRP***

### **Monitoring**

Examiners will monitor each CCU operating with a CRP. Additionally, examiners will complete a quarterly review of the CCU's progress meeting the CRP and document the results within **MERIT**<sup>1</sup> until the plan is no longer needed.

Examiners and their supervisors are responsible for monitoring compliance with the CRP.

### **Addressing Discrepancies**

If a review determines a CCU has materially fallen short of the CRP's goals, examiners will:

- Instruct the CCU to adjust financial and operational strategies to comply with the CRP
- Advise, when appropriate, the CCU to develop and submit a revised CRP
- Pursue additional supervisory remedies, such as administrative action

If the review determines the existing, approved plan is no longer adequate, examiners will send an email (through their supervisor) to the ONES mailbox along with a draft letter instructing the CCU to submit a revised plan.

Documentation will include a comparison of the CCU's actual performance with its current CRP.

Any findings or concerns relating to the CRP should also be cited in the examination report as appropriate.

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*Last updated February 2, 2023*

## ***Monitoring a Capital Restoration Plan after Approval***

Examiners will monitor each corporate operating with a leverage ratio less than four percent and provide their supervisor with a monthly update report (**ONES**<sup>2</sup> **DOS**<sup>3</sup> will provide the corporate form (similar to the [quarterly PCA tracking report](#)) when needed. Examiners will perform onsite supervision

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>3</sup>Division of Supervision

contacts of these credit unions at least quarterly to assess compliance with the PCA and overall capital stability.

Examiners and their supervisor are responsible for monitoring the level of compliance with the **CRP**<sup>1</sup>. Examiners should document their compliance review in the Status Update of each examination or follow-up examination report.

If the examiner determines that the credit union has materially fallen short of the earnings and leverage ratio goals of the plan, examiners will:

- Instruct the corporate to make adjustments to its financial and operational strategies to come into compliance with the CRP
- When appropriate, advise the corporate to develop and submit a revised CRP, or
- Pursue additional supervisory remedies such as administrative action

If the examiner determines that an existing approved plan is no longer adequate, he or she will send a draft message instructing the credit union to submit a revised plan (use the [Notify CU of Need to Revise or Replace NWRP](#) memo) to the ONES mailbox through the supervisor. Documentation will include a comparison of the corporate's actual performance with its current CRP. The CRP monitoring form provided by DOS outlines a corporate's action plan and monthly targets for the leverage ratio, earnings, assets, etc., and can be used to document and track the plan's performance.

Any findings or concerns relating to the NWRP should be cited in the examination report as appropriate.

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*Last updated July 29, 2015*

### ***CRP that is No Longer Needed***

Once a CCU with a **CRP**<sup>2</sup> is effectively classified as "adequately capitalized" under PCA and successfully remains so for 12 consecutive months, the CCU is no longer required to operate under a CRP, and the CRP is no longer in effect.

With the supervisor's concurrence, examiners will review the CCU's financial and operational condition, confirm the accuracy of the capital classification,

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<sup>1</sup>Capital Restoration Plan

<sup>2</sup>Capital Restoration Plan

and draft a memo to the **ONES**<sup>1</sup> Director confirming the CRP is no longer in effect.

- The memo will include:
  - A draft letter advising the CCU that the CRP is ending
  - Supervision plans, if necessary, for monitoring PCA compliance until the CCU becomes “well capitalized”
- The supervisor will review the recommendation and the draft letter and forward it to **DOS**<sup>2</sup> for processing
- The ONES office will issue a letter to the CCU formally acknowledging that the CRP is no longer in effect

### ***PCC Redemption Request***

The NCUA regulations § 704.3(c)(3), [Callability](#), allows CCUs to call PCC so long as all minimum required capital and NEV ratios are met after redeeming the PCC, and a formal request is made to and approved by the NCUA. The ONES Director can approve the PCC redemption request with the concurrence of **E&I**<sup>3</sup>.

In most cases, CCUs were required to acquire and maintain PCC to meet and maintain at least adequately capitalized status due to the 2009-2010 CCU crisis, which weakened many CCUs individually and the credit union system. Given the systemically important nature of the “banker’s bank” activities CCUs provide to the credit union system as a whole, CCUs’ ability to effectively manage and maintain capital reserves sufficient to their risk profile is crucial to the ongoing strength and resilience of the credit union system. Maintaining and managing capital to regulatory requirements alone is not considered a suitable replacement for an active and effective ongoing capital analysis and planning process, given the role CCUs play within the larger credit union industry.

The decision to redeem PCC must be made with the interest of the CCU, their member credit unions, and the safety of the SIF in mind.

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term “Regional Director” includes the ONES Director and “associate Regional Director” includes the ONES Deputy Director.

<sup>2</sup>Division of Supervision

<sup>3</sup>Office of Examination and Insurance

## ***PCC Redemption Requirements***

An evaluation of capital adequacy and strength of capital management practices must be considered on the current reporting period and on a forward-looking basis. As part of a review of a CCU's application to redeem PCC, the assigned DE should consider the following:

- The overall financial condition of the CCU, along with an evaluation of any anticipated or emerging risk exposures that may not be accounted for in ongoing accounting and performance management reporting
- The strength of the CCUs risk management and ongoing capital assessment, planning and management practices to identify and maintain meaningful minimum retained earnings and leverage ratio tolerances and standards in accordance with NCUA regulation § [704.3\(a\)\(2\)](#)
  - This evaluation should consider an estimation of both expected and unexpected loss and evaluate the sufficiency of capital under various stress scenarios

Capital planning and supervisory analysis by CCUs should consider qualitative and quantitative factors that may affect capital adequacy. Capital adequacy cannot be determined solely based on a numeric formula; standard and regulatory minimum requirements should not be considered a proxy for assessment of the adequacy of a CCU's capital position.

When ONES receives a PCC redemption request, the DE will lead the PCC redemption review with assistance from a capital market specialist and other specialists as deemed appropriate. The DE documents their review using the Regional Summary template. The summary and analysis must evaluate (at a minimum) the following:

- CCU's current financial condition
- Post PCC redemption financial condition
- Assessment of capital resiliency under adverse conditions (including termination of the **EBA**<sup>1</sup> program) and projected capitalization
- CCU risk management fundamentals
- CCU capital policies and oversight process

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<sup>1</sup>Excess Balance Account

- Approaches and assumptions used to produce the ongoing capital assessments and forecasts

### ***DOS Initial Responsibilities (Review Request)***

DOS should perform a cursory review of the incoming package for completeness. CCUs should provide sufficient documentation for analysts to evaluate the CCU's capital adequacy assessment, capital adequacy plan, and PCC redemption proposal. The analyst should evaluate whether the CCU has incorporated the decision to redeem PCC into its larger capital plan and policy and should also consider the considerations outlined in NCUA regulation § 704.3 (d)(2), [Appropriate considerations for establishing individual minimum capital requirements](#).

For a substantially incomplete package, DOS will draft a letter to the CCU and request missing information.

For a complete package, DOS will prepare:

- A work assignment and send the request to the examiner and the supervisor with a required response date of at least ten business days
- A letter to the CCU and provide a date by which the ONES Director will respond

### ***Exam Staff Responsibilities (Review Request)***

Examiners should perform a detailed review of the incoming package for completeness. CCUs should provide sufficient documentation for examiners to evaluate the CCU's capital adequacy assessment, capital adequacy plan, and PCC redemption proposal. The DE should evaluate whether the CCU has incorporated the decision to redeem PCC into its larger capital plan and policy and should also consider the considerations outlined in NCUA regulation § 704.3 (d)(2), [Appropriate considerations for establishing individual minimum capital requirements](#).

Further, the review should include an evaluation of corporate capital strength exclusive of the Federal Reserve EBA program. For capital adequacy that cannot be demonstrated without using the EBA program, CCUs should have in place reasonable, legally committed, and tested off-balance sheet alternatives. This is necessary as a change or interruption to the EBA program requirements could severely impact a CCU's capital.

During the evaluation, the examiner should:



- Review all pertinent documents
- Contact the CCU to obtain any missing/additional information
- Complete a Regional Summary to include an approval or denial recommendation
- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor
  - If the examiner recommends denying the redemption request, the letter must list the specific deficiencies that warrant denial

### ***Supervisor Responsibilities (Process Request)***

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

### ***DOS Responsibilities (Process Request)***

DOS will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. DOS will:

- Review the redemption request and all supporting documentation
- Provide additional comments in the Regional Summary and include an approval or denial recommendation
- Edit the draft letter for approval, partial approval, deferral, or denial
- Submit the recommendation and proposed response letter to the ONES Director for approval and signature

If DOS and/or the ONES Director disagree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
- Draft a revised correspondence
- Finalize the response letter for the ONES Director's review and signature
- Email the signed letter to the CCU (copying the examiner and supervisor)

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*Last updated February 2, 2023*

## **Invoking a DSA or OCA for a Critically Undercapitalized Credit Union**

**ONES**<sup>1</sup> field and office staff will follow the guidelines and procedures outlined in the [Prompt Corrective Action](#) section of the NSPM and in NCUA regulation § 704.4, [Prompt corrective action](#), when invoking discretionary supervisory actions and other corrective actions for a critically undercapitalized credit union.

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*Last updated July 29, 2015*

## **Corporate Credit Union Service Organizations**

In September 2010, the NCUA Board adopted major revisions to the corporate rule. As part of those revisions, all activities of corporate CUSOs must be pre-approved by the NCUA pursuant to NCUA regulation § 704.11, [Credit Union Service Organizations \(CUSOs\)](#). Two preapproved activities in § 704.11(d), [Requirements for corporate CUSOs](#), are brokerage services (as defined in the [Securities Exchange Act of 1934](#)) and investment advisory services (as defined in the [Investment Advisers Act of 1940](#)). [Approved corporate CUSO activities](#) are presented on the NCUA's website.

The Corporate CUSO Activities page on the NCUA's website details a corporate's responsibilities for complying with NCUA regulation § 704.11(d), [Requirements for corporate CUSOs](#), the approval process for requesting additional corporate CUSO activities, and a list of those additional activities that are approved for corporate CUSOs, including reporting requirements and other restrictions on any corporate CUSO which desires to engage in those activities

The NCUA may occasionally approve additional activities. Once an activity has been approved, any corporate CUSO may engage in it without further approval from the NCUA.

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*Last updated February 2, 2023*

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

## Corporate CUSO Activity Approval Requests

In general, **ONES**<sup>1</sup> will process requests for approval corporate CUSO activities using the following procedures.

### ***DOS Initial Responsibilities (Review Request)***

**DOS**<sup>2</sup> handles preliminary processing of requests for approval of corporate CUSO activities; however, depending on the specific activity submitted and the structure of the corporate CUSO (wholly owned versus minority-owned), examiners or specialists and their supervisors may be consulted.

After ONES receives a corporate CUSO activity request, DOS will perform a cursory review to:

- Determine whether the request is complete
- Assess whether the activity is already approved
- Identify whether consultation with the DE or a specialized examiner is needed

If the corporate CUSO activity request is considered complete, DOS will:

- Prepare an acknowledgment letter and send it to the corporate or CUSO via secure email
- Review the request to determine whether it falls under an existing approved corporate CUSO activity
  - If the request is for an activity the NCUA has approved for all corporate CUSOs, DOS will prepare an approval letter.
  - If the request is for an activity the NCUA has not approved, DOS will determine if the request meets the criteria specified in § 704.11 of the NCUA's regulations and evaluate the risks associated with the activity
    - If necessary, DOS will consult with the DE, specialized examiner, **E&I**<sup>3</sup>, or **OGC**<sup>4</sup>

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Division of Supervision

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>The NCUA's Office of General Counsel

- For field consultation, the supervision technician will prepare and send a work assignment to the field that includes the CCU's request, application package, supporting documentation, and request a recommendation for approval or denial

If the corporate CUSO activity request is considered incomplete, DOS will:

- Prepare an incomplete/denial letter and send it to the CCU or CUSO
- Ensure the letter lists the additional information the CCU or CUSO must submit if it would like the request to be reconsidered
- Copy the examiner and supervisor on the letter

### ***Exam Staff Responsibilities (Review Request)***

During the evaluation, the examiner should:

- Review all pertinent documents with their supervisor and specialist(s), if necessary, to evaluate whether the requested activity:
  - Is appropriate
  - Aligns with the CCU's business plan
- Determine if the CUSO:
  - Is currently profitable
  - Has the resources to remain profitable on an ongoing basis

The scope and depth of the examiner's review will be scaled according to the materiality of the CUSO activity request.

After review, examiners determine if the corporate CUSO activity request is complete. If the activity request is not complete, examiners will:

- Draft an incomplete/denial letter
- Informally contact the corporate CUSO to obtain the missing information

If the corporate CUSO activity request is complete, the examiner will:

- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial

- Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any other supporting documentation to their supervisor

### ***Supervisor Responsibilities (Process Request)***

Supervisors will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the ONES mailbox.

### ***DOS Responsibilities (Process Request)***

The delegated authority for approving corporate CUSO activities requires concurrence from E&I and OGC. DOS will review and analyze the recommendation for appropriate support and justification upon receipt of the field's recommendation. Upon concurrence, DOS will:

- Endorse the recommendation
- Provide additional support and justification as needed
- Prepare a concurrence request package for the ONES Director's review and approval

Once E&I and OGC concurrence are received, DOS will prepare the proposed approval letter and forward it to the ONES Director for signature. DOS will email the letter to the corporate CUSO. DOS will then notify the NCUA webmaster to update the Approved Corporate CUSO Activities webpage.

If DOS and/or the ONES Director disagree with the field's recommendation, DOS will:

- Notify the supervisor of the reason(s) for the lack of concurrence, allowing the field to support further or revise their recommendation in the Regional Summary
- Draft a revised correspondence
- Finalize the response letter for the ONES Director's review and signature
- Email the signed letter to the corporate CUSO (copying the examiner and supervisor)

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*Last updated February 2, 2023*

## Monitoring Corporate CUSOs

DOS will maintain a list of corporate CUSOs, approved CUSO activities, and monitor receipt of required quarterly reports as specified on the NCUA website and in the corporate CUSO activity approval letter. The list of corporate CUSOs will be verified with district examiners each quarter to identify changes.

During a CUSO review, examiners will ensure that a CUSO engages only in approved activities. Examiners may consider activities of wholly-owned CUSOs during the corporate's annual examination if the activities are included in the examination scope. Examiners are also responsible for validating the corporate CUSOs listed on the CUSO log each quarter.

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*Last updated July 29, 2015*

## Prompt Corrective Action

PCA for CCUs is designed to restore and improve the capital of CCUs. The principal purpose of NCUA regulation § 704.4, [Prompt corrective action](#), is to define the capital measures and capital levels used to determine appropriate supervisory actions for a CCU that is not adequately capitalized. The relevant PCA capital measures for CCUs are:

- Leverage ratio
- Tier 1 **RBC**<sup>1</sup> ratio
- Total RBC ratio

When a CCU is subject to PCA, the DE will monitor compliance to all applicable provisions of PCA contained in NCUA regulation § 704.4, [Prompt corrective action](#). This section of the NSPM establishes policy and guidelines for CCUs that NCUA staff will follow when completing PCA-related work assignments and examination or supervision of PCA-related issues.

## Category Classifications

Examiners must consider if a CCU meets any applicable risk-based requirements for PCA classification. Examiners will determine the effective date and PCA classification as defined under NCUA regulation § 704.4(d), [Capital meas-](#)

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<sup>1</sup>Risk-Based Capital

[ures and capital category definitions](#), and ensure that assigned CCUs comply with all requirements of § 704.4, [Prompt corrective action](#).

It is important to note a CCU may meet one or two of the “well capitalized” elements in the following table but end up in the “adequately capitalized” category because other elements are below the “well capitalized” thresholds. In addition, a CCU may meet one or two of the “adequately capitalized” elements but end up in the “undercapitalized” category because other elements are below the “adequately capitalized” thresholds.

Capital Category Classification for CCUs	Leverage Ratio	Tier 1 RBC Ratio	Total RBC Ratio
Well capitalized	5% or higher	6% or higher	10% or higher
Adequately capitalized	4% to 4.99%	4% to 5.99%	8% to 9.99%
Undercapitalized	Less than 4%	Less than 4%	Less than 8%
Significantly undercapitalized	Less than 3%	Less than 3%	Less than 6%
Critically undercapitalized	Less than 2%	Less than 2%	Less than 4%

## Effective Date of Classification

At its discretion, **ONES**<sup>1</sup> may provide the examiner with documentation to determine the effective date of classification and/or if a CCU is newly

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term “Regional Director” includes the ONES Director and “associate Regional Director” includes the ONES Deputy Director.

chartered. It is incumbent on the examiner to be familiar with their district information.

In general, the effective date of the capital classification is the most recent date:

- A 5310 Financial Report was required to be filed with the NCUA
- A final NCUA report of examination was delivered to the CCU
- Written notice was provided from the NCUA that its capital category changed as provided in NCUA regulations §§ [704.4\(c\)\(2\)](#) or 704.4(d)(3), [Reclassification based on supervisory criteria other than capital](#)

## Reclassification Based on Correction

The effective date of an examination or supervision contact-based correction to a capital category will vary depending on whether the CCU is federally chartered or state-chartered:

### ***For a Federal CCU***

If the contact involves a report (such as an examination or follow-up examination), the effective date is when the officials receive the final report. If the contact does not involve a report, the effective date will be when the CCU receives the notification letter.

### ***For a Federally Insured Corporate State-Chartered Credit Union***

Consult and work cooperatively with the appropriate SSA official before correcting a FISCU's capital category. NCUA examiners will promptly notify the appropriate SSA of the agency's decision to correct a capital category. The date will depend on whether it was an independent or joint examination.

Activity Type		Classification Effective Date
	Independent examination completed by SSA	Date SSA releases its official examination report
	Joint examination in which the NCUA EIC knows the SSA will be providing a timely examination report to the FISCU	



Activity Type	Classification Effective Date
<p>Joint examination in which SSA may not release its examination report for several months</p> <hr/> <p>Independent insurance review completed by the NCUA</p>	<p>Follow procedure used for FCUs (through a notification letter)</p> <ul style="list-style-type: none"> <li>• Allow the SSA to review the draft notification letter before it is issued</li> <li>• Copy the SSA on the final letter</li> </ul>

### ***Lowering a Classification***

If an examiner recommends lowering a CCU's capital category to anything lower than "well capitalized" based on an examination or supervision contact, the examiner must:

- Obtain supervisor concurrence for lowering the category
- Attach concurrence from the supervisor in the Closed Information Questionnaire of the report
- Document the corrected capital category in the Examination Overview

If the examination or the supervision contact reduces the capital classification to a lower category and a report is not issued to the CCU, the examiner will prepare a draft letter to formally notify CCU officials of the corrected capital category and the required PCA action(s). This should be rare.

In most circumstances, findings resulting in the lowering of a CCU's capital category would be significant, warranting an examination report to the CCU's officials for the administrative record. Examiners should modify the Net Worth Category Reclassification samples letter for use with a CCU. Examiners should

forward the draft letter to the ONES mailbox for processing through their supervisor.

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*Last updated February 2, 2023*

# CUSO Registry

In November 2013, the NCUA issued a [final rule](#) affecting the relationship between credit unions and credit union service organizations. The Board subsequently issued [changes to corporate credit union rules](#) to require the same reporting for CUSOs that have a loan or investment from a corporate credit union.

NCUA regulations part 712, [Credit Union Service Organizations \(CUSOs\)](#), and § 741.222, [Credit union service organizations](#), apply to all federally insured credit unions that have an investment in, or loan to, a CUSO. Section [712.3\(d\)\(4\)](#) requires CUSOs to agree, in writing, to provide information to the NCUA and the appropriate SSA, if applicable, on an annual basis.

The NCUA established the online [CUSO Registry](#) as the official reporting tool for CUSOs, which will report year-end information to the agency through the registry during an annual registration period (February 1 through March 31). The goal of the [CUSO Registry](#) is to obtain accurate information about CUSOs in order to effectively evaluate potential financial and operational risk to credit unions. This information also helps the NCUA identify inter-relationships between credit unions and the CUSOs in which they invest, lend, and do business. As a result, it is imperative that information contained the registry is accurate.

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*Last updated July 31, 2018*

## Exam Staff and Regional Office Responsibilities

When reviewing CUSO relationships, **exam staff**<sup>1</sup> should:

1. Determine if the credit union/CUSO relationships reported in the [CUSO Registry](#) are materially accurate. If registration is outdated or if the registry contains materially inaccurate information:
  - a. **If the credit union is the whole or majority owner of the CUSO**, the examiner should attempt to resolve any CUSO reporting issues or concerns through the credit union. If the credit union/CUSO does not resolve the issue, the examiner will refer the issue to the regional office using the [CUSO Registry Reporting Concerns Form](#). This form is also located in the **MERIT**<sup>2</sup> job aids repository. The regional office will then use the appropriate template to send a letter to the credit union, CUSO, and any other credit union investors or lenders of record. The letter will advise credit unions that invest in or lend to the CUSO to immediately stop making additional investments in or loans to the CUSO until the registration record is corrected.
  - b. **For CUSOs with multiple owners**, the examiner should notify the regional office of any CUSO reporting issues or concerns immediately using the [CUSO Registry Reporting Concerns Form](#). The regional office will use the appropriate template to contact the CUSO and any credit union investors or lenders of record as soon as possible. The letter will ask the CUSO to resolve the reporting issue within 30 calendar days from the initial date of contact. If the CUSO does not resolve the issue, the regional office will use the [CUSO Registry Examination Follow-Up template](#) to send a letter to the CUSO and any other credit union investors or lenders of record. The letter will advise credit unions that invest in or lend to the CUSO to immediately stop making additional investments in or loans to the CUSO until the registration record is corrected.
2. If the review coincides with a credit union exam or contact, document the review in the Scope. The examiner may need to create a Scope Task

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

specifically related to this review. Indicate if any issues were discovered, and document the status of resolution..

If an examiner finds a credit union made a new loan to or investment in a CUSO during a period when the CUSO was not properly registered, this should be reported as an Examiner's Finding in the credit union's exam report.

If an examiner finds a CUSO is in breach of its contract with respect to registering, the examiner will note this as an Examiner's Finding in the credit union's exam report with a reminder that the credit union may not make any new loans to or investments with the CUSO until it comes into compliance. If the issue is corrected during the examination, the examiner should note this in the Examiner's Findings.

Serious or significant recurring issues should be discussed with your supervisor and may warrant a DOR or RD Letter. Any recommended enforcement action beyond a DOR or RDL should include consultation with **OGC**<sup>1</sup>.

## Additional Regional Office Responsibilities

Regional offices will:

- Process [CUSO Registry Reporting Concern](#) forms submitted by exam staff
- Notify **E&I**<sup>2</sup> of any CUSO that fails to comply with reporting requirements
- Coordinate with other regional offices when sending letters to investor/lender credit unions in other regions

*Last updated February 2, 2023*

## CUSO Registry Templates

- CUSO Registry Reporting Concern Form
- CUSO Registry Examination Follow-Up Letter
- CUSO Registry Regional Director Letter to Credit Union Owners or Lenders

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Office of Examination and Insurance

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*Last updated July 31, 2018*

# CUSO Reviews

A CUSO is an organization that one or more FICUs or CUSOs has an investment in or loan to and primarily serves credit unions, credit union members, or both. Sections 107(7)(I) and 107(5)(D) of [the Federal Credit Union Act](#), respectively, establish limits on the amount of investments in and loans to a CUSO that an FCU can make. [Part 712](#) of the NCUA's regulations establishes requirements for when a FCU can invest in and lend to a CUSO; certain sections of part 712 apply to FISCUs. Section 704.11 establishes requirements for corporate CUSOs.

[Section 712.3\(d\)\(3\)](#) of the NCUA regulations requires both FCUs and FISCUs to have a written agreement with a CUSO requiring the CUSO to provide the NCUA, and as applicable the SSA, with complete access to any books and records and allow the NCUA to review internal controls as deemed necessary. This allows the NCUA's review of CUSO operations.

The NCUA lacks direct regulatory authority over CUSOs. However, the NCUA and SSAs (under state statutes) periodically perform independent or joint reviews of CUSOs to ensure compliance with statutory and regulatory requirements, including those in [part 712](#) and [section 704.11](#). These reviews are also designed to ensure that CUSOs do not pose a safety and soundness risk to credit unions and to determine if the CUSO complies with statutory and regulatory requirements for the products and services they provide.

This NSPM section outlines procedures for conducting independent reviews of CUSOs. It also explains how risks in CUSOs will be identified; the process by which independent CUSO reviews will be planned, scheduled, and staffed; and describes how CUSO review reports will be developed, distributed, and maintained.

This section does not address CUSO reviews performed during a credit union examination, which are typically limited in scope to evaluate the risk a CUSO poses to the credit union being examined. Examiners conducting such a review should refer to the [Examiner's Guide](#), the [CUSO Registry review procedures outlined in the NSPM](#), and the Exam Integrated CUSO Review job aid located in the **MERIT**<sup>1</sup> job aid repository.

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*Last updated May 3, 2024*

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

# General Responsibilities Regarding CUSOs

## Exam Staff

Examiners, specialists, and PCOs will:

- Identify potential risks associated with CUSOs based on information gathered during NCUA onsite contacts, examinations, and insurance reviews.
  - Possible examples include real estate loans underwritten by CUSOs without required documentation, inadequate credit presentation of commercial loans underwritten by a CUSO or identified security weaknesses in a CUSO data processing system.
- Recommend a CUSO for independent review through their SE if the examiner, specialist, or PCO believes a CUSO poses significant risk to credit unions. A CUSO may pose a significant risk to credit unions through its operations or the products and services it provides. It may also pose a risk to the credit unions that have an ownership in or loan to the CUSO if not financially stable.
  - If examiners determine the risks are pervasive or serious enough to warrant consideration for scheduling a review outside the annual process, they will make a recommendation to their SE immediately.

A Reviewer-in-Charge will:

- Plan and coordinate the CUSO review with CUSO management, the review team, and the SSA, if they are participating.
- Provide CUSOs a [pre-review letter](#) that outlines goals, staff, timelines, and the document request list at least four weeks before the start of a review.
- Complete the CUSO review outside of **MERIT**<sup>1</sup> using applicable sections of the CUSO review scope workbook.
- Draft the [CUSO review report](#), or for SSA-led reviews, provide the SSA draft summary comments, findings, and loan exceptions, as applicable.

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform



- Communicate preliminary review concerns, findings, and exceptions to CUSO management (after receiving SE concurrence) during an exit meeting at the end of the review.
- Email the draft CUSO review report to their SE within 14 days of completing fieldwork, including all related and required work papers:
  - Scope workbook
  - Final report
  - Closed Section (appendix), if applicable
  - Confidential Section
  - List of CUSO officials and senior management (including individual backgrounds)
  - CUSO's organizational chart
  - Other work papers the reviewer-in-charge considers material
- Meet with CUSO management to discuss the final report, as needed.

## SE and DSA

SEs and DSAs will:

- Coordinate with examiners, specialists, and PCOs to identify CUSOs with operations that may pose potential risk and send recommended independent CUSO reviews to regional management.
  - If SEs or DSAs receive a case from staff that warrants swift attention, they will immediately notify the regional **DOS**<sup>1</sup> director, ARDP, and ARDO.
- Coordinate with the SSA, as applicable, on planned reviews and invite them to participate.
- Coordinate selected CUSO review staffing, including specialists, with the ARDs.

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<sup>1</sup>Division of Supervision

- Review CUSO review reports drafted by an examiner in their group and email the review documents and report to DOS within 14 calendar days of receiving the report.

## Regional Office

RDs will:

- Unless delegated to the ARD(s), select CUSOs for review based on **E&I**<sup>1</sup>, SSA, and regional staff recommendations, a CUSO's overall risk profile, and the availability of staff resources.

ARDs will:

- Coordinate with E&I on the selection of nationally significant CUSO reviews.
  - Coordinate staffing of CUSO reviews.
- Review CUSO review reports before distribution.

DOS will:

- After soliciting CUSO review recommendations from **exam staff**<sup>2</sup>, SEs, and each SSA in the region and coordinating with ARDs on the recommended CUSOs' risk profiles and staff availability, send a list of CUSOs recommended for review and rationale to E&I during the annual resource budgeting process.
- Give E&I the region's CUSO review schedule and expected completion dates by quarter.
  - If the region cannot complete a review of a selected CUSO, the region may request resources from another region or office or defer the review.
- Review draft CUSO reports and coordinate report actions with the reviewer-in-charge and SE.
- Work with the reviewer-in-charge to reach agreement on any suggested changes.

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Coordinate report responses with the CUSO, SSAs, and the reviewer-in-charge.
- Finalize and distribute draft and final reports to internal (regional, central offices, E&I) and external (CUSO, all SSAs that regulate credit unions which use products or services provided by the CUSO, all credit union owners and investors) recipients.
- Upload the Zip file containing the final CUSO review report, Confidential Section, and material examination documents and work papers, such as the scope workbook, to the [E&I SharePoint site for CUSO reviews](#) (See [CUSO Review Report Repository](#) section).
- Email E&I notification of the completed review and a link to the uploaded Zip file.
- Notify E&I of changes to the CUSO review schedule: List any additions or deletions to the original CUSO review schedule for the budget year.
- Before year-end, inform E&I of pending and completed CUSO reviews. Specify the reviews conducted and hours spent on each.
  - For any incomplete reviews, show whether the region still expects the review to be completed within the current budget year, if it will be deferred to the next year, and anticipated completion dates.

## E&I

E&I will:

- Maintain a sound CUSO supervision program.
- Through data available from the [CUSO Registry](#) and CUSO reviews, evaluate CUSO trends and risks, and recommend nationally significant CUSOs for review.
  - Ask applicable offices, the regions, and **ONES**<sup>1</sup> for recommendations of CUSOs for review as a part of the annual resource budgeting process.

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

- Maintain a [CUSO Review Log](#) along with the planned CUSO review list for the current year.
- Maintain an accessible repository of CUSO review reports.

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*Last updated May 3, 2024*

## Selecting, Scheduling, and Resourcing CUSO Reviews

**E&I**<sup>1</sup> will prioritize CUSOs with the potential to pose substantial risk nationally. Factors to consider for national significance include (but is not limited to):

- **Nationwide risk profile:** Identify CUSOs with potential systemic risk implications due to nationwide footprint.
- **Critical services provided:** CUSOs providing essential financial services (for example, data processing, lending, payments) warrant closer scrutiny.
- **Previous reviews:** Prioritize CUSOs where the previous reviewer-in-charge recommended a follow-up exam due to identified risk concerns.
- **Investments and loans:** CUSOs with the largest amounts of investments and loans from credit unions.
- **Asset size:** Focus on CUSOs with significant financial assets under management.

To ensure prompt scheduling of reviews, the CUSO review recommendation and selection process will begin in tandem with the development of the workload budget each year and be finalized after the Board approves the budget.

During the annual resource budgeting process, E&I will solicit recommended CUSOs for review from other offices, the regions, and **ONES**<sup>2</sup> to review CUSOs posing potential risks to credit unions and coordinate reviews with the regions. Regional recommendations should come from examiners, specialists, and PCOs (through their SEs). The region will also solicit recommendations for CUSO reviews from each SSA in the region and will review CUSO Registry reports to identify CUSOs with any wide-ranging regional or national impact.

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

The final selection of CUSOs will be based on potential or emerging risks resulting from the services the CUSO provides, its geographical footprint, and the systemic risk its operation may pose to credit unions regionally or nationwide. E&I will compile and send the final selection of regional CUSO reviews to all regions and ONES.

The region where the CUSO is headquartered will lead the CUSO review. ONES will lead and staff all corporate CUSO reviews. For CUSOs with owners in a single region, that region's ARDs will be responsible for staffing the CUSO review. For CUSOs with cross-regional credit union owners, the ARDs of those regions or ONES will coordinate staffing, allowing examiners from each region to participate on the review. The regions or ONES may request—or E&I may provide—staff resources from E&I or coordinate obtaining resources from ONES for subject matter expertise as deemed necessary.

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*Last updated May 3, 2024*

## Scope of Review

NCUA staff conducting stand-alone CUSO reviews must use the [CUSO review scope workbook](#). The CUSO review scope workbook is not required for follow-up CUSO reviews or reviews of CUSOs conducted as part of the normal examination process. The CUSO review scope workbook includes CUSO review steps common to all CUSOs regardless of service type. These review steps are generally based on requirements outlined in [part 712](#) of the NCUA's regulations.

The CUSO review scope workbook also provides specific review scope steps based on the products or services provided by the CUSO (for example, commercial or MBL, mortgage loan origination, IS&T, investment services, and the like ). While the scope workbook aims to provide more consistency during CUSO reviews, the reviewer-in-charge may customize the scope as needed. Not all scope steps outlined in the workbook are required; each scope should be commensurate with the size and complexity of the CUSO being reviewed. Participants may add scope steps as necessary.

The reviewer-in-charge should generally design the review to determine regulatory compliance, assess the risk to investing or lending credit unions, and assess potential risks to credit unions that use the CUSO's products or services. Examiners can also consult the CUSO section of the [Examiner's Guide](#) for more information regarding the risks CUSOs can pose to credit unions.

CUSO reviews are conducted outside of **MERIT**<sup>1</sup>. **DOS**<sup>2</sup> is responsible for uploading the Zip file containing all review documents and workpapers to the **E&I**<sup>3</sup> SharePoint site for CUSO reviews. E&I is responsible for updating the [CUSO Review Log](#) of CUSO reviews.

## Exit Meeting

The reviewer-in-charge will meet with CUSO management to discuss all material concerns (with SE concurrence) before departure. The reviewer-in-charge should seek agreement from management to any proposed corrective actions and document this agreement in the Confidential Section.

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## CUSO Review Report and Workpapers

A CUSO review report must include seven specific sections (if applicable to the CUSO):

- Cover page
- Review summary
- Review findings and recommended corrective actions (when applicable)
- Loan exceptions (if applicable)
- [Management response](#)
- Closed Section, if applicable (provided to the CUSO, but not distributed to credit unions that invest in or loan to the CUSO)
- Confidential Section (not included in draft or final report provided to CUSO officials)

The reviewer-in-charge will format the required sections using the [CUSO review report template](#). CUSO review reports must include the following information, which the reviewer-in-charge can provide in any of the report's open sections:

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Division of Supervision

<sup>3</sup>Office of Examination and Insurance

- CUSO's background information
- List of credit unions that invest in or loan to the CUSO, and the percentage of ownership for each credit union listed. This may be provided in an appendix to the report for CUSOs with a large number of credit union investors and lenders
- [Scope of review](#)
- List of services offered by the CUSO
- CUSO's financial data and trends (the reviewer-in-charge can use the [CUSO Financial Template.xlsx](#) worksheet to incorporate information and trends into the report at their discretion)
- Region performing the review
- Reviewer-in-charge and exam team performing the review
- SSA exam team performing the review (if applicable)
- Any findings and loan exceptions

The reviewer-in-charge has flexibility in developing the overall content of the CUSO report and may include more documents in the report as attachments or appendices. Other documents should be consistently formatted with the [CUSO review report template](#).

**Reports provided to investors and lenders should not include PII<sup>1</sup> or information that may be considered trade secret, proprietary, or could expose a CUSO to more risk** (for example, information related to security controls). If necessary, reviewer-in-charge will document this type of information in a "Closed Section" appendix to the CUSO review report. The Closed Section appendix will be provided to the CUSO but will not be distributed to credit unions that invest in or loan to the CUSO. Any account numbers linked to a particular member in the Closed Section should be truncated to the number's last four digits.

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*Last updated May 3, 2024*

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<sup>1</sup>Personally identifiable information

## Distributing a Draft Review Report

The reviewer-in-charge will forward the draft CUSO review package to their SE for initial review. At a minimum, the CUSO review package will include:

- CUSO review scope workbook
- CUSO review report (including any attachments and appendices)
- List of CUSO officials or senior management (including individual backgrounds)
- CUSO's organizational chart
- Closed Section (appendix), if applicable
- Other work papers the reviewer-in-charge considers material

Upon review and approval, the SE will forward the draft report to **DOS**<sup>1</sup> Mail. DOS will log the item and review it within 14 calendar days. The responsible DOS analyst, working with the reviewer-in-charge and their SE, will review, edit, and clarify the report as necessary. DOS will coordinate any recommended changes to the report with the reviewer-in-charge.

Once the draft report has been reviewed by DOS and the ARD(s) and agreed-upon changes have been made, DOS will mark the report "Draft" and send it to any SSA that participated in the review. DOS will not provide the draft report for comment to any SSA that did not participate in the review.

The DOS analyst will use the [Draft Report Cover Letter to SSA](#) template to develop a draft report transmittal letter to the SSA. The letter establishes a 15 calendar-day response date and indicates the NCUA will assume the SSA accepts draft report content as provided if a response is not provided within 15 calendar days. The DOS analyst working with the reviewer-in-charge will revise the draft report based on any SSA responses provided.

Once SSA comments are received and incorporated into the draft report by DOS (or if no SSA participated in the review), DOS will send a copy of the report to CUSO management with a copy to the reviewer-in-charge and SE or **DSA**<sup>2</sup>. The DOS analyst will use the [Draft Report Cover Letter to CUSO](#) template to create a transmittal letter for the draft report. This letter will request

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<sup>1</sup>Division of Supervision

<sup>2</sup>Division of Special Actions, discretionary supervisory actions, or Director of Special Actions



CUSO management provide comments regarding review content and responses to all findings and recommended corrective actions within 15 calendar days of receipt.

Certain reports may be issued jointly with or through the SSA, which will require alteration of these processes and negotiation with the particular SSA. Template letters may need to be amended to include the SSA's logo, signature, and related information as appropriate.

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## Management Response

**DOS**<sup>1</sup> will forward a copy of any CUSO management responses to the draft report to the reviewer-in-charge. The reviewer-in-charge will review the responses within ten calendar days of receipt to determine if they are enough to address all concerns. The reviewer-in-charge, DOS, and SSA staff (if applicable) will coordinate with CUSO management regarding the responses as necessary.

If a CUSO is unable or unwilling to respond to the NCUA, the agency will issue the report, noting that the CUSO did not provide a response. The reviewer-in-charge will work with CUSO management to a reasonable extent to ensure the sufficiency of management's response. If no agreement can be reached, the finalization and distribution of the report will be handled on a case-by-case basis in consultation with regional management.

Once the reviewer-in-charge and DOS agree that management's responses are adequate, DOS will add management's responses to the appropriate response section of the [CUSO Review Report](#). Once the report has been updated with management responses, DOS will provide a copy to the reviewer-in-charge, coordinate with the reviewer-in-charge to determine whether a management conference will be held with CUSO officials, and distribute the final report.

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*Last updated on May 3, 2024*

## Distributing a Final Review Report

After the final report has been updated with management responses from reviewing the draft report, **DOS**<sup>2</sup> will finalize and distribute the report. The

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<sup>1</sup>Division of Supervision

<sup>2</sup>Division of Supervision

CUSO, its FICU lenders and investors, and SSAs, as described in more detail below, receive a copy of the report. Credit union customers without an investment in or loan to the CUSO do not receive a copy of the report. Reports provided to investors and lenders, and in some cases SSAs who do not supervise any of the owner credit unions, should not include:

- the Closed Section,
- the Confidential Section,
- personally identifiable information or
- information that may be considered trade secret, proprietary, or could expose a CUSO to more risk (for example, information related to security controls).

If necessary, the reviewer-in-charge will document this type of information in the Closed Section appendix to the CUSO review report. The Closed Section appendix will be provided to the CUSO but will not be distributed to credit unions that invest in or loan to the CUSO.

During a CUSO review, some identified issues may need to be addressed directly with individual credit unions that invest in or lend to the CUSO. For example, if a FCU is over the statutory limit for investments in or loans to the CUSO, or if a credit union lacks written agreement with the CUSO as required by regulation, the issue should be addressed directly with the credit union. When reviewing finalized CUSO reports, DOS will bring all such concerns to the attention of the SE and to the assigned examiner of the credit union(s) that invest in or lend to the CUSO.

DOS will distribute the appropriate versions of the report as outlined below:

Cover Letter	Recipient
<a href="#">Final Report Cover Letter to CUSO</a>	CUSO officials
<a href="#">Final Report Cover Letter to All Investors and</a>	Credit union officials of each FICU that invests in or loans to the CUSO. The cover letter to all investors and lenders can be used if multiple investors and lenders will receive the report.

Cover Letter	Recipient
<a href="#">Lenders</a>  Or  <a href="#">Final Report Cover Letter to Individual Investors and Lenders</a>	
<a href="#">Final Report Cover Letter to All SSAs</a>  Or  <a href="#">Final Report Cover Letter to Individual SSA</a>	All SSAs (inside or outside the coordinating region) that regulate credit unions which use products or services provided by the CUSO per signed information sharing agreements. (Get the list of affected SSAs from the CUSO Registry information.) The cover letter to all SSAs can be used if multiple SSAs will receive the final report.
N/A	<ul style="list-style-type: none"> <li>• Regional SEs, DSAs and DEs, ARDO, ARDP, and DOS director</li> <li>• All other regional DOS mailboxes when the CUSO serves customers in those regions</li> <li>• E&amp;I<sup>1</sup></li> </ul>

*Last updated May 3, 2024*

## Management Conference

Once **DOS**<sup>2</sup> has distributed the final report to internal (regional, central offices, **E&I**<sup>3</sup>) and external (CUSO, all SSAs, all credit union owners and investors) recipients, the reviewer-in-charge or SE may schedule a management conference with CUSO officials. This conference will normally be held with the CUSO board of directors or key management depending on the

<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Division of Supervision

<sup>3</sup>Office of Examination and Insurance

severity of the issues noted during the review. While this conference is not mandatory, the reviewer-in-charge or SE will request it if:

- The CUSO review report identified material issues, or
- CUSO management requests a conference (management will be provided the option to hold a conference if the CUSO review does not identify material issues)
- If scheduled, this conference should be held within 30 calendar days of issuing the final report to the CUSO.

Depending on the severity of the issues and the response of the CUSO's management team, the reviewer-in-charge may need to schedule a conference with CUSO officials before the distribution of the report to discuss proper corrective action. The reviewer-in-charge should discuss this option with, and get concurrence from, their SE prior to scheduling.

Even if the SSA is not involved with the review, DOS should extend an invitation to the appropriate SSA to attend the management conference (if scheduled) with CUSO officials. This should only occur when the CUSO has state-chartered credit unions that invest in or loan to the CUSO or are provided products and services by the CUSO. In these cases, DOS should provide a copy of the final review report to the SSA at least three business days before the scheduled meeting to allow the SSA enough time to review the final report.

If a conference is held, the reviewer-in-charge will review report content, discuss all material concerns, and document any agreements beyond what is included in management's response in the Confidential Section. If the Confidential Section is updated, the reviewer-in-charge must submit the updated information to DOS, and DOS will update the Zip file on E&I's CUSO SharePoint site.

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*Last updated May 3, 2024*

## CUSO Follow-Up Reviews

CUSO follow-up reviews can be conducted when directed by the SE or **DSA**<sup>1</sup> or other senior NCUA management. The reviewer-in-charge conducting the follow-up contact will use their discretion in developing both the content and the format of the follow-up review report. At a minimum, however, the follow-up

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<sup>1</sup>Division of Special Actions, discretionary supervisory actions, or Director of Special Actions

review report will address action taken by the CUSO officials on the recommended corrective actions outlined in the original CUSO review report.

Once the draft follow-up report is finalized, the reviewer-in-charge will forward a copy of the report to their SE for initial review. The SE will review the report within 14 calendar days, and upon approval, forward the draft follow-up report to **DOS**<sup>1</sup> Mail. DOS will log the item and review it within 14 calendar days. The responsible DOS analyst, working with the reviewer-in-charge and their SE, will review, edit, and clarify the report as necessary. The ARD and RD will review the follow-up report before distribution.

Once the follow-up report is finalized, DOS will distribute the follow-up report in accordance with [distribution procedures outlined in the NSPM](#) and ensure upload of the final follow-up review report in accordance with the [procedures outlined in the NSPM](#).

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*Last updated May 3, 2024*

## CUSO Review Report Repository

**E&I**<sup>2</sup> will maintain a [CUSO SharePoint site](#), which will serve as the central repository for all CUSO reviews. CUSO reviews on the site are organized by EIN number.

Once regional **DOS**<sup>3</sup> has distributed the final CUSO review report, DOS staff will upload a compressed file (zip file) of the review to the [CUSO SharePoint site](#) and send an email to [E&I Mail](#) and to all other regional DOS mailboxes to alert them to the upload.

To ensure consistency, DOS will:

- Add a statement in the body of the email showing whether a follow-up review is recommended
- Zip all CUSO review files so that only one file for each separate CUSO review is uploaded to the system
- Name the Zip file as follows: YYYYMM\_EIN, where 'YYYYMM' is the effective date (for example, a CUSO with an EIN of 987654 and an examination effective date of June 30, 2023, would be named 202206\_987654.zip)

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<sup>1</sup>Division of Supervision

<sup>2</sup>Office of Examination and Insurance

<sup>3</sup>Division of Supervision

- Include all documents provided in the final CUSO review package:
  - Scope workbook
  - Final report
  - Closed Section (appendix), if applicable
  - Confidential Section
  - List of CUSO officials or senior management (including individual backgrounds)
  - CUSO's organizational chart
  - Other work papers the reviewer-in-charge considers material

EINs must be accurate, because the EIN is the primary identifier for the CUSO. DOS will upload the Zip file to the appropriate EIN folder or create a new folder using the CUSO EIN if one does not already exist. For example, a CUSO with an EIN of 987654 would have a folder identified as 987654 (with no other characters in the name). All CUSO reviews will be housed in a folder using the EIN.

E&I staff will amend the master EIN or CUSO list if necessary and ensure appropriate links are maintained to CUSO files.

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*Last updated May 3, 2024*

## State Supervisory Authorities & CUSO Reviews

CUSO reviews may be performed jointly with or independently by an SSA. For joint reviews, the agency that initiates the review is typically in charge of the review.

SSAs may conduct CUSO reviews and issue CUSO review reports independently and may provide a copy of the review report directly to the NCUA regional offices.

For independent SSA CUSO review reports, a **DOS**<sup>1</sup> analyst will prepare a report summary outlining areas of concern and any conclusions based on the report. The depth and breadth of this review will depend on the CUSO's nature.

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<sup>1</sup>Division of Supervision

DOS will route their review comments and a copy of the SSA report to the DOS director, ARDP, and ARDO for comments. The DOS analyst will post the final review report and comments to the [CUSO SharePoint site](#) in the same manner as a review completed by the NCUA within 30 days of receipt and email **E&I**<sup>1</sup> Mail notification of the SSA's completed review and a link to the Zip file. In addition, the DOS analyst will give a copy of the final SSA report and summary to regional SEs and DSAs.

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*Last updated May 3, 2024*

## CUSO Review Templates

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*Last updated May 3, 2024*

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<sup>1</sup>Office of Examination and Insurance

## Derivatives Authority

NCUA regulation part [703 Subpart B, Derivatives](#) allows FCUs to enter into derivative transactions exclusively to manage interest rate risk. FCUs with over \$500 million in assets and a NCUA Management **CAMELS**<sup>1</sup> component rating of 1 or 2 (notification credit unions) are required to notify the applicable RD within five business days after entering into its first derivative transaction. All other FCUs are required to apply and obtain approval before engaging in derivatives (application credit unions).

NCUA regulation § [741.219\(b\)](#) requires FISCUs to notify the applicable NCUA RD in writing within five business days after entering into its first derivative transaction.

The standards in this section ensure the NCUA maintains consistent documentation for the administrative record.

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*Last updated March 25, 2022*

## Roles and Responsibilities

To ensure the quality and consistency of the agency's approval of derivatives applications and receipt/acknowledgement of derivative notifications, NCUA staff will perform the tasks outlined in this NSPM section. Staff will maintain administrative records and documents related to applications and notifications for all FCUs and FISCUs in the [Derivatives Information Administration Log \(DIAL\)](#), which is maintained on SharePoint.

- [Regional Office Responsibilities](#)
- [Exam Staff Review Responsibilities](#)
- [Regional Director Responsibilities](#)

## Regional Office Responsibilities

- Ensure credit union applications and notifications are processed as per NSPM instructions

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk



- Create and maintain the [Derivatives Information Administration Log \(DIAL\)](#) using the standards set forth in this section, to ensure DIAL reflects accurate information for all:
  - Applications and appeals received from FCUs
  - Notifications of derivative activity received from FISCUs, and FCUs with assets over \$500 million with a NCUA Management CAMELS-component rating of 1 or 2
  - NCUA derivatives approvals granted, revoked, or denied
  - Supporting documentation for approvals and denials
  - Acknowledgments of credit union applications, notifications and appeals submitted to the NCUA
- Assign office staff to determine the eligibility for notification and completeness of derivatives applications
- Assign office staff to evaluate the safety and soundness of FCUs that apply for derivatives authority
- Notify FCUs of incomplete applications
- Notify FCUs of application approvals (RD)
- Assign regional **exam staff**<sup>1</sup> to each application
- Ensure systems and controls are in place to meet the standards of this section

## Exam Staff Review Responsibilities

The reviewer(s) includes at a minimum, a Regional Capital Markets Specialist, a **ONES**<sup>2</sup> Capital Markets Specialist, or a Capital Markets SME. The reviewer(s) responsibilities include:

- Conduct a qualitative review of each assigned derivatives application consistent with the requirements of part 703, subpart B of the NCUA regulations

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

- Document the review using the Derivatives Authority Application Qualitative Review Checklist
- Recommend assigned derivatives application be approved, in part or in whole, or denied
- Coordinate approval recommendation to the RD

## Regional Director Responsibilities

- Approve only those applications for derivatives authority for FCUs that demonstrate they have established sound systems, processes, and personnel to manage such a program effectively and in compliance with NCUA regulations
- Act on credit union applications in accordance with the policies and procedures set out in related supervisory guidance and in this section

*Last updated March 25, 2022*

## Derivatives Application Review Procedures (Application Credit Unions)

### Derivatives Authority

The NCUA processes applications for derivatives authority as described below. The regional office will consult with the appropriate **exam staff**<sup>1</sup> (District Examiner, Problem Case Officer, Examiner, and/or Specialized Examiner) as necessary to process an application for derivatives authority.

Application / Processing Workflow		Primary Owner(s)
1.	<a href="#">Log and acknowledge the derivatives application.</a>	Regional office <sup>2</sup>
2.	<a href="#">Initial application review.</a>	
3.	Assign reviewer(s) for the derivatives application.	
4.	<a href="#">Review derivatives application and make a written recommendation to the Regional Director.</a>	Reviewer(s)

<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>"Regional offices" includes ONES (unless otherwise specified)

Application / Processing Workflow		Primary Owner(s)
5.	<a href="#">Approve or deny application and notify credit union.</a>	RD

## Log and Acknowledge the Derivatives Application (Regional Office)

Upon receipt of an application for derivatives authority, the regional office will create and maintain the electronic [Derivatives Information Administration Log \(DIAL\)](#) to track the application.

Once an application has been logged, the regional office will send a letter to the credit union to acknowledge the application. The region will acknowledge a derivatives application using the [Acknowledge Application for Derivatives Authority](#) template. The regional office will deliver the acknowledgment using the region's or **ONES**<sup>1</sup> preferred expedited mail delivery, and will provide a copy to:

- **CEO**<sup>2</sup>
- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)
- Exam supervisor (SE, National Field **Supervisor**<sup>3</sup>, or Director of Special Actions)
- Reviewer(s)

## Initial Application Review (Regional Office)

Within ten (10) calendar days of receiving an application for derivatives authority, the regional office will determine if the application is complete. If a credit union has submitted an incomplete package, the regional office will send it a letter indicating which item(s) are missing from the application (see the [Respond to Incomplete Application for Derivatives Authority](#) template).

<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Chief Executive Officer

<sup>3</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

The RD will deliver the appropriate notice using the region or ONES's preferred expedited mail delivery, and will provide a copy to:

- CEO
- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)
- Exam supervisor (SE, National Field Supervisor, or Director of Special Actions)
- Reviewer(s)

## Assign Reviewer(s) for the Derivatives Application (Regional Office)

For each application submitted by a FCU, the regional office will assign reviewers and forward the application materials for review. The review panel consists of at least one member. The table below contains additional information about the selected reviewer(s).

Employee	Role	Assigned by
At least one regional examiner [reviewer(s)]	Conducts qualitative review of each assigned derivatives application and makes joint recommendation to approve or deny derivatives authority	Regional office or ONES

The regional office will provide the reviewer(s) with a [Derivatives Authority Qualitative Review Checklist](#) that reflects the completed eligibility review and safety and soundness evaluation.

Upon assigning an application for evaluation by the reviewer(s), the regional office will notify the following by email:

- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)
- Exam supervisor (SE, National Field Supervisor, or Director of Special Actions)
- Reviewer(s)

## Review the Derivatives Application [Reviewer(s)]

The reviewer(s) document the review of a credit union's application for derivatives authority using an electronic copy of the [Derivatives Authority Application Qualitative Review Checklist](#), maintained on the derivatives SharePoint site.

All reviews must be accompanied by a completed checklist that supports the recommendation to approve or deny the requested derivatives authority. At a minimum, the reviewer(s) must assess all the elements required by regulation in accordance with the provisions set forth in this section. The reviewer(s) may conduct an on-site visit as a component of an application for final derivatives authority. The reviewer(s) may contact the credit union directly to request additional material(s) as necessary for review.

If the application is substantively incomplete, and the reviewer(s) is unable to contact the credit union directly, or a credit union is unable to provide requested materials, the reviewer(s) will coordinate with the regional office to send the credit union a notice that the application is incomplete. This notice will list the additional document(s) and/or information required to complete the material for consideration (see the [Respond to Incomplete Application for Derivatives Authority](#) template).

### Derivatives Authority

The regional office will deliver this notice using the office's preferred expedited mail delivery, and will provide a copy to:

- CEO
- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)
- Exam Supervisor (SE, National Field Supervisor, or Director of Special Actions)
- Reviewer(s)

Once the application is complete, each reviewer(s) will document their review and recommendation to approve or deny the application using the [Derivatives Authority Qualitative Review Checklist](#). Once completed, the reviewers will coordinate, if more than one reviewer, their joint recommendation with the exam supervisor and submit it to the regional office director. The RD makes

the final determination to approve or deny each application for derivatives authority, in part or in whole.

The timelines for completing the review vary based on the type and complexity of the application a credit union has submitted:

Activity	Application Time Allotment, in Calendar Days
Confirm credit union eligibility and review credit union's safety and soundness (regional office)	10 days
Conduct and document qualitative review of application; document and route panel recommendation to approve or deny application to RD [reviewer(s)]	100 days
Make final determination of application approval or denial and notify credit union (RD)	15 days
TOTAL	Up to 125 days

If the reviewer(s) determines that additional time is necessary, the reviewer(s) will notify the regional office. The regional office will then provide the credit union the expected completion timeframe. Please note these timeframes are for the NCUA's internal planning purposes, and do not entitle a credit union to a decision by a specific date.

## Approve or Deny Application and Notify Credit Union (Regional Director)

After evaluating the recommendation of the reviewer(s), the RD will decide whether to approve or deny a credit union's application for derivatives authority. The regional office will notify a credit union of the agency's approval or denial for derivatives authority within 15 calendar days of receiving a recommendation from the reviewer(s).

The RD will send the appropriate notice listed below using the regional office's preferred expedited mail delivery, and will provide a copy to:

- CEO
- **E&I**<sup>1</sup> (Director of Capital Markets)
- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)
- Exam Supervisor (SE, National Field Supervisor, or Director of Special Actions)
- Reviewer(s)

### ***NCUA issues approval***

The RD will send the credit union a letter indicating the NCUA has granted derivatives authority (see the [Approve Derivatives Authority](#) template). This must indicate which derivatives product(s) and/or product characteristic(s) have been approved.

### ***NCUA issues denial***

The RD will send the credit union a letter indicating the NCUA has denied the application for derivatives authority (see the [Deny Application for Derivatives Authority](#) template). This letter must indicate the reason(s) for the denial and inform the credit union of the option to appeal the denial directly to the NCUA Board.

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*Last updated March 25, 2022*

## **Derivatives Application Appeal Process**

A FCU may submit an appeal to the NCUA Board within 60 calendar days of receiving notification that the NCUA has denied derivatives authority. The denial letter provided by the NCUA will inform the credit union of its right to appeal the decision directly to the NCUA Board. NCUA staff will not discourage a credit union from filing an appeal.

A credit union must submit an appeal in writing. The request for appeal should address the specific reason(s) the NCUA should reconsider its decision and must include any relevant material previously submitted. For more information, see NCUA regulation part 746, [Appeals Process](#).

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<sup>1</sup>Office of Examination and Insurance

The regional office will create and maintain the [Derivatives Information Administration Log \(DIAL\)](#) of all appeals to maintain accurate records that reflect the actions described in this section.

Once an appeal is logged, the Secretary of the Board will send a letter to the credit union to acknowledge the appeal (see the [Acknowledge Appeal](#) of Derivatives Authority template) and provide a status update.

The RD will provide the Board an analysis of the appeal and recommend a disposition. The NCUA Board will evaluate the appeal and determine the appropriate action. The Board may request an analysis and recommendation regarding the appeal from **E&I**<sup>1</sup>, review documentation previously provided by a credit union during the application process, and/or consult with staff when reviewing an appeal. Upon determining the appropriate action, the Board will notify the RD of its decision.

The Secretary of the Board will send the credit union a notice indicating the NCUA Board's decision. For a denial, the Secretary of the Board will send the credit union a letter indicating that the appeal has been denied (see the [Deny Appeal](#) for Derivatives Authority template). This notice must indicate the reason(s) for the denial.

The Secretary of the Board will send the notice using their preferred expedited mail delivery, and will provide a copy to:

- E&I (Director of Capital Markets)
- RD
- Regional **DOS**<sup>2</sup> mail
- **CEO**<sup>3</sup>
- Exam staff (District Examiner, Problem Case Officer, Examiner, or Specialized Examiner)

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Division of Supervision

<sup>3</sup>Chief Executive Officer



- Exam **Supervisor**<sup>1</sup> (Supervisory Examiner, National Field Supervisor, or Director of Special Actions)
- Reviewer(s)

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*Last updated March 25, 2022*

## Derivative Notification Procedures (FISCUs and FCUs with Assets over \$500 million and a CAMELS Management Component Rating of 1 or 2)

The NCUA's derivative rule applies specifically to FCUs. The process for a FISCU to receive authority to use derivatives varies by state. A FISCU may have derivatives authority under a state parity provision or by following applicable state regulation with permission from the applicable SSA. State parity provisions are reflected in state regulation or statute, and generally permit a FISCU to operate under the same authority as federally chartered credit unions.

The NCUA's derivative rule allows FCUs with assets over \$500 million and a **CAMELS**<sup>2</sup> Management component rating of 1 or 2 (Notification FCUs) to notify the NCUA within five business days after they have entered into their first transaction.

All FISCUs and Notification FCUs must notify the NCUA in writing within five business days of engaging in its first derivatives transaction. The NCUA Notification of Derivatives Activity outlines the information a FISCU and Notification FCU must report in the notification. If this information is not received, the region will contact the credit union to obtain the necessary information.

A FISCU or Notification FCU must submit the required notification via electronic mail. The director of the applicable regional office (typically the **DOS**<sup>3</sup>)

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<sup>1</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Division of Supervision

will coordinate the receipt and processing of notifications of derivatives activity received from a FISCO or Notification FCU and notify **exam staff**<sup>1</sup>.

The NCUA will log and track each notification it receives from a FISCO or Notification FCU. Upon receipt, each notification will be entered into the [Derivatives Information Administration Log \(DIAL\)](#) and assigned a number. The official log will be maintained on SharePoint and organized separately for each regional office. Also, the region will send the credit union an acknowledgement letter using the Acknowledge Notification of Derivatives Activity template.

The information reflected in DIAL is the NCUA's official record of the FISCUs or Notification FCUs that have notified the NCUA of their use of derivatives.

## Negative Change in Condition, Regulatory Violations, or Unsafe and Unsound Condition

The NCUA's derivative rule addresses scenarios where an FCU must cease entering into new derivative transactions:

- NCUA regulation § 703.108(d), [Change in condition](#), addresses a FCU's negative change in condition causing it to no longer meet the requirements of § 703.108(a), [Notification](#), or the FCU renders its approved application inaccurate. The negative change in condition for Notification FCUs includes an asset decline below \$500 million or a decline in NCUA Management CAMELS component below a 2. For Application FCUs, the negative change of condition may range from the FCU no longer employing qualified staff to transacting in non-approved derivative transactions.
- NCUA regulation § 703.109, [Regulatory violation or unsafe and unsound condition](#), addresses a FCU's regulatory violations of unsafe and unsound conditions as determined by the RD.

Under the negative change in condition, the FCU must notify the applicable RD of the change in condition. Under the regulatory violation or unsafe and unsound conditions, the RD must provide the FCU with written notice of the regulatory violation or unsafe and unsound conditions.

In either case, the RD must determine if any remedial actions are required, and notify the FCU of the decision using the RD Change in Condition template

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

or RD Regulation-Safety and Soundness template. The RD's actions may vary from no action (allow FCU to continue its derivative activities) to revoking the FCU's authority to engage in derivative transactions. A FCU may appeal the revocation decision in accordance with NCUA regulation part 746, [Appeals Process](#).

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*Last updated March 25, 2022*

## Derivatives Monitoring and Controls

### Regional Office Reporting Responsibilities

- Maintain a list of the derivatives authorities granted, revoked, and denied for FCUs on SharePoint in the [Derivatives Information Administration Log \(DIAL\)](#). Notifications received from FISCUs and Notification FCUs will also be logged and maintained in the DIAL on SharePoint.
- Maintain a list of FISCU and Notification FCUs that have provided notification of their first derivative transaction.
- Maintain electronic supporting documentation for each approval/denial of derivatives authority and provide reports that track all derivatives authorities as needed.
  - Records must be updated monthly.

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*Last updated March 25, 2022*

## Derivatives Authority Templates

### General

- Acknowledge Application for Derivatives Authority
- Approve Derivatives Authority
- Derivatives Authority Application Qualitative Review
- Derivatives Information Administration Log (DIAL)
- NCUA Notification of Derivatives Activity
- Regional Director—Change in Condition
- Regulation—Safety and Soundness
- Respond to Incomplete Application for Derivatives Authority

## **Appeals**

- Acknowledge Appeal
- Deny Appeal

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*Last updated March 25, 2022*

# Dishonesty, Fraud, and Insider Dealings

Black's Law Dictionary defines fraud as a "knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment."<sup>1</sup> While fraud may or may not result in a loss to a credit union, any unfair or unlawful gain or fraudulent activity should be stopped, investigated, and reported.

## Roles & Responsibilities

This content is redacted.

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*Last updated October 30, 2023*

<sup>1</sup>Black's Law Dictionary, 8th ed., s.v. "fraud."

## Level 1 Fraud Response

This content is redacted.

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*Last updated August 17, 2021*

## Level 2 Fraud Response

This content is redacted.

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*Last updated November 09, 2021*

## Other Fraud Response

This content is redacted.

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*Last updated August 17, 2021*

## E&I-Directed Fraud Contact

This content is redacted.

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*Last updated August 17, 2021*

## Fraud Indicator Report

This content is redacted.

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*Last updated August 17, 2021*

## **Fraud Hotline Investigations**

This content is redacted.

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*Last updated August 17, 2021*

# District Management

District management encompasses the comprehensive objective of managing and maintaining continuous and detailed knowledge of an assigned district of credit unions. This includes ongoing financial analysis, knowledge of local economic condition, knowledge of current events affecting assigned credit unions, identification of emerging risks, and the routine reporting to management on these issues. The ongoing reevaluation of supervision plans based on this analysis is needed to effectively match resources to risks.

District management also includes the scheduling, the prioritizing, and the administrative tasks associated with the examiner position. Examiners are responsible for effectively managing risk within their districts by scheduling examinations/supervision contacts based on current and emerging risks. Examiners will document supervision and keep their supervisor apprised of any significant issues affecting their ability to provide adequate supervision to assigned credit unions. Effective district management includes the collaboration of examiners, supervisors, regional offices, and the central office to provide risk-focused supervision and mitigate losses to the **NCUSIF**<sup>1</sup>.

## Examination and Supervision Program

The standards established in the NSPM are designed to sustain a high-quality examination and supervision program that:

- Identifies and mitigates current and emerging risks to the NCUSIF
- Evaluates credit union compliance with applicable laws and regulations
- Initiates appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitates timely resolution of supervisory concerns

Supervision includes, but is not limited to:

- Examinations
- Insurance reviews
- Follow-up examinations

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

- Onsite contacts
- Offsite contacts
- Offsite monitoring
- Trending analysis (for example, Call Report/FPR Trending)

Supervision efforts will vary depending on the size of the credit union, the risk to the NCUSIF, and other applicable circumstances.

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*Last updated June 23, 2023*

## General Supervision Responsibilities

"Supervision" encompasses all examinations, onsite contacts, and offsite contacts performed at credit unions, as well as the documentation of an administrative record. Specific responsibilities are outlined in more detail in the following sections:

- [E&I Responsibilities](#)
- [Regional Director Responsibilities](#)
- [Supervisor Responsibilities](#)
- [Exam Staff Responsibilities](#)

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*Last updated July 29, 2015*

## E&I Responsibilities

**E&I**<sup>1</sup> will monitor national status and trends based on quarterly reports prepared by the regional offices. E&I is also responsible for:

- Establishing the national examination scope with regional input
- Evaluating the quality of the credit union examination program
- Collecting and monitoring information on emerging risks, resources, and program quality
- Establishing new examination and quality assurance procedures
- Monitoring overall national trends to ensure a high quality examination program with the objective of minimizing risk to the **NCUSIF**<sup>2</sup>

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.



E&I is responsible for the overall adherence to established standards outlined in this manual, the [Examiner's Guide](#), and other national issuances including **CAMELS**<sup>1</sup> and risk ratings. E&I will also monitor the national status and trends of supervision efforts. E&I will use this information to evaluate risk mitigation and control, identify weaknesses in the supervision processes, and develop and deploy (with regional input) revised supervision policies and procedures.

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*Last updated January 27, 2016*

## Regional Director Responsibilities

RDs are responsible for mitigating losses to the NCUSIF, identifying emerging risk trends, and taking proactive steps to correct problems. In addition, RDs are responsible for measuring and monitoring the regional examination program for quality and completeness, as well as adherence to established standards including CAMELS and risk ratings. They will work with supervisors to ensure appropriate specialized resources are provided for institutions that represent a significant risk to the NCUSIF. RDs will report quarterly to E&I regarding the status of their examination programs including adherence to examination and supervision standards.

Until a national database or tool is developed, regions will continue to use reporting systems currently in place. **Regions**<sup>2</sup> should ensure their current systems capture the requested information.

The RD is also responsible for monitoring and evaluating overall supervision efficiency, effectiveness, and timeliness. The RD will monitor supervision efforts through the quality control review process and various available reporting tools, including self-designed monitoring reports. He or she will report on their high-risk credit unions via the monthly management report, High Risk Pipeline Reports and other methods as they become available.

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*Last updated July 29, 2015*

## Supervisor Responsibilities

Supervisors are responsible for managing risks within their groups and mitigating losses to the NCUSIF. Supervisors must ensure

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

examination/supervision contact reports are high quality, results-oriented work products that:

- Properly identify and rate significant risks
- Assign appropriate CAMELS and risk ratings
- Reflect a complete administrative record
- Develop appropriate plans to correct major problems

Supervisors are responsible for ensuring that examinations/supervision contacts are scheduled, conducted, and completed appropriately. Supervisors will facilitate scheduling for team examinations and request appropriate specialized resources are provided for institutions that represent a significant risk to the NCUSIF.

Supervisors are also responsible for ensuring examiners complete results-driven supervision and provide the proper level and type of supervision for each credit union. Supervisors will ensure examiners properly schedule supervision contacts, within the appropriate timeframes given the conditions unique to each credit union. Supervisors will ensure extension requests are reasonable and justifiable and will not unduly jeopardize credit union operations or risk to the NCUSIF.

Supervisors will use a variety of tools (including, but not limited to, **MARS**<sup>1</sup>, risk reports, Call Reports, and regional reports) to ensure assigned credit unions receive the proper results-oriented supervision on a timely basis. Supervisors will be responsible for reporting on the highest risk credit unions in their group to their regional office on a regular predefined interval using established forms, methodologies, and systems (for example, High Risk Pipeline Reports, critical cases, etc.).

The agency supports providing staff with flexibility to conduct examination work offsite when appropriate. Exam staff may voluntarily request to work offsite, including from their residence. When determining whether to approve requests to work offsite, supervisors will consider the following (including, but not limited to):

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<sup>1</sup>Management Automated Resource System

- Whether the work can be effectively accomplished offsite
- If the proposed alternate worksite is suitable (such as the work can be done in accordance with agency data security requirements)
- Any developmental or supervisory oversight needs for the examiner
- The needs of the EIC in conducting and managing a team exam
  - For team exams, supervisors will consult with the EIC before approving any requests of team members to work offsite. Supervisors will make the final determination regarding whether to approve offsite work.

Supervisors will not require employees to work at their residence, incentivize staff to work offsite, or penalize employees for not volunteering to work offsite. Supervisors may direct **exam staff**<sup>1</sup> to work onsite at a credit union, and may direct exam staff to work from a suitable alternate location (that is, not the credit union) other than their residence.

In the event a supervisor directs exam staff to work offsite (a location other than the credit union), the supervisor will provide a suitable worksite if the employee opts not to work from home. For example, if a credit union is unable to provide space for examiners due to an unforeseen emergency, exam staff may opt to work from home. If exam staff choose not to work from home, the supervisor must provide a suitable alternate worksite for the examiner(s).

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*Last updated March 4, 2019*

## Exam Staff Responsibilities

Examiners are responsible for effectively managing risk within their districts and mitigating losses to the NCUSIF. Examiners will schedule examinations and supervision contacts based on identified and emerging risks and in accordance with this manual. Examiners will complete examinations or supervision contacts per the NSPM, the [Examiner's Guide](#), and **MERIT**<sup>2</sup> NCUA and SSA User Guide standards, as well as other applicable references including CAMELS and risk ratings with the focus on timely correction of identified problems. For CCU examinations, refer to the Corporate Exam Work Center Manual.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

Examiners will utilize all tools available to identify current and emerging risks in credit unions. These include, but are not limited to:

- [Examiner's Guide](#)
- [NCUA SharePoint sites](#)
- Letters to Credit Unions
- Regulatory and Risk Alerts
- NCUA Legal Opinions
- Financial Performance Reports
- Risk reports
- Whitepapers
- [FFIEC](#) guidance
- NCUA Supervisory Letters

Examiners are also responsible for completing results-driven supervision and ensuring compliance with the supervision and reporting requirements of this section of the NSPM which include, but are not limited to, effectively, efficiently, and timely scheduling onsite and offsite contacts for their assigned credit unions. Examiners will keep their supervisor apprised of any significant issues affecting their ability to conduct adequate and proper supervision of their assigned credit unions. Examiners will be responsible for reporting to their supervisor and/or other offices (as needed) their supervision and oversight efforts.

Examiners are responsible for supervising assigned credit unions through:

- Conducting ongoing, results-oriented examination and supervision contacts
- Writing Call Report Risk Reviews based on national risk reports
- Analyzing FPRs
- Communicating with officials and management in an ongoing manner
- Maintaining a Supervision Chronology Report (see the Supervision Chronology Report section of the NSPM for more info), commonly referred to as a "chronology," for:

- CAMELS 3 credit unions that have more than \$250 million in assets
- All CAMELS 4/5 credit unions
- Credit unions that require a 90-day follow up for significant record-keeping concerns

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*Last updated February 9, 2017*

## New CEO or Manager Communications

To ease a new executive's transition into the position and foster a working relationship with the NCUA, automatically generated emails are sent to the new **CEO**<sup>1</sup> or manager of FICUs with a CAMELS composite 3 rating or better based on a change to the "Manager or CEO" field in the CUOnline Profile. The email shares the name and contact information of the FICU's NCUA district examiner and field supervisor with the new manager or CEO. The Board Chairperson, regional **DOS**<sup>2</sup>, exam staff, and field supervisors (and SSAs for FISCUs) are courtesy copied on those emails.

For FCUs, the district examiner will contact the new CEO or manager, preferably by phone, during the next **RADAR**<sup>3</sup> or **RATE**<sup>4</sup> review cycle in which this field changed. For example, if the change occurs during the March Call Report cycle, the examiner will follow up by phone when completing March RADAR or RATE reviews. If the district examiner has already met the FCU's new CEO or manager, the examiner will document this in the **RATE form**<sup>5</sup> or RADAR Examiner Survey during the next quarterly risk review cycle after the management change occurred. Examiners will not contact new FISCU CEOs or managers in response to a CUOnline Profile change.

In this call, the district examiner will introduce themselves and ask whether the new credit union CEO or manager needs more information about the NCUA or wants to meet. If there has been a recent change in field supervisors, the district examiner will also confirm the new CEO or manager has the name and contact information of their supervisor. The district examiner will document they have contacted the new CEO or manager in the RATE form or RADAR Examiner Survey.

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<sup>1</sup>Chief Executive Officer

<sup>2</sup>Division of Supervision

<sup>3</sup>Risk Assessment and Data Analytics Rating

<sup>4</sup>Risk Analysis and Trending Evaluation

<sup>5</sup>Risk Analysis Trending and Evaluation form, a tool used to document quarterly risk reviews of natural person credit unions.

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Last updated on November 21, 2024

## Examination and Supervision Budgeting

Budgeting is critical to effectively manage resources. Appropriate budgeting ensures resource allocation can be directed to the credit unions of regional and national significance.

Each year, **E&I**<sup>1</sup> issues workload budgeting instructions and guidance for the subsequent year. **Regions**<sup>2</sup> then provide guidance to **exam staff**<sup>3</sup>.

### Examiner

The budgeting process begins with examiners. Examiners will follow the instructions provided by the region for the annual budget process. Examiners are responsible for using historical knowledge of the credit union, **MARS**<sup>4</sup>, or the Future Projected Supervision Hours located in the Examinable Entity Form in **MERIT**<sup>5</sup> to view previously recommended examination/supervision hours for each district credit union. For **ONES**<sup>6</sup>-supervised credit unions, examiners will use the most recent Supervision Plan or other historical information.

Based on this information, examiners will submit recommended estimated hours to their supervisor during the annual resource planning process using the credit union resource allocation module in MARS online.

Examiners will also recommend specialized resources in consultation with their supervisor when the size, complexity, or potential risk to the **NCUSIF**<sup>7</sup> warrants the use of specialized expertise (for example, regional office/ONES staff, central office staff, **AMAC**<sup>8</sup>, outside contractors).

Examiners will consult with their supervisor during the year if conditions warrant changes to the examination budget. Specifically, examiners should contact their supervisor if they need additional time to complete an examination,

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>4</sup>Management Automated Resource System

<sup>5</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>6</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>7</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>8</sup>Asset Management Assistance Center

supervision contact, review of a state exam, **RATE**<sup>1</sup> review, or any other examination or supervision-related activity .

## Supervisor

Supervisors are responsible for:

- Managing resources on an ongoing basis throughout the year to ensure the proper development of examiners and completion of program including the resolution of identified problems
- Managing resources to effectively supervise credit unions in their group
- Using sound judgment to approve reasonable examiner requests for additional time to complete examination and supervision-related activities
- Evaluating the annual budget recommendation for the group after consulting with district examiners
- Monitoring and reconciling group budgets monthly using the MARS online system and according to ARD direction
- Reporting the group program status, variances, and shortfalls to the ARD monthly; adjusting budgets or requesting assistance when group resources are not sufficient to complete the examination program or as conditions warrant
- Submitting the annual resource budget for their assigned credit unions to the ARD, using the information examiners have provided. The process will include an analysis of the level of supervision, timing of exams, balancing of the year-to-year workload, and coordination with the state supervisors for FISCUs (to the extent possible)

## Regional Director / Associate Regional Director

ARDs are responsible for managing the regional resources budget and keeping the RD informed of the status of regional examination/supervision programs. ARDs will reallocate regional resources and coordinate with the other ARDs and the RD to secure assistance when group resources are not sufficient. ARDs will ensure all workload budgets are reconciled by the 15th of each month. The RD will notify E&I if they anticipate the region will not be able to meet examination or supervision requirements.

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<sup>1</sup>Risk Analysis and Trending Evaluation

## E&I

E&I is responsible for monitoring regional compliance with national examination and supervision program policies. E&I will:

- Periodically request reports and other program information from the regions
- Review the status of regional and national program completion and emerging needs
- Establish national priorities when conditions warrant to ensure completion of national program goals
- Identify national trends and resource priorities

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*Last updated February 2, 2023*

## Scheduling Examinations and Contacts

The NCUA's examination scheduling program applies an extended examination cycle to eligible credit unions. The examination cycle does not limit the NCUA's authority to examine any FICU as frequently as the agency deems necessary. The NCUA will consider financial trends, risks, and other facts or circumstances to determine if a more frequent examination or supervision contact is required.

Because financial data in **MERIT**<sup>1</sup> is on a calendar quarter-end basis, examinations and supervision contacts should generally be performed with a calendar quarter-end effective date. However, MERIT will not allow two of the same type of contacts to share the same effective date. Thus, **exam staff**<sup>2</sup> may perform a supervision contact on a non-calendar quarter-end effective date when two contacts are performed within short timeframes of each other.

The **start date for an exam** is the first date exam staff charge time to **WCC**<sup>3</sup> 10 or WCC 11 (when conducting exam work either onsite or offsite). Exam staff must ensure the start date entered into the Milestones section of the Exam form in MERIT is consistent with this definition. Also, exam staff must

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Work Classification Code



ensure this date is entered into the Milestones section of the Exam form at the beginning of an exam or contact.

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*Last updated October 30, 2023*

## Examinations

### ***FCUs***

Examinations for FCUs eligible for an extended cycle will have a start date 14-20 months from the completion date of the last examination. Examinations for all other FCUs will have a start date of 8-12 months from the completion date of the last examination.

An FCU is eligible for an extended examination cycle if it meets all of the following criteria as of the last examination:

- **CAMELS**<sup>1</sup> code 1 or 2, both in the composite and the management rating component
- Assets less than \$1 billion
- “Well capitalized” per [PCA](#) regulations
- No outstanding [DOR](#) items related to significant recordkeeping deficiencies, and
- Not operating under a formal or informal enforcement or administrative order such as a cease and desist order, LUA, PWL, or PCA directive

**E&I**<sup>2</sup> measures compliance with examination scheduling based on a credit union’s eligibility as of the last examination. If a credit union’s eligibility for an extended cycle changes subsequent to an examination (for example, the CAMELS rating is downgraded or upgraded, or the net worth ratio falls below seven percent), exam staff will discuss supervision plans with their supervisor. If supervision is warranted earlier than originally planned, exam staff will consult their supervisor and conduct onsite supervision or request a waiver to start the examination earlier than the applicable minimum timeframe since the last examination.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>Office of Examination and Insurance

Small credit unions that have limited segregation of duties and are otherwise eligible for an extended exam cycle may be examined more frequently on a random-sample basis.

## ***FISCUs***

A FISCU that meets any one of the following criteria as of the last examination will receive an NCUA examination with a start date 8-12 months from the completion date of the last NCUA examination:

- Assets greater than \$1 billion
- Composite NCUA CAMELS code 4 or 5 with assets greater than \$50 million, or
- Composite NCUA CAMELS code 3 with assets greater than \$250 million

All other FISCUs will receive an NCUA examination based on risk and emerging trends, including small credit unions with internal control weaknesses on a sample basis as part of the NCUA's overall due diligence. **Regions**<sup>1</sup> will examine each FISCU at least once every five years.

The NCUA will make every effort to conduct examinations of FISCUs jointly with the SSA, as long as the time between examinations does not exceed the NCUA's needs as insurer. Generally, the NCUA will only conduct an independent insurance review when a joint examination cannot be coordinated with the SSA. If the NCUA supervisor and SSA cannot reach an agreement regarding scheduling timeframes, the NCUA supervisor will contact the ARD. The ARD will discuss the concerns with the SSA and make necessary arrangements for a joint follow-up exam or an independent NCUA contact.

When a joint exam is not possible, exam staff will document the reason(s) and the efforts made to coordinate a joint examination with the SSA in the Closed Information Questionnaire.

## ***ONES Credit Unions***

All corporate credit unions must be examined once each calendar year, regardless of asset size. The maximum time between completion dates is 12 months, unless the **ONES**<sup>2</sup> deputy director approves an extension.

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<sup>1</sup>"Regions" includes ONES (unless otherwise specified)

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

ONES determines the appropriate examination and supervision schedule for its natural person credit unions through the supervision planning process.

### ***Scheduling Requirements Variance Request***

To examine a credit union more or less frequently than required by the criteria established in this section of the NSPM, exam staff will submit a written variance request to the field supervisor for consideration. Exam staff will document their justification for any variance request and any related approval or denial in the Closed Information Questionnaire.

Field Supervisors may approve or deny, in writing, requests that are up to 30 days from the timeframes outlined in the examination scheduling requirements. However, the ARD may still require a field supervisor to notify them of any variations approved under this authority.

For example, a field supervisor may approve a request to start an examination up to 30 days before the 14-month minimum start date for a credit union that qualifies for the extended examination cycle. Similarly, a field supervisor may approve a request to start an examination up to 30 days after the 12-month start date requirement for a credit union that does not qualify for the extended examination cycle.

Field supervisors will review requests for variances greater than 30 days and will either deny the request and notify exam staff in writing or forward the request to the ARD for consideration.

ARDs must approve or deny, in writing, variance requests that are greater than 30 days from the examination scheduling required timeframes.

### **Follow-up Exams**

Follow-up exams are more comprehensive than other onsite supervision contacts and require a more in-depth analysis to support the CAMELS ratings and administrative action recommendations.

### ***FCUs***

Exam staff will use judgment to determine, on a case-by-case basis, the completion requirements for any FCU meeting the completion timeframe criteria in the table below and will tailor supervision needs to each credit union. RDs and supervisors may require more frequent completion timeframes or supervision plans for specific risks in a specific credit union.

At a minimum, exam staff will perform a follow-up examination during the following intervals (from completion date to start date):

Credit Union Description	Follow-Up Exam Timeframes
FCU CAMELS 3 < \$50 million	Follow-up exam or onsite supervision contact at discretion of RD
FCU CAMELS 3 > \$50 million	Follow-up examination at least every 180 days
FCU CAMELS 4 or 5 < \$50 million	Follow-up exam or onsite supervision contact at least every 210 days
FCU CAMELS 4 or 5 > \$50 million	Follow-up exam at least every 120 days

A composite CAMELS 3, 4, or 5 FCU with less than \$50 million in assets may receive an onsite supervision contact instead of a follow-up exam. The supervision contact or follow-up exam must follow the scheduling timeframes in the above table. If **BSA**<sup>1</sup> or recordkeeping issues are present, however, follow the timeframes for those onsite contacts. Unless all outstanding DOR items and elevated risk areas receive a full review, this will not meet the follow-up exam requirement.

## ***FISCUs***

At a minimum, NCUA exam staff will perform a follow-up examination at the following intervals (from NCUA completion date to NCUA start date):

Credit Union Description	Follow-Up exam timeframes
FISCU CAMELS 3 > \$250 million	Follow-up examination at least every 180 days
FISCU CAMELS 4 or 5 > \$250 million	Follow-up examination at least every 120 days

In FISCUs with less than \$250 million in assets, the RD may determine the timeframe for a follow-up examination and establish an alternate schedule based on regional risk priorities and risk to the **NCUSIF**<sup>2</sup>.

<sup>1</sup>Bank Secrecy Act

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

The NCUA EIC or Field **Supervisor**<sup>1</sup> will coordinate with the SSA to schedule follow-up examinations. The NCUA, however, may perform independent follow-up exams when necessary due to scheduling issues.

If the NCUA supervisor and SSA cannot reach an agreement regarding scheduling timeframes, the NCUA supervisor will contact the ARD, who will discuss the concerns with the SSA and make necessary arrangements for a joint follow-up exam or an independent NCUA contact.

### ***Timeframe Exceptions for Follow-Up Examinations***

Exam staff will consult their supervisor and request an extension via email if they cannot complete a follow-up examination (or onsite contact when permitted) within the required timeframe:

<b>Credit Union Description</b>	<b>Extension Guidelines</b>
FCU CAMELS 3 > \$50 million FISCU CAMELS 3 > \$250 million	Supervisors may approve extensions up to 240 days.  ARDs must approve any extension greater than 240 days.  All extension requests, approvals, and denials must be in writing. Any request for an extension will describe how it will not result in undue risk.
FCU CAMELS 4 or 5 > \$50 million FISCU CAMELS 4 or 5 > \$250 million	ARDs must approve any extension. All extension requests, approvals, and denials must be in writing. Any request for an extension will describe how it will not result in undue risk.
FCU CAMELS 4 or 5 < \$50 million	No extension of the 210-day timeframe.

Any approvals to exceed the required timeframes require the supervisor or ARD, as applicable, to forward their approval via email to **DOS**<sup>2</sup> with supporting justification. All timeframe extension approvals will include a projected completion date. The completion date is the day exam staff last charged time to the examination or supervision contact.

<sup>1</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

<sup>2</sup>Division of Supervision

## Onsite Supervision Contacts

An onsite supervision contact is more limited in scope than a follow-up examination. Exam staff will typically perform an onsite supervision contact to review one major problem area, to hold a joint conference if it could not be completed as part of the exam, or to review a credit union's compliance with a DOR. In FISCUs, onsite contacts may also be for reduced or limited participation in a contact of a FISCU with less than \$250 million in assets or for ongoing supervision of problem credit unions.

Exam staff will perform onsite supervision contacts as needed between regular or follow-up examinations based on the nature and severity of problems or as their supervisor requires. The EIC and supervisor, in consultation with the ARD, will determine the frequency and timing of onsite supervision contacts.

For FISCUs, the NCUA EIC or field supervisor will coordinate with the SSA as appropriate. The NCUA considers the timing of the next SSA examination when scheduling onsite supervision. However, if a timely joint contact is not possible, the NCUA may need to make an onsite contact independent of the SSA. The NCUA supervisor is responsible for contacting the SSA if onsite supervision is necessary before the next scheduled examination. If the NCUA supervisor and SSA cannot reach an agreement regarding necessary action, the supervisor will contact the ARDP who will further discuss the concerns with the SSA and make necessary arrangements either for a joint contact or an independent NCUA contact.

The NCUA supervisor is responsible for contacting the SSA if onsite supervision is necessary before the next scheduled examination. If the NCUA supervisor and SSA cannot reach an agreement regarding necessary action, the supervisor will contact the ARD who will further discuss the concerns with the SSA and make necessary arrangements either for a joint contact or an independent NCUA contact.

## Recordkeeping Contacts

Credit unions with significant recordkeeping concerns require an onsite supervision contact focused on ensuring adequate attention to and correction of problems. Exam staff must conduct an onsite supervision contact within 90 days of the NCUA's last contact completion date and an onsite supervision contact every 90 days thereafter, until all problems are resolved. The field supervisor must approve any extension beyond 90 days in writing and notify the

ARD and DOS. Exam staff will document any extension requests and approval or denial in the Closed Information Questionnaire.

For FISCUs, the NCUA EIC, in consultation with their supervisor, will determine whether to accept the SSA's limited scope onsite contacts to resolve record-keeping problems in place of an NCUA onsite contact. See the [Significant Recordkeeping Concerns](#) section of the NSPM for additional guidance for performing supervision contacts for credit unions that have significant record-keeping concerns.

## Offsite Supervision Contacts

Offsite supervision is discrete supervision or district management activities that are not part of an examination or onsite supervision contact. Offsite supervision contacts are generally very limited in scope, and are conducted somewhere other than at a credit union (for example, following up on a [DOR](#) by phone or e-mail, reviewing a credit union's response to a DOR, reviewing monthly board packages, or other correspondence with a credit union). Exam staff will not change a credit union's CAMELS ratings during an offsite supervision contact.

Exam staff will not use offsite supervision for substantive work that is completed as part of an examination or onsite supervision contact, even if the work is completed offsite.

Exam staff will schedule offsite supervision as necessary to appropriately supervise district credit unions.

## Monitoring and Reporting

### ***E&I***

E&I oversees the exam and supervision scheduling program for consistency and quality. This includes monitoring examination completion averages and analyzing examinations completed outside of the minimum and maximum parameters.

Each region will establish monitoring procedures for examinations and supervision completion and timeframe extensions, until a national system is developed and implemented. ARDs will review the applicable report(s) and share them with the field supervisors to evaluate appropriateness and timeli-

ness of exam and supervision completion to ensure a quality and timely supervision program.

### **Exam Staff**

Exam staff will monitor and supervise federally insured credit unions consistent with their size, complexity, condition and timing of the next examination. Periodically, but at least quarterly, exam staff will re-evaluate their supervision plans for each assigned credit union based on current information and update the NCUA Projected Future Contact Hours section of the Exam-inable Entity Form, as necessary.

Exam staff may change their exam and supervision plans at any time if circumstances warrant, after consulting with the assigned field supervisor.

### **Supervisors**

Supervisors will monitor exam staffs' resource allocation plans for appropriateness and consistency with the appropriate scheduling program. They will evaluate scheduling changes throughout the year to ensure they meet budgetary goals and maintain a results-oriented examination program. Supervisors will record and report the scheduling information for their assigned credit unions as changes are made during the year.

### **Regional Office**

RDs are responsible for monitoring exceptions and variances in the program to ensure they are reasonable. They are also responsible for program completion.

ARDs are responsible for monitoring examination timeframes and reporting their region's examination scheduling program. ARDs will evaluate information submitted by field supervisors for reasonableness and ensure it accurately reflects the region's examination scheduling needs and risk profile.

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*Last updated March 25, 2022*

## **Examination and Supervision Planning**

Effective examinations require advance planning. Exam staff should scope risk-focused examinations properly so they can allocate sufficient resources based on the level and type of risk present in a credit union.



Proper planning before starting an examination creates a good working relationship with credit unions and fosters effective communication among NCUA and credit union staff. Planning reduces frustration for credit union staff and reduces time spent gathering unnecessary information.

When planning a FISCU exam, NCUA **exam staff**<sup>1</sup> coordinates with the SSA to ensure the exam complies with the NSPM. This includes coordinating with the SSA on the planned scope and coordination between specialists scheduled for the exam (for example, not duplicating requests on the Document Request List), to the maximum extent possible. EICs should also inquire and discuss any changes since the preceding exam with the SSA during the planning process.

## Pre-Exam Planning

Pre-exam planning is required for each examination (**WCC**<sup>2</sup> 10 or 11). Exam staff will use WCC 94 (for FCUs) or WCC 95 (for FISCUs) to capture time spent on pre-exam planning activities in TMS. These hours are separate from, and in addition to, the budgeted hours for examining a credit union.

Exceptions to the budgeted pre-exam planning time must be approved in writing by a supervisor, in advance, and documented in the Closed Information Questionnaire. Exam staff will document their pre-exam planning activities and the hours in **MERIT**<sup>3</sup>'s Pre-Exam Planning Procedures scope task.

Exam staff will start the pre-exam planning process by creating an examination in MERIT and completing the steps outlined in the Pre-Exam Planning Procedures scope task and the Pre-Exam Planning Job Aid.

## Notify Credit Union of an Exam/Contact

When the NCUA is leading an examination, examiners provide as much advance notice as possible before starting an examination or onsite supervision contact. Unless [fraud](#) is suspected or other special circumstances exist, NCUA exam staff provide credit union officials at least four weeks' notice.

With supervisory approval, exam staff may start an examination or onsite supervision contact without providing notice to the credit union when the EIC

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Work Classification Code

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

plans to conduct a surprise contact or when supervisory timeliness is warranted.

Regional management must approve notification periods shorter than four weeks. Each region will specify at what level management approval is required. Exam staff will document approval in the Closed Information Questionnaire.

Exam staff do not need credit union approval to schedule an exam, but whenever possible, the NCUA should reach agreement to minimize disruption to a credit union and to ensure critical staff members are available while examiners are on site.

## Document Requests

As part of the notification process, exam staff provide the appropriate Exam Notification Letter and document request list. When the credit union is a MERIT user and willing to use the survey functionality, exam staff should provide this using MERIT's survey function. If the credit union does not use MERIT, exam staff may send the document request list found in the Exam Notification Letter (within the MERIT Job Aid Repository) to the credit union through e-mail or the NCUA's SFTP.

Exam staff customize the items requested to include only those items necessary to address the scope and risk profile for each examination or contact.

The EIC coordinates with team members and specialists to minimize duplication in requested items. For example, only one team member should request monthly Board Packets, even though multiple team members may review these for items related to their review area.

For joint FISCO exams, the NCUA EIC should make every effort to coordinate with the SSA EIC to provide an all-inclusive document request list to the FISCO with as much advance notice as possible.

Exam staff provide the Exam Notification Letter and document request list to a credit union no less than four weeks before the actual [start date](#) of the exam or contact, whether the start date will be onsite or offsite.

If a document request list is not provided to the credit union as a survey in MERIT, the EIC must attach a copy of the customized document request list to the exam or contact so it becomes part of the administrative record. When using MERIT's survey function to request and receive items, exam staff will not request a credit union to send CTRs, SARs, or other highly confidential

information using MERIT. Exam staff will comply with the latest version of NCUA Instruction 13500.09, [Security of Sensitive Information](#).

## Management Questionnaire

As part of examination planning, exam staff will provide the Management Questionnaire to the credit union for completion at the same time as the Document Request List, at least four weeks before the exam. Exam staff will provide the appropriate RFE or **SCUEP**<sup>1</sup> version using the survey function in MERIT if the credit union is a MERIT user. If the credit union is not a MERIT user, exam staff will send the appropriate RFE or SCUEP Management Questionnaire Word document (found in the MERIT Job Aid Repository) to the credit union through e-mail or the NCUA's SFTP.

Exam staff will select a response date before the start of the exam, typically one or two weeks in advance. This will allow adequate time for exam staff to review the responses and determine if any scope changes are necessary.

For joint FISCO exams, the NCUA EIC should ask the SSA EIC if the SSA already uses a similar questionnaire before sending the NCUA Management Questionnaire to the credit union. If the SSA has a similar questionnaire, it can be used instead of the NCUA Management Questionnaire. If the SSA lacks a similar questionnaire, examiners should coordinate with their SSA counterpart to send the NCUA Management Questionnaire, so management completes only one questionnaire per exam. Talk with your supervisor if you are unsure whether an SSA's questionnaire is similar.

Exam staff will document the results of their review of the Management Questionnaire, including any clarifications about management's responses, in the pre-exam planning scope task. Since this questionnaire will serve as an official administrative record, exam staff may not edit the credit union's responses or complete the questionnaire on behalf of the credit union.

The questionnaire must be preserved exactly as it was received from the credit union to maintain evidentiary value in any future proceedings.

Exam staff will attach a copy of the completed questionnaire to the Exam Form>Documents section before closing the exam if the credit union completes a Word version of the questionnaire (versus the MERIT survey). If the credit union submits more than one version of the questionnaire, examiners

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<sup>1</sup>Small Credit Union Examination Program

should upload each version and note which version was the final one submitted. This will ensure all versions are captured as part of the administrative record. If the credit union uses the survey functionality in MERIT, the questionnaire with management's responses is already saved to the exam.

If the credit union has not returned the questionnaire by the first day of the exam, ask relevant questions from the questionnaire that day to determine if there are any material supervisory concerns or red flags. Based on the credit union's responses, you may consider changing the scope, transaction testing samples, or talking with your supervisor if you identify significant risks or red flags. Notate the credit union's answers to any questions or their refusal to respond in the pre-exam planning scope task.

## Credit Union Virtual Private Network Access

Exam staff may use a credit union's Virtual Private Network (VPN) to access information needed to perform the examination. To access the credit union's VPN, exam staff should do the following:

1. Discuss the business need and obtain supervisor approval.
2. Obtain the required information from the credit union to complete the [3rd Party VPN Request Form](#).
3. No less than 10 business days before the requirement, submit an External VPN Access Request to the OneStop Help Desk via OneStop@n-cua.gov with the business need and include their supervisor's approval for examination-based external VPN access. Exam staff should copy their supervisor on this request.
4. Once approved, OneStop will contact the examiner to install the VPN software. Examiners must adhere to Instruction 13500.15, [Acceptable Use Policy](#), and perform the following steps and protocols:
  - a. If instructed by OneStop, disconnect from the NCUA's VPN (while disconnected, do not access websites, other programs, or systems).
  - b. NCUA Examiners may:
    - i. Connect to the MERIT web-based application using the Internet or the offline Briefcase;
    - ii. Leverage GlobalScope, the NCUA Secure File Transfer Portal solution, to transfer and receive large files securely; and

- iii. Provide their publicly accessible IP address to be whitelisted so they can access the CU files.
- c. Upon disconnecting from the credit union's VPN, immediately reboot your computer and reconnect to the NCUA's VPN.
- d. Do not install unapproved customer or partner software on NCUA devices.
- e. Follow all instructions provided by the NCUA Security Operations Center or Computer Security Incident Response Team if contacted.

Contact OneStop if you have any questions.

*Last updated February 2, 2023*

## Examiner Work Allocation

The NCUA distributes examination and supervision work among examiners to maximize flexibility as work is assigned and developmental opportunities are available. The NCUA follows [OPM standards](#) by limiting work that an employee at a specific grade performs to tasks and activities that are grade-appropriate at least 75 percent of the time.

Employees may perform work at a higher grade level up to 25 percent of their total time, according to OPM standards. As such, non-PEs may spend no more than 25 percent of total work time each calendar year in charge of *large, complex, difficult, or sensitive credit union work*, which is defined as:

WCC <sup>1</sup>	Work Conducted
05-Lending Specialists 07-Capital Market Specialist 08-SME Special Program Time 19-ISO/NISO Time 12-Examination Corporate FCU 13-Examination Corporate SCU 35-SE/DSA <sup>2</sup> Details	All

<sup>1</sup>Work Classification Code

<sup>2</sup>Division of Special Actions, discretionary supervisory actions, or Director of Special Actions

38-REPS <sup>1</sup> /NPSO Time  40-OJT SME Trainer (non-PEs are not authorized to charge time to this WCC)  52-RBSO Time  53-RCCS <sup>2</sup> Time	
29-CUSO Reviews  24-Vendor Reviews  50-Conservatorship Administration FCU  51-Conservatorship Administration FISCO  90-Fraud Supervision On-site - FCU  91-Fraud Supervision On-site - FISCO  96-Consumer Compliance Priorities FCU  97-Consumer Compliance Priorities FISCO	Time as EIC
10-Examination FCU - Regular 11-Examination FISCO - Regular 15-Examination NFICU 20-5300 Program FCU 21-5300 Program SCU 22-Supervision On-site - FCU	Time as EIC or DE for credit unions that are at least one of the following as of the effective date of the exam or contact: <ul style="list-style-type: none"> <li>• CAMELS<sup>3</sup> composite 4 or 5 with assets greater than \$25 million</li> <li>• CAMELS composite 3 with assets over \$50 million</li> <li>• \$100 million or more in assets</li> </ul>

<sup>1</sup>Regional Electronic Payments Specialist(s)

<sup>2</sup>Regional Consumer Compliance Specialist(s)

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

23-Supervision On-site - FISCO	
26-Review of State Examinations	
27-Supervision Off-site - FCU	
28-Supervision Off-site - FISCO	
94-Pre-Exam Planning FCU	
95-Pre-Exam Planning FISCO	

Only examiners at the CU-09 grade or higher may be district examiner or EIC of a credit union that would result in the assignment of *large, complex, difficult, or sensitive credit union work*. Examiners at the CU-08 grade or lower may participate on examinations and supervision contacts for a credit union that is *large, complex, difficult, or sensitive credit union work*, but may not be EIC or assigned district responsibility.

If a credit union is classified as *large, complex, difficult, or sensitive credit union work* after being assigned to an examiner at the CU-08 grade or lower, the supervisor must reassign the credit union to an examiner at the CU-09 grade or higher. If the change in classification is due to an examination or contact in process (for example, downgrade of the CAMELS composite rating), the district reassignment may occur after the examination or contact is completed.

Temporary exceptions to this policy may be allowed in the event of a systemic, non-recurring agency need (for example, a natural disaster or widespread economic disruption) or an unexpected change in circumstances for an individual (for example, a change in the assets or CAMELS composite rating that occurred after the exam or contact was initiated, causing the individual to exceed the limit). Exceptions must be authorized by the **ED**<sup>1</sup>.

*Last updated October 30, 2023*

## Concentration Risk Reviews

The NCUA's Letter to Credit Unions, 10-CU-03, [Concentration Risk](#) (March 2010), defines concentration risk as "any single exposure or group of exposures with the potential to produce losses large enough (relative to capital,

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<sup>1</sup>Executive Director

total assets, or overall risk level) to threaten a financial institution's health or ability to maintain its core operations."

[REDACTED]

[REDACTED] <sup>1</sup> [REDACTED]  
[REDACTED]  
[REDACTED] <sup>2</sup> [REDACTED]  
[REDACTED] <sup>3</sup> [REDACTED]  
[REDACTED]  
[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]  
[REDACTED]
- [REDACTED]  
[REDACTED]
- [REDACTED]

## Roles

### ***E&I***

E&I is responsible for monitoring concentration risk patterns and trends, and the supervision of credit concentration risk. E&I will evaluate compliance with this section during routine monitoring of cases, quality assurance reviews, and reviews of information submitted on required reports. During periodic updates of the NSPM, E&I will solicit comments from other offices to ensure standards remain current and effective.

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<sup>1</sup> [REDACTED]  
<sup>2</sup> [REDACTED]  
<sup>3</sup> [REDACTED]



## **Regional Office**

Regional offices are responsible for having systems and controls in place to ensure this section's standards are met. When reviewing work related to this section's standards, regional processes must ensure quality work and accurate administrative records are maintained for concentration risk related reviews.

**DOS**<sup>1</sup> is responsible for monitoring risk institutionally and on a regional basis.

## **Supervisor**

Supervisors are responsible for reviewing and ensuring staff performs quality work that follows the standards of this NSPM section. Supervisors are responsible for reviewing and approving work for completeness and accuracy before submission to the regional office. **Supervisor**<sup>2</sup> approval becomes part of the credit union's administrative record. Supervisors are responsible for monitoring risk on an institutional and group basis.

## **Exam Staff**

Examiners are responsible for evaluating credit unions' concentration risk and identifying potential safety and soundness issues when completing loan concentration risk outlier reviews, supervision work, and performing examinations. The [Concentration Risk Job Aid](#) is a resource available in **MERIT**<sup>3</sup> to assist in evaluating concentration risk.

Examiners will create an administrative record of recommendations made and actions taken in meeting the national standards set forth in this NSPM section. These standards will ensure quality work and consistent administrative record documentation.

## **Responsibilities**

### **Exam Staff**

- Schedule an examination or supervision contact for credit unions that appear on the LCRO Report as of the September 30 Call Report data

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<sup>1</sup>Division of Supervision

<sup>2</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

- The examination or supervision contact must be completed by the following calendar year-end.
- Properly identify, document, and address credit concentrations through the examination and supervision process
- Properly identify emerging trends in concentration risks through the [RATE and/or RADAR](#) review process using available tools that include, but are not limited to, quarterly LCRO Reports
- Assess the need for additional resources to review concentration risk through the examination or supervision process
  - Examiners should ask their supervisor to request more resources, as needed.
- Assess the credit, liquidity, transaction, and strategic risks related to credit concentrations and document these reviews in the appropriate scope sections
- Develop appropriate corrective actions when concentration risks are unacceptable or mismanaged
- Complete an [LCRE form](#) for credit unions that appear on the annual LCRO Report
  - Submit all draft **LCRE**<sup>1</sup> forms to the supervisor for review within five business days of the close of examination fieldwork.
  - Attach the final management approved LCRE form to the Closed Information Questionnaire scope task of the associated examination or supervision contact.
    - For FISCO joint exams, if an SSA closes the exam before all LCRE form approvals are obtained, the LCRE form should be included in the MERIT 3.1 Review of State Exam.
  - Examiners will not close the examination or supervision contact until the final LCRE form is returned from the appropriate reviewing party.

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<sup>1</sup>Loan Concentration Risk Evaluation

- Examiners may not hold a joint conference or issue the exam or supervision contact report until the appropriate reviewing party returns the final LCRE form.
- Obtain appropriate supervisory approval as required in the [District Management >Administrative Items >Exam Timeframes and Limits](#) NSPM section if it is not possible to complete and close the examination or supervision contact within the required timeframe because additional LCRE form review is necessary.

## **Supervisor**

- Ensure **exam staff**<sup>1</sup> schedules an examination or supervision contact for credit unions that appear on the LCRO Report generated based on September 30 Call Report data
  - The credit union asset size at the LCRO Report effective date will establish the required "Level of Review" in the LCRE form.
  - The examination or supervision contact must be completed by the following calendar year-end.
- Ensure examiners review and assess concentration risk through applicable Quality Assurance reviews.
- Ensure examiners address unacceptable concentration risk levels in the examination report and recommend escalated administrative action when necessary
- Approve sufficient resources to address concentration risks through examinations or supervision contacts
- Ensure examiners assess and document changing concentration risks during the [RATE and/or RADAR](#) review process
- Review and determine whether to concur with the examiner's conclusion for credit unions that trigger the LCRO thresholds. Complete the review within 10 business days of receiving an LCRE form from an EIC
- Submit all completed LCRE forms to DOS to document the review for the region's records.
  - The management review of the LCRE form may be completed by initiating the **PSR**<sup>2</sup> survey in MERIT, noting the exam or supervision

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Pre-release secondary review

contact includes the draft form requiring review and approval.

- For a credit union that has total assets of \$250 million or less, return final LCRE form to examiner.
- If a credit union exceeds \$250 million, DOS will submit the LCRE forms to regional management for review and concurrence.

### ***Director of Supervision***

- Ensure concentrations of credit are addressed through applicable Quality Assurance reviews
- Collect all LCRE forms
  - The credit union asset size at the LCRO Report effective date will establish the required "Level of Review" in the LCRE form.
  - For a credit union that has total assets of \$250 million or less, document the review for the region's records.
  - For a credit union with total assets exceeding \$250 million:
    - Review and analyze the LCRE form and field's recommendation to ensure appropriate support and justification is provided.
    - Recommend any changes or additional support needed in the LCRE form, examination, or supervision contact through the quality control process.
- Maintain a regional log and confirm completion of all LCRE forms and examinations or supervision contacts by the due date.

### ***Associate Regional Director***

- Ensure concentrations of credit are addressed through applicable Quality Assurance reviews
- Authorize sufficient resources for the review and assessment of credit concentrations
- Review and determine whether to concur with the conclusion of field staff and the supervisor for the credit unions that trigger the LCRO thresholds and have total assets exceeding \$250 million. Complete the review within 15 business days of receiving an LCRO form. The 15-business day requirement includes the region's entire review process (for example, DOS and

ARD reviews)

- The credit union asset size at the LCRO Report effective date will establish the required "Level of Review" in the LCRE form.

### ***Regional Director***

- Ensure concentrations of credit are addressed through applicable Quality Assurance reviews
- Ensure the credit union implements mitigating actions or the NCUA issues escalated action to address unacceptable levels of concentration risk
- Allocate sufficient resources for the review and assessment of credit concentrations
- Review and determine whether to concur with the conclusion of the examiner, supervisor, and ARD when the credit union has total assets greater than \$500 million. Complete the review within 15 business days of receiving an LCRE form. The 15-business day requirement includes the region's entire review process (for example, DOS, ARD, and RD reviews)
  - The credit union asset size at the LCRO Report effective date will establish the required "Level of Review" in the LCRE form.
- Authorize the release of the examination report
  - When the SSA is the lead on a joint examination, the RD may authorize the release of an examination report in a FISCO that has more than \$500 million in total assets before RD or E&I review. The RD may delegate the decision to authorize the release to an ARD. The final reviewer will address any concerns identified because of a subsequent RD or E&I review on a case-by-case basis.
  - When the SSA is the lead on a joint examination, the RD may authorize staff to hold a joint conference in a FISCO that has more than \$500 million in total assets before RD or E&I review. The RD may delegate the decision to authorize staff to hold a joint conference to an ARD.
  - Authorizing the release of an examination report or holding a joint conference does not preclude the program office from complying with the examination completion requirement. Examiners will not

close the examination or supervision contact until the final LCRE form is returned from the appropriate reviewing party and included in the examination or supervision contact.

- Ensure all LCRE forms from credit unions that have total assets greater than \$1 billion are submitted to [EIMail](#) for the E&I Director's review and concurrence
- Ensure a log of completed LCRE forms is submitted annually to [EIMail](#) at the end of each calendar year no later than January 25

## ***E&I***

- Monitor national concentration risk patterns and trends
- Monitor the supervision of credit concentration risk
- Assess adequacy of concentration risk reviews in the exam program and modify as necessary
- Post updated LCRO Report to SharePoint each quarter within 30 days of the validation of the Call Report data
- Remind program offices to complete the required review process each year following the generation of the LCRO Report based on September Call Report data
- Review the program office's conclusions and any planned action(s) for credit unions with total assets over \$1 billion within 15 business days of receiving the [LCRE form](#) from the RD
  - The credit union asset size at the LCRO Report effective date will establish the required "Level of Review" in the LCRE form.
  - If there is a difference of opinion between E&I and a program office, the RD and E&I Director will discuss the issue and agree on a resolution strategy.

## ***Completing and Processing an LCRE Form***

In general, the following procedures will be used to process an LCRE form. For a visual flowchart of LCRE form processing, see the [LCRE Form Processing Flowchart](#) in the Templates.

**1. Exam Staff**

Complete an [LCRE form](#) for credit unions that appear on the LCRO Report within five business days of the close of examination fieldwork. Submit draft LCRE form to the supervisor for review.

**2. Supervisor**

Review the LCRE form within 10 business days of receipt from an EIC and submit all approved LCRE forms to DOS.

**3. Regional Office**

Upon receipt of the field's LCRE form and recommendation, DOS will immediately determine if regional management review and concurrence is required. DOS will use the LCRO Report effective date to establish the required "Level of Review" in the LCRE form. If regional management reviews are not required, DOS will document the review for the region's records.

If regional management review and concurrence is required, DOS will review and analyze the LCRE form and field's recommendation to ensure appropriate support and justification is provided. DOS will recommend any changes or additional support necessary and provide justification through the quality control process. Upon agreement, DOS will submit the LCRE form to the appropriate regional approving authority for their subsequent review and concurrence:

- Between \$250 million and \$500 million: ARD Approval
- Between \$500 million and \$1 billion: RD Approval
- Greater than \$1 billion: E&I Director Approval

For credit unions with total assets between \$250 million and \$1 billion, DOS will appropriately document the review for the region's records and return the completed and approved LCRE form to the supervisor for release to the EIC. The Regional Office review will be completed within 15-business days of receipt from the supervisor, unless additional information is needed from the field.

If the credit union's total assets exceed \$1 billion, submit the LCRE form to EIMail for the E&I Director's review and concurrence. At a minimum, the region's approved submission should include:

- Completed LCRE form with all required approvals (Exam Staff, Supervisor, ARD, and RD)
- MERIT exam access that includes the information below (at a minimum)
  - Scope and Final Risk Assessment
  - Exam Report (draft)
  - Exam-related administrative actions (DORs, EFs, etc.)

#### 4. **E&I**

Upon receipt of the region's LCRE form and recommendation, E&I will review the conclusions and any planned action(s). The E&I review will be completed within 15 business days of receipt unless additional information from the region is needed

The final LCRE form will be returned to the region's DOS for tracking and final distribution to the field.

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*Last updated February 2, 2023*

## Notice of Troubled Condition

When a credit union is newly downgraded to a **CAMELS**<sup>1</sup> composite 4 or 5, **exam staff**<sup>2</sup> must notify the credit union of its "troubled condition" status.

### FCUs

Exam staff must include the forms referenced in the required language below in the examination report, or provide the credit union with the [specific location of the information on the NCUA's public website](#). Exam staff will include the following text in the examination report:

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



“Your credit union is coded CAMELS composite [4 or 5] as a result of this [examination or onsite supervision contact]. Therefore, the [Credit Union's Name] Federal Credit Union is now designated as being in troubled condition per § 212(f) of the [Federal Credit Union Act](#) and NCUA regulation § 701.14, [Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition](#) . You must obtain approval from the NCUA before making any change of official or senior executive officer. The NCUA requires that you obtain agency approval at least 30 days before a change becomes effective or within 48 hours of election at an annual membership meeting. You can find this information on the [NCUA's website](#). These requirements remain in effect until your credit union is upgraded to a CAMELS composite 3 or better.”

Exam staff must notify an FCU that has been newly upgraded from a CAMELS composite 4 or 5 to a 3 or better that the credit union is no longer considered in troubled condition. Exam staff will notify the credit union by including the following text in the examination report:

“Previously, your credit union received notification that it was subject to requirements under § [701.14](#) of [NCUA regulations](#). As a result of your credit union's CAMELS composite rating upgrade to a CAMELS rating of [3, 2, or 1] and removal from troubled status, you are no longer required to obtain the NCUA's approval for changes of officials and senior executive officers.”

## **FISCUs**

A FISCU that has been assigned a 4 or 5 CAMELS composite rating by either the NCUA, after an onsite contact, or its SSA, must be notified of its troubled status. The NCUA will not designate a FISCU to be in troubled condition without first making an onsite contact at the credit union, unless the SSA has assigned the credit union a CAMELS composite 4 or 5.

### ***Troubled Condition Based on SSA Rating***

A FISCU that has been newly downgraded to a CAMELS composite 4 or 5 as a result of the SSA's rating must be notified of its troubled status. This situation will generally occur when the NCUA does not participate on the examination and the SSA's CAMELS composite rating is a 4 or 5 (regardless of the NCUA's CAMELS rating); or if the NCUA's CAMELS composite rating during a joint

examination is a 3 or better while the SSA's CAMELS composite rating is a 4 or 5.

During the [Review of State Exam](#), NCUA exam staff will determine if the SSA notified the FISCO of its troubled condition in writing via the examination report or through other means.

If notification by the SSA cannot be confirmed, NCUA exam staff will draft a letter notifying the FISCO of its troubled status (with a copy to the SSA) using the [Notify FISCO of Troubled Condition Template](#). Once prepared, the letter will be processed for the RD's signature through the field supervisor and the regional office.

### ***Troubled Condition Based on NCUA Rating***

NCUA exam staff must notify a FISCO that has been newly downgraded to a CAMELS composite 4 or 5 that the rating triggers the troubled condition designation. The credit union must be advised of this status during a joint examination, onsite contact, or insurance review.

NCUA exam staff will include the following language at the top of the FISCO CAMELS Evaluation Form:

"Your credit union is coded CAMELS composite [4 or 5] as a result of this [examination or onsite supervision contact]. Therefore, the [Credit Union's Name] Credit Union is now designated as being in troubled condition per § 212(f) of the [Federal Credit Union Act](#) and § [701.14](#) of [NCUA regulations](#). You must obtain approval from the NCUA before making any change of official or senior executive officer. The NCUA requires that you obtain agency approval at least 30 days before a change becomes effective or within 48 hours of election at an annual membership meeting. You must also file a copy of this notice with the [SSA Name]. You can find this information on the [NCUA's website](#). These requirements remain in effect until your credit union is upgraded to a CAMELS composite 3 or better."

An onsite supervision contact must be started within 60 calendar days of completing the Review of State Exam for FISCUs that the NCUA is downgrading to a CAMELS composite 4 or 5 rating. The onsite supervision contact is to validate the CAMELS rating and trigger the troubled condition designation. However, if there is an official or senior executive officer vacancy, examiners must start

the onsite contact within ten business days of completing the Review of State Exam.

The **ED**<sup>1</sup> must approve any exception to this policy. A FISCO will be notified of its troubled status on the CAMELS disclosure issued during the onsite contact, and not before.

### ***No Longer in Troubled Condition***

FISCUs are considered in troubled condition based on the CAMELS composite rating assigned by either the SSA or the NCUA; this status can only be removed when both the SSA and the NCUA upgrade a FISCO's CAMELS composite rating to a 3 or better. NCUA exam staff may only upgrade a FISCO's CAMELS composite rating as a result of an examination or onsite contact. When both the SSA and the NCUA have newly upgraded a FISCO to a CAMELS composite 3 or better, NCUA or the SSA must notify the FISCO that the credit union is no longer considered in troubled condition.

NCUA exam staff will notify a FISCO by including the following text at the top of the FISCO CAMELS Evaluation Form:

"Previously, your credit union received notification it was subject to requirements under § [701.14](#) of [NCUA regulations](#). As a result of your credit union's CAMELS composite rating upgrade to a CAMELS rating of [enter 3, 2, or 1] and removal from troubled status, you are no longer required to obtain the NCUA's approval for changes of officials and senior executive officers. Please consult with your state regulator to determine whether you must continue to notify their office of any changes of officials and senior executive officers."

If a state regulator is the last to upgrade a FISCO from troubled condition to a CAMELS composite 3 or better and the NCUA does not participate on the examination/contact resulting in the upgrade by the state, NCUA exam staff will attempt to verify whether the SSA provided the FISCO written notification of the removal of its troubled status via the examination report or through other means.

If notification by the SSA cannot be confirmed, NCUA exam staff will draft a letter notifying the FISCO of the removal of its troubled status (with a copy to the SSA) using the [Upgrade FISCO From Troubled Condition Status Template](#). The

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<sup>1</sup>Executive Director

letter will be processed for RD signature through the field supervisor, and the regional office.

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*Last updated August 03, 2021*

## Call Report, Trending Analysis, RADAR, and RATE

The trending process is a means to identify and evaluate existing or emerging risk, highlight supervision needs, adjust supervision plans if necessary, and provide for a more effective allocation of examiner resources. The trending process is an integral part of the examiner's offsite supervision process and overall district management. Because examinations and onsite supervision contacts are performed at a specific point in time, offsite supervision provides for an ongoing awareness to any changing financial conditions, risk indicators, and/or emerging risks that may be developing in an examiner's assigned district(s).

Examiners no longer have to validate Call Reports unless instructed by the regional or **ONES**<sup>1</sup> Offices to validate a Call Report before the end of the day. **OCIO**<sup>2</sup> will initiate an auto-validation process each day at midnight. **E&I**<sup>3</sup> will provide reports to the regions and ONES of any errors or warnings detected by the auto-validation process. Auto-validation does not replace or rescind the requirement to review the Call Report and Profile and complete the required Call Report and CU Profile questionnaire during examinations, as outlined in NCUA Instruction 5000.20, [Examination Scope](#).

To conduct the quarterly trending process and assess risk in credit unions, regional staff will use the **RADAR**<sup>4</sup> dashboard. ONES staff will use the **RATE**<sup>5</sup> tool to document their quarterly analysis.

The time examiners charge for quarterly monitoring and completing RADAR or RATE for their districts (**WCC**<sup>6</sup> 20 or WCC 21) should generally fall within the guidelines specified in the applicable Resource Budget Program. Examiners should contact their supervisor if they need additional time for Trending

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>The NCUA's Office of the Chief Information Officer

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>Risk Assessment and Data Analytics Rating

<sup>5</sup>Risk Analysis and Trending Evaluation

<sup>6</sup>Work Classification Code

Analysis and RADAR or RATE. Supervisors should approve additional time as warranted.

## Responsibilities

Specific responsibilities associated with the Call Report, trending analysis, and RADAR/RATE are outlined in more detail in the following sections:

- [E&I](#)
- [Regional DOS](#)
- [ONES DOS](#)
- [Regional Field Supervisor](#)
- [ONES Field Supervisor](#)
- [Regional Exam Staff](#)
- [ONES Exam Staff](#)

### ***Office of Examination and Insurance***

- Provide reports generated from the auto-validation process to the regional offices and ONES
- Post the due dates for RADAR and RATE within the applications or notify staff by email

### ***Regional Division of Supervision***

- Send quarterly regional RADAR Review deadline reminders consistent with the national due date
- Notify **exam staff**<sup>1</sup> of any Call Report errors or outliers identified by E&I that require further review and follow-up
- Distribute field supervisor RADAR review assignments selected using criteria approved by the RD
  - RDs will establish criteria to select a meaningful sample capturing material risk areas and emerging issues

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Monitor completion and perform a quality control review of a sample of RADAR dashboard responses no later than 15 business days after field supervisors complete their review
  - The scope of the reviews will be at the RD's discretion
- Track field supervisor completion of RADAR reviews

### ***ONES Division of Supervision***

- Send quarterly RATE Review deadline reminders consistent with the national due date
- Notify exam staff of any Call Report errors or outliers identified by E&I that require further review and follow-up
- Track field supervisor completion of RATE reviews to confirm all credit unions receive a RATE review for each cycle

### **Regional Field Supervisor**

- Review RADAR reports submitted by exam staff:
  - Field supervisors will review field staffs' responses and assessments of risk, and document their reviews in the SE Comments section located on the credit union Overview tab
  - The RD will determine the scope of field supervisor reviews, but will require, at a minimum, supervisor review of all credit unions with a High final rating.
  - Field supervisors will have 30 calendar days to complete their review of the examiners' assessments.
- Notify the ARD of any specific credit union in which supervision plans materially changed as a result of the RADAR review, necessitating material budget increases for supervision

### ***ONES Field Supervisor***

- Review RATE reports submitted by exam staff
- Notify the Deputy Director of any specific credit union in which supervision plans materially change, as a result of the RATE review, necessitating material budget increases for supervision

## Regional Exam Staff

- Review Call Report errors or outliers when instructed by the regional office
- Complete the RADAR Dashboard tool:
  - Review the four risk areas and analyze the results
  - Complete the Examiner Survey located on the credit union overview tab, including a review of:
    - [BSA Monitoring Tool](#)
      - Note any adverse trends that may cause a change to supervisory plans or require the addition of a **BSA**<sup>1</sup> SME for the next exam or contact
    - [Fraud Indicator Report](#)
      - Note any adverse trends that may cause a change to supervisory plans or require the addition of a **RIC**<sup>2</sup> SME for the next exam or contact
    - Risk Reports
      - Note any adverse trends that may cause a change to supervisory plans
    - New audits received during the quarter
      - Determine whether a credit union has received a new audit that fulfills the requirements of part 715, [Supervisory Committee Audits and Verifications](#) , or part 741, [Requirements for Insurance](#)
      - If the Profile indicates a new audit has been completed, request a copy of the audit within 10 business days of

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<sup>1</sup>Bank Secrecy Act

<sup>2</sup>Recordkeeping/internal control

reviewing the Profile and [review it](#) as described in the NSPM

- Complete the Executive Summary to
  - Provide support for the ratings
  - Determine if supervision plans remain appropriate
  - Provide any additional information not captured by the dashboard to support the examiner's assessment
- Notify the supervisor when a review is completed
- Request a credit union submit a revised Call Report if review of RADAR identifies a call report error

### ***ONES Exam Staff***

- Review Call Report errors or outliers when instructed by the regional office
- Review the credit union's Profile each quarter during the RATE review to determine whether a credit union has received a new audit that fulfills the requirements of NCUA regulation parts 715, [Supervisory Committee Audits and Verifications](#) or 741, [Requirements for Insurance](#)
  - If the Profile indicates a new audit has been completed, exam staff will request a copy of the audit within 10 business days of reviewing the Profile. Exam staff will request and [review a copy of the audit report](#) as described in the NSPM.
- Access the RATE tool
- Access the NCUA Consumer Assistance Center Consumer Complaint Portal through the hyperlink in RATE:
  - Search by credit union name or charter number and determine if the credit union received new complaints since the last complaint review date
  - Review new complaints to determine if possible weaknesses exist in compliance management.



- Note any adverse trends that may require the addition of a CC SME for the next exam or contact. Examiners should not discuss individual complaints filed with the Consumer Assistance Center with the credit union or contact a consumer regarding these complaints.
- Complete the RATE Dashboard, which should include an analysis of:
  - FPRs
    - Note any adverse trends that may cause a change to supervisory plans.
  - Risk Reports
    - Note any adverse trends that may cause a change to supervisory plans.
  - [Fraud Indicator Report](#)
    - Note any adverse trends that may cause a change to supervisory plans or require the addition of a RIC SME for the next exam or contact.
  - [BSA Monitoring tool](#)
    - Note any adverse trends that may cause a change to supervisory plans or require the addition of a BSA SME for the next exam or contact.
  - Monthly financial statements or board packages, when requested by the examiner and provided by the credit union (for example as part of additional supervision of a credit union). This is not required if there is a closed offsite contact that documents the review.
  - Submit the review to your supervisor

Examiners must complete the RATE Dashboard for each credit union in their assigned district and submit it to their supervisor. With the exception of the September cycle, which is shortened to ensure RATE reviews are completed by year-end,<sup>1</sup> examiners will have approximately 75 days from the cycle date to complete their review.

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*Last updated March 30, 2021*

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<sup>1</sup>See memo from E&I director to all exam staff dated August 20, 2014.

## Closed Information Questionnaire

The Closed Information Questionnaire is for the NCUA's internal use only. Exam staff should use this section to document any noteworthy items applicable to the examination that are not discussed elsewhere in **MERIT**<sup>1</sup>.

This questionnaire is also the appropriate place to discuss management's inability and unwillingness to correct areas of concern, as well as provide details of new or unique programs or services that are not discussed elsewhere in MERIT.

Specifically, **exam staff**<sup>2</sup> will document the following information in the Closed Information Questionnaire, as applicable:

- Material changes that were recommended, but not incorporated, during the DSCR or **PSR**<sup>3</sup> process
- If the board of directors did not adopt the DOR, summary of discussions with them to submit an alternate resolution plan
- Potential administrative action considered, or if a **CAMELS**<sup>4</sup> composite 3, 4, or 5 rating why there is no administrative action taken or outstanding
- Justification to not elevate any repeat DORs to an RDL, LUA, or PWL
- For FISCUs:
  - Any differences in the SSA's CAMELS ratings, risk ratings, or corrective action plans
  - The reason a joint exam was not possible, including efforts to coordinate a joint exam with the SSA
  - Other comments or notes, including **BSA**<sup>5</sup>-related topics, that the agency is not able to share with the SSA

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Pre-release secondary review

<sup>4</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>5</sup>Bank Secrecy Act

- Any deviation from the NSPM requirements listed in the questionnaire—exam staff will provide an explanation and attach supporting documentation for any item that requires field supervisor or ARD concurrence (a copy of the email, or the date and method of issuance for field supervisor's or ARD's decision)
- Any information about management necessary to support the administrative record (for example, knowledge level of credit union operations, not providing a share and loan download)
- Any deviation from budgeted hours (attach documentation of supervisor concurrence)
- Any expansion beyond the **SCUEP**<sup>1</sup> defined-scope procedures, including how and why the scope was expanded (attach documentation of supervisor approval)
- Reason why an exam or contact was not completed or closed within required timeframes

REMINDER: Agency records and examination work papers, including the Closed Information Questionnaire, can be subpoenaed.

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*Last updated on August 03, 2021*

## Joint Conferences and Exit Meetings

A joint conference is a meeting of the examiners and a quorum of the board of directors to conduct official credit union business. It gives the examiner a chance to reach an agreement with the board about the appropriate actions to reduce levels of unwarranted risk in the credit union.

Examiners must hold a joint conference at the end of every examination and follow-up examination for **CAMELS**<sup>2</sup> 3, 4, and 5 credit unions. In CAMELS 1 or 2 credit unions, a joint conference is not mandatory; however, examiners must offer a joint conference to the board chair (or their board member designee, not to include a credit union employee) and document the credit union's decision about holding a joint conference in the Exam Form in **MERIT**<sup>3</sup>.

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<sup>1</sup>Small Credit Union Examination Program

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

Examiners will conduct an exit meeting at the end of every examination and for any [supervision contact](#) resulting in a report or other correspondence. Unlike a joint conference, an exit meeting does not require attendance by a quorum of the board. Attendance at an exit meeting generally consists of top management, key staff members, and preferably one or more officials (board members or Supervisory Committee members). When no joint conference is scheduled, examiners should invite board and Supervisory Committee chairpersons to attend an exit meeting.

The examiner will give adequate information to allow the credit union to make an informed choice about whether any officials would like to participate in the exit meeting or have a joint conference. If corrective action is needed, examiners should make every effort to confirm the credit union's commitment to that action at the exit meeting.

**Note:** With SE concurrence, the examiner may give the credit union certain draft examination documents, including the DOR and Examiner's Findings, before the **PSR**<sup>1</sup> or DSCR is complete. If a DSCR is completed or the PSR does not require **DOS**<sup>2</sup> or ARD review, the SE may approve pre-release of CAMELS ratings. Management must be informed that draft examination documents, including CAMELS ratings and risk ratings, are preliminary and may change before the final report is issued. When a DOS or ARD PSR is required, the examiner may only release CAMELS ratings after the PSR review is complete.

If material information arises that has not been presented to managers, **exam staff**<sup>3</sup> may:

- reschedule the joint conference or exit meeting,
- delay the release of the examination report until the information is presented, or
- conduct a follow-up meeting.

Examiners must obtain supervisor approval if they exceed the exam completion parameters discussed in the NSPM's [District Management](#) section.

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<sup>1</sup>Pre-release secondary review

<sup>2</sup>Division of Supervision

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

Key assertions—such as suspected fraud—may be withheld from credit union management if the assertions merit discussion directly with a credit union board of directors.

## Recording Exit Meetings and Joint Conferences

Exam staff will answer questions on the Exam Form in MERIT asking if the credit union recorded the exit meeting or joint conference and if the examiner got a copy of the recording. If a copy is obtained, examiners will attach it to the MERIT Exam Form in the Document Section. Examiners will choose “Exit Meeting Recording” or “Joint Conference Recording” as the upload file category on the Exam Form. The recording must be saved as a .MP4 or .M4A file and be less than 600 MBs to be attached in MERIT. The .MP4 file type is the format that video recordings save in when recording in TEAMS and ZOOM. The .M4A file type is the format of ZOOM audio only recordings. The 600 MB file limit will allow examiners to save a .MP4 video recording that is up to approximately 90 minutes long. If the recording’s file type or size does not allow it to be uploaded to MERIT, examiners will document why the file cannot be uploaded in MERIT in the Joint Conference or Exit Meeting comment box under the Exam Form’s Completion Information section and email [E&I Mail](#) to ask where to save the file. The recordings will be considered a routine examination record and subject to a 15-year retention requirement.

If exam staff record meetings (audio or video), they must get prior approval from their supervisor, regional management, then OED. Such approval will be granted only when there is a valid business purpose for the recording. Requests for approval should be sent to [OEDmail@ncua.gov](mailto:OEDmail@ncua.gov) with their supervisor and regional DOS mailbox copied, and must contain:

- **Supervisor**<sup>1</sup> and regional management approval
- Meeting date and time
- Recording type (teleconference, Skype video, MS Teams video, etc.)
- Expected attendees

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<sup>1</sup>Throughout the NSPM, the term “supervisor” includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation “SE” appears on many templates provided in the NSPM. Replace “SE” with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

- Topics to be discussed
- Brief explanation of business purpose for recording the meeting

Under the limited circumstances in which OED grants approval to record a meeting, meeting administrators must fully disclose to meeting participants that a meeting is being recorded. Staff may continue to take written notes and minutes of meetings.

For FISCUs, SSAs should be informed of the recording before the meeting by exam staff.

## Virtual Exit Meetings and Joint Conferences

There may be circumstances where a joint conference or exit meeting is held virtually (video or phone). In these cases:

- Annotate the meeting was held virtually in the Closed Information Questionnaire and follow all other NSPM requirements related to joint conferences and exit meetings
- If the credit union is not a MERIT user, send the examination report to the **CEO**<sup>1</sup> or manager and credit union board using a secure electronic delivery method
  - Request the CEO or manager and board review the exam report and contact the EIC with any questions
- If credit union staff or officials cannot attend an in-person or virtual joint conference or exit meeting, or a quorum is not present, document in the Exam Form in MERIT
- If a LUA must be signed, get hardcopy signatures through mail or fax, or electronic signatures using PDFs

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*Last updated November 21, 2024*

## Communicating Directly with a Credit Union

### Informal Communication

Examiners may use e-mail as an informal means of communication with credit unions in place of, or in addition to, telephone calls. Examiners must use

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<sup>1</sup>Chief Executive Officer

ZixMail, the NCUA's secure e-mail program, when discussing confidential matters with credit unions through email. Instructions for using ZixMail are available on [OneStop](#).

Examiners may not share information obtained from a credit union with another credit union (for example, sample policies, etc.) without the originator's express permission. In addition, examiners will not forward regional/central office email correspondence directly to the credit union.

## Formal Communication

Formal written communication with a credit union is typically initiated by the examiner and supervisor and processed through the regional office. The [Audits, Recordkeeping, and Fraud](#) and [Regulatory Waivers and other Regulatory Actions](#) sections of the NSPM present common types of written correspondence. These sections provide many templates which contain the minimum documentation standards and should be used as a starting point when preparing credit union correspondence. Employees can also reference the [NCUA Style Guide](#) (formerly the NCUA Communications Manual) for more information.

- In most cases, the RD's response is addressed to the board of director's chairperson at the credit union's address, with a copy to the **CEO**<sup>1</sup> as appropriate. Correspondence is not typically mailed directly to the home of a board member unless there has been a problem with the correspondence being delivered (for example, there is a question of confidentiality, or, if appropriate, in some cases of negative correspondence such as a RDL for significant violations or safety and soundness issues). When mailing items to the home address of any board member, the outgoing correspondence should be marked "confidential and private". In special cases, **DOS**<sup>2</sup> may mail correspondence to each board member's home or the supervisor may determine if delivering the correspondence in person is appropriate.
- Examiners and supervisors should be copied on all outgoing correspondence. The SSA should be copied on all outgoing FISCU correspondence.

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<sup>1</sup>Chief Executive Officer

<sup>2</sup>Division of Supervision

- DOS has the discretion to add line items such as "cc" and "bcc" recipients, "sent via FedEx – Signature Required," etc. to templates

## Writing Guidelines

The NCUA is responsible for ensuring that agency personnel prepare documents intended for the public according to plain writing guidelines. Information about the [Plain Writing Act of 2010](#) can be found on the NCUA's website. The plain writing guidelines used by the NCUA can be found at [Plain Language.gov](#). Plain language (also called plain English) is communication your audience can understand the first time they read or hear it.

Plain language is defined by results—it is easy to read, understand, and use. Staff should incorporate the following writing techniques to help achieve this goal:

- Logical organization with the reader in mind
- "You" and other pronouns
- Active voice
- Short sentences
- Common, everyday words
- Easy-to-read design features

A [plain language checklist](#) is available on Plain Language.gov. In general, use the following tips when preparing written correspondence:

- Write for the average reader
- Use base verbs, not nominalizations (hidden verbs)
- Present tense is usually best
- Organize content to serve the reader's needs
- Remove excess words
- Organize content with useful headings
- Avoid using more than two or three subordinate levels
- Use short sections and sentences
- Use concrete, familiar words



- Simplify complex material using lists and tables
- Speak to the reader using "you" and other pronouns
- Express requirements with "must" (avoid "shall," which is ambiguous)
- Use active voice
- Place words carefully (avoid large gaps between the subject and object and place modifiers appropriately)

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*Last updated July 29, 2015*

## Communicating with Law Enforcement, Outside Audit Firms, or Other Federal Agencies

Examiners must refer all inquiries from law enforcement, outside audit firms, or other federal agencies to the region's Division of Supervision through their supervisor. RDs should communicate knowledge of any law enforcement investigation to the NCUA Board, **OGC**<sup>1</sup>, and **E&I**<sup>2</sup>.

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*Last updated July 29, 2015*

## Supervising a New Credit Union

If an examiner is responsible for a new credit union, the following policies apply:

- Contact the credit union officials shortly after approval of the charter in order to arrange for the initial examination (usually within the first six months of operation)
- Perform a supervision contact within 60 days of initial operations, and within every 120 days thereafter for the first two years
- Documentation requirements are the same as for follow-up examinations
- Document compliance with the LUA or Special Insuring Agreement and adherence to the credit union's business plan in the Status Update section of the report

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Office of Examination and Insurance

- Review all changes in management (officials and key personnel), and determine if changes in officials were approved by the RD and the SSA, if applicable, in accordance with NCUA regulation § 701.14(e), [Notice of disapproval](#)
- Assess the need for assistance, including enrollment in the [Small Credit Union and MDI Support Program](#), and the creation of a mentor relationship with an established credit union
- Discuss findings and recommendations with management during a joint conference and deliver the appropriate sections of the report to the responsible officials

The supervisor will provide a summary of the supervision provided, results achieved, and the prognosis for continued successful operations in the regional monthly management report.

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*Last updated July 29, 2015*

## Critical Case Credit Unions

Credit unions that pose the most significant emerging risk to the **NCUSIF**<sup>1</sup> are known as critical cases. Critical case briefings are part of the region's risk management practices and provide an opportunity for regional management to evaluate the need for enhanced supervision. This NSPM section provides insight into the purpose, selection criteria, and processes involved in critical case credit union briefings, and provides structure on what to expect if critical case credit unions are identified within a district.

## Developing a Critical Case List

**Regions**<sup>2</sup> periodically develop a list of their top critical cases. Regional management will select critical cases based on:

- Recommendations from regional management and regional **DOS**<sup>3</sup>
- Quarterly risk trending reports reviewed by regional DOS
- Monthly management reports listing problem cases
- Internal regional risk reports

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

<sup>3</sup>Division of Supervision

- High Risk Pipeline Reports
- Reports that flag select cases, provided by **E&I**<sup>1</sup>
- Other approaches at the discretion of the region

Regional management will compile a critical case list and share it with E&I. E&I will review case files and request attendance at selected critical case briefings based on critical cases of national significance and to monitor regional risk management approaches.

## Critical Case Meetings

The purpose of critical case meetings or briefings is to discuss the case background, present status, prognosis, and supervision plans with regional management. The assigned **exam staff**<sup>2</sup> will prepare and present critical cases at the briefings. The RD will determine the format of the critical case package before the meeting and communicate the format to staff at least ten business days before the meeting. The field supervisor will review the package(s) for quality and completeness, as well as adherence to established standards, before submitting it to the regional office.

## High Risk Pipeline

In 2010, the NCUA established the **HRP**<sup>3</sup> to forecast potential failures over specific timeframes. This forecast enables the agency to more efficiently direct supervision resources and gain a better understanding of the potential cost to the NCUSIF.

E&I will create and maintain an HRP data input application. E&I will act in a quality control capacity and will not provide any E&I employees with input access.

Each region will designate authorized user(s) to enter the identified credit unions into the HRP. Any changes to a data field in the system will be tracked by date and employee identification number.

RDs are responsible for implementing procedures to enter or update data in the HRP by the 15th day of each month following a calendar quarter-end.

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>High-risk pipeline

Please note, interim reporting related to loss reserves may be necessary if there are changes before the next reporting period. Each region will input data into the HRP for any natural person credit union that meets one or more of the following conditions:

- Assigned an NCUA **CAMELS**<sup>1</sup> composite 4 or 5 rating and has assets greater than \$50 million
- Assigned an NCUA CAMELS composite 3 rating and has assets greater than or equal to \$250 million
- Has specific reserves assigned, or requested by the region
- Has outstanding assistance granted under **FCUA**<sup>2</sup> [§ 208](#) or [§ 216](#)

The region may also include credit unions that do not meet the above conditions, at its discretion.

E&I will create and maintain a series of output reports generated from the information entered into the HRP. Each region and **AMAC**<sup>3</sup> will designate authorized user(s) to access the output reports from the HRP.

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*Last updated February 2, 2023*

## Control Reports

Control reports serve as a mechanism to ensure the NCUA has a robust examination program that is properly resourced and monitored for adherence to national examination and quality standards.

### E&I Control Reports

**E&I**<sup>4</sup> will run reports to evaluate the status of the national examination program and evaluate adherence to national standards including:

- Outstanding Recordkeeping Issues
- Completion Target Exception Reports
- DOR Tracking Reports to ensure resolution is achieved timely

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>Federal Credit Union Act

<sup>3</sup>Asset Management Assistance Center

<sup>4</sup>Office of Examination and Insurance

- **MARS**<sup>1</sup> workload and completed examination/supervision contact reports
- **CAMELS**<sup>2</sup> 3, 4, and 5 MARS reports
- Problem Credit Union Reports (3,4,5)
- Other specialized reports as deemed appropriate

Until a national database/tool is developed, regions will continue to use reporting systems currently in place. **Regions**<sup>3</sup> should ensure their current systems capture the requested information.

## Regional Control Reports

At a minimum, the regions will be responsible for maintaining the following control reports:

- MARS reports – Regions will ensure MARS complete and reconciled each month
- Budgeting – Regions will review necessary reports and resource budgets monthly to ensure completion and consistency with standards
- Unresolved Recordkeeping Issues – Regions will be responsible for tracking outstanding recordkeeping concerns within their region's credit unions. Each quarter (at a minimum), the report should be reviewed and updated to reflect the status of the reported problem codes
- Program Completion Reports
- CAMELS 3, 4, 5 Detail, Status, and Exception Reports
- High Risk Pipeline Reports
- Quarterly PCA Reports
- QCRs
- Status and Exception Reports

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*Last updated July 29, 2015*

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<sup>1</sup>Management Automated Resource System

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>"Regions" includes ONES (unless otherwise specified)

## Develop and Issue Guidance

The NCUA issues formal examination and supervision guidance to staff in the form of Supervisory Letters, Regulatory Alerts, and Letters to Credit Unions. To ensure guidance aligns with the agency's mission and provides staff appropriate and timely guidance, the NCUA has adopted a standard process to initiate, develop, and release examination- and supervision-related guidance at the national and field office levels.

The Office of Examination and Insurance issues authoritative agency guidance at the national level. Individual field offices may issue explanatory and training materials (such as white papers) directly to their staff. The NCUA Exam Steering Group assists **E&I**<sup>1</sup> by:

- Reviewing examination and supervision guidance requests
- Helping prioritize guidance requests based on need
- Recommending a lead office or region responsible for the development of guidance
- Aiding the coordination of necessary resources for guidance development

**Whitepapers and other regional materials may not establish exam procedures or policy. Regions**<sup>2</sup> may continue to provide guidance to staff to clarify existing policy and provide regional specific direction/training.

The following review process, which is also available on the [ESG SharePoint site](#), is intended to eliminate redundant guidance development efforts. Staff will adhere to the protocol outlined below.

## Initiating Guidance Development

To initiate a request for guidance development, field and central offices will submit a guidance request to E&I and provide a brief description of the issue (s) or topic(s) to be addressed. Upon receiving a formal request for guidance development, E&I will:

- Maintain an inventory of all guidance products in development and related requests

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

- Post the inventory of guidance in development to the [ESG SharePoint site](#)
- Provide the formal request to the **ESG**<sup>1</sup> for discussion

At each quarterly meeting, the ESG will review all proposed guidance requests received since the last meeting to determine if the proposal creates new agency policy and consider the most appropriate avenue for distribution (Supervisory Letter, Regulatory Alert, Letter to Credit Unions, whitepaper).

## Developing and Issuing National Guidance

Once the ESG (with E&I's concurrence) or E&I determines whether the proposed guidance is suitable for national development and issuance:

- E&I will notify the requesting office within 14 days of the ESG's decision.
- Unless E&I will serve as the lead office, another office may volunteer and be assigned as the lead office to conduct the initial research for, and drafting of, the guidance.
- E&I will assign a staff member to be the point of contact on all guidance in development and will work with regions and offices to marshal subject matter experts as necessary.
- Once developed, the lead office will provide all regions and related central offices with the draft guidance and a comment log. The lead office will establish a comment period no shorter than two weeks for regions and offices to submit feedback.
- The lead office will submit updated guidance to E&I after receiving and addressing all feedback. A copy of the comment log will be included with the submission.
- E&I will assume the lead at this point and will take on responsibility to perform quality control and vet the guidance with the NCUA Board, **ED**<sup>2</sup>, other agencies as applicable, and determine whether to issue the guidance, and when.

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<sup>1</sup>Exam Steering Group

<sup>2</sup>Executive Director

## Developing and Issuing Field Office Guidance (Directions, Training Material, Whitepapers)

If the ESG (with E&I's concurrence) determines the proposed guidance is suitable for development and issuance by an individual field office:

- E&I will notify the requesting office (the "lead office") responsible for developing the guidance within 14 days of the ESG's decision.
- Upon notification, the lead office will research, draft, and distribute the material to its staff and provide a copy to all regions, E&I, and any interested central offices.

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*Last updated January 27, 2016*

## Administrative Items

- [Attaching Documents in MERIT](#)
- [Delivering a Report to Credit Union Officials](#)
- [EIC Rotation Limits](#)
- [Electronic Copies of Reports](#)
- [Exam Timeframes and Limits](#)
- [Notifying a Credit Union of a Contact](#)
- [Reopening and Canceling Exams and Contacts](#)
- [Team Member Responsibilities](#)

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*Last updated October 14, 2021*

## Attaching Documents in MERIT

**MERIT**<sup>1</sup> allows users to attach documents to various forms, including scope tasks and issues.

Exam staff should attach files in MERIT as needed to support the administrative record and should avoid maintaining electronic or physical field files for credit unions in their district. Exam staff should attach examination support and correspondence among the central office, regional office, credit union,

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform



SSA, or any other related party to either an examination or the examinable entity form in MERIT.

The matrix below shows where **exam staff**<sup>1</sup> should attach documents in MERIT. Documents not specifically mentioned below related to an item reviewed during an exam or contact should be posted to the item's scope task.

Document	Where Found	Where to Attach	Additional NSPM Reference
Administrative Actions	Templates in online NSPM	Documents section of the Examinable Entity form	N/A
Capital Plan Review Questionnaire	MERIT Job Aids Repository	Applicable Capital Planning scope task	N/A
Consumer Compliance Workbook	OCFP <sup>2</sup> 's SharePoint site	Consumer Compliance Review Scope Task	N/A
DEXA Mapping Document	Created with the credit union's input	Documents section of the Examinable Entity form	N/A
FinCEN <sup>3</sup> Form	MERIT Job Aids Repository	Documents section of the Exam form	Bank Secrecy Act>Reporting Significant Violations
FISCU CAMELS <sup>4</sup> Disclosure Form	MERIT Job Aids Repository	Publish document in MERIT, but do not send	FISCU Program>Disclose NCUA CAMELS and Risk Ratings

<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>The NCUA's Office of Consumer Financial Protection

<sup>3</sup>Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

<sup>4</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

Document	Where Found	Where to Attach	Additional NSPM Reference
		issues to issue management if the NCUA is the Co-EIC.	
Management Questionnaire (if completed in Word)	MERIT Job Aids Repository	Documents section of Exam form	District Management>Examination and Supervision Planning>Management Questionnaire
Microstrategy Analytics PDF and Dossier (.MSTR) files	MERIT Analytics	Documents section of the Exam form.	N/A
IRR <sup>1</sup> Workbook	MERIT Job Aids Repository	IRR Review Scope Task	N/A
Information Systems Exam (ISE) Report	ISE Tool	Gramm-Leach-Bliley (Privacy) Act scope task	N/A
LCRE <sup>2</sup> Form	MERIT Job Aids Repository	Closed Information Questionnaire scope task. For FISCO joint exams, if an SSA closes the exam before all LCRE form approvals are obtained, the LCRE form should be included in the MERIT 3.1	District Management>Concentration Risk Reviews

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<sup>1</sup>Interest rate risk

<sup>2</sup>Loan Concentration Risk Evaluation

Document	Where Found	Where to Attach	Additional NSPM Reference
		Review of State Exam scope task	
NCUA Exam Report	MERIT Exam Report Form	Publish document in MERIT	N/A
Supervision Chronology	<a href="#">NSPM&gt;District Management&gt;District Management Templates</a>	Documents section of the Examinable Entity form	FISCU Program>Supervision Contacts>Follow-up Exams for Troubled/Problem Credit Unions and FCU Program>Supervision Contacts>Follow-up Exams for Troubled/Problem Credit Unions
SSA Exam Report (if SSA does not use MERIT or uses MERIT and does not attach exam report to its exam)	Potentially emailed to the region if not in MERIT	Documents section of Exam form	FISCU Program >Supervision Contacts>Review of SSA Exams (WCC <sup>1</sup> -26)
Team Memo	Created by exam staff outside of MERIT	Team Member Survey	N/A

Exam staff should also attach a revised financial analytics dossier if there are changes to the Call Report or effective data that result in revised financial analytics during the course of the exam or contact.

For more information about documentation, see the NSPM's [Examination Reports](#) section.

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<sup>1</sup>Work Classification Code

## Documents that contain PII

When attaching documents that contain **PII**<sup>1</sup>, exam staff must check the *Contains PII* box. Exam staff will not attach SARs to MERIT.

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*Last updated June 23, 2023*

## Delivering a Report to Credit Union Officials

After the examiner receives and reviews the completed **PSR**<sup>2</sup> or DSCR from their supervisor and **DOS**<sup>3</sup>, as applicable, and makes any needed adjustments, examiners should deliver the final examination report or insurance review report. The examiner should inform management and key officials of the major deficiencies before the joint conference. (See the [Joint Conferences and Exit Meetings](#) section of the NSPM for more information.)

**Note:** With SE concurrence, the examiner may provide certain draft examination documents, including the DOR and Examiner's Findings before the PSR review(s) are complete. If no DOS or ARD PSR is required, the SE may approve pre-release of **CAMELS**<sup>4</sup> ratings. Management must be made aware that draft examination documents, including CAMELS ratings and risk ratings are preliminary and may change before final report is issued. When DOS and/or ARD review is required, the examiner may only release CAMELS ratings after the PSR review is complete.

Examiners will keep all internal discussions surrounding the exam review process confidential, including the decision making around CAMELS ratings or any disagreements the examiner may have with the quality assurance review results. In situations where the examiner is not able to deliver the report at the joint conference or exit meeting, the examiner will send the report to the credit union within one business day of the examination completion date. If this timeframe cannot be met, the examiner must document supervisor concurrence in the [Closed Information Questionnaire](#), as well as the reason for delay.

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*Last updated October 14, 2021*

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<sup>1</sup>Personally identifiable information

<sup>2</sup>Pre-release secondary review

<sup>3</sup>Division of Supervision

<sup>4</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

## EIC Rotation Limits

Examiners may serve as EIC for examinations and contacts for consecutive FCU or FISCU examinations completed within five calendar years.

The EIC will be rotated at the end of the fifth calendar year and will not serve as EIC until another examination (**WCC**<sup>1</sup> 10 or WCC 11) is completed by a different examiner. The rotation period starts with the calendar year in which an examiner first serves as EIC.

Supervisors will ensure adequate rotation of EICs occurs. ARDs will monitor compliance with this requirement. The assigned ARD may approve exceptions on a case-by-case basis for extraordinary circumstances such as pending merger, liquidation, charter conversion, or resolution of an emerging material problem. The ARD will document all approved exceptions in writing, and the EIC will document approval in the Closed Information Questionnaire.

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*Last updated August 03, 2021*

## Electronic Copies of Reports

Exam staff may normally provide credit unions with an electronic copy of examination and supervision contact reports through **MERIT**<sup>2</sup>. Exam staff may provide credit unions a hard copy report, depending on a credit union's preference. Should **exam staff**<sup>3</sup> provide an electronic copy of the report outside of MERIT, they should provide the report in PDF format to prevent easy manipulation of documents .

The instructions for creating an electronic copy of the examination report are accessible through the [NCUA and SSA MERIT User Guide](#). If an examiner sends the examination report via by e-mail, they must use ZixMail, the NCUA's secure e-mail program. Instructions for using ZixMail are available on [OneStop](#).

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*Last updated February 2, 2023*

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<sup>1</sup>Work Classification Code

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

## Exam Timeframes and Limits

### *Timeframe to Close an Examination/Supervision Contact*

Credit union officials must receive timely information and take prompt corrective action. To that end, **exam staff<sup>1</sup> will close all examinations/onsite supervision contacts within 90 calendar days of the start date of the examination/onsite supervision contact.** For credit unions assigned to **ONES<sup>2</sup>**, examiners will close all contacts within 90 days. The start date is the first date an examiner charges time in TMS to **WCC<sup>3</sup> 10** or **WCC 11** (for an exam), or **WCC 22** or **WCC 23** (for a supervision or follow-up contact). An exam start date will coincide with the first date that exam work (not pre-planning work) is conducted onsite or offsite. Exam staff must ensure the start date entered into the Milestones form in **MERIT<sup>4</sup>** is consistent with this definition.

This timeframe includes all other exam-related timeframes. Timeframes detailed in this section of the NSPM will be shortened as necessary to meet the maximum 90-day timeframe.

If closing an examination/supervision contact within 90 days is impossible, an EIC will notify their supervisor and obtain approval to extend the timeframe. If the requested completion and close date exceeds 120 days, the supervisor will notify and request advance approval from the ARD or Deputy Director. Exam staff will document the rationale for the extension request and the supervisor or ARD/Deputy Director decision in the Closed Information Questionnaire.

**Regions<sup>5</sup>** will maintain a cumulative report identifying credit union examinations/onsite supervision contacts remaining open longer than 90 days and provide the report to the ARDs/Deputy Director quarterly. ARDs/Deputy Director will review the report to evaluate if the extended examination periods were justified.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>3</sup>Work Classification Code

<sup>4</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>5</sup>"Regions" includes ONES (unless otherwise specified)

**E&I**<sup>1</sup> will evaluate completion and closure timeframes not less than semi-annually to evaluate the efficiency and effectiveness of examination planning and scheduling.

### ***Completion date and MERIT Closure Requirement***

Exam staff will enter the examination completion date on the Milestones form in MERIT. The examination/supervision completion date is the day the EIC last charged time to the examination and must be within five business days of the latest of the following dates:

- Date of last time onsite
- Date of exit meeting
- Date of joint conference
- Date of **PSR**<sup>2</sup> pre-exam closure process completion

Within one business day of the examination completion date, EICs will close the MERIT examination or contact.

The five business days to complete and one business day to close the examination/supervision contact are included in the [90-day examination timeframe requirement](#). For example, if the joint conference, exit meeting, or last day onsite takes place on the 88th day, the EIC has two business days to complete and close the examination.

The [90-day examination timeframe](#) requirement does not include time spent on pre-planning activities (WCC 94 or WCC 95).

Having a joint conference, exit meeting, or last day onsite on the 88th day does not extend the 90-day timeframe unless a waiver is obtained as outlined above. Similarly, if an EIC has the joint conference, exit meeting, or last day onsite on the 30th day, they have until the 35th business day to complete the examination/supervision contact and until the 36th business day to close the examination/supervision contact. Hand delivery of an examination report does not constitute 'date last onsite.'

If there is a delay in closing the MERIT exam/supervision contact, due to conferences, training, annual leave, or sick leave, exam staff will notify their

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Pre-release secondary review

supervisor and document supervisor concurrence and the reason(s) for exceeding the timeframe in the Closed Information Questionnaire.

### ***Limiting Examinations in Process***

EICs will not have more than three examinations (as EIC) in process at the same time without supervisor approval. EICs will email their supervisor for approval documenting the reason(s) for exceeding the allowable number of examinations in process at one time.

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*Last updated February 2, 2023*

## **Notifying a Credit Union of an Examination/Supervision Contact**

When the NCUA is leading an examination, examiners should provide as much advance notice as possible before starting an examination or supervision contact. Unless [fraud](#) is suspected or other special circumstances exist, examiners will give credit union officials a minimum notice of four weeks.

NCUA management must approve notification periods shorter than four weeks. Each region will specify at what level management approval is required. This approval will be documented in the Closed Information Questionnaire scope task in the **MERIT**<sup>1</sup> contact report.

For [joint FISCO exams](#), the NCUA EIC should make every effort to coordinate with the SSA EIC to ensure that an all-inclusive document request list or survey is provided to the FISCO with as much advance notice as possible.

NCUA management must approve notification periods shorter than four weeks.

As part of the notification process, examiners will provide the appropriate exam notification letter (RFE or **SCUEP**<sup>2</sup>) found in the MERIT job aids repository. The Document Request survey will also need to be generated and customized to only request items unique and necessary to address the scope and risk profile for each examination. For additional guidance on generating the exam notification letter and Document Request survey, refer to the [NCUA and SSA MERIT User Guide](#).

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Small Credit Union Examination Program



Credit unions should receive the exam notification letter and document request list or survey no less than four weeks before the actual [start date](#) of the exam, whether onsite or offsite. Examiners do not need credit union approval of examination scheduling, but should reach agreement whenever possible to minimize disruption to a credit union and to ensure critical staff members are available while examiners are on site.

With supervisory approval, examiners may start an examination or supervision contact without providing notice when the EIC plans to conduct a surprise contact due to weak internal controls, suspected fraud, or when supervisory timeliness is warranted.

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*Last updated October 26, 2022*

## Reopening and Canceling Exams and Contacts

To reopen a previously closed **MERIT**<sup>1</sup> examination or supervision contact or to cancel an exam or contact, **exam staff**<sup>2</sup> will send a request to their supervisor, who is responsible for approving or denying the request. The request must include the credit union's charter number, effective date, contact type, the exam title, and a brief explanation.

The supervisor will forward approved requests to the region's **DOS**<sup>3</sup> mailbox per the region's specified procedure. If approved, the region's DOS will process the request and notify the field supervisor and requesting examiner when the work is complete. If disapproved, the region will notify the field supervisor and requesting examiner, and explain the reasons behind disapproval.

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*Last updated February 2, 2023*

## Team Member Responsibilities

Team members must provide the EIC with the documentation and completed **MERIT**<sup>4</sup> forms to support areas reviewed, any corrective actions recommended, and proposed **CAMELS**<sup>5</sup> and risk ratings as per the EIC's instructions at the beginning of the exam or contact.

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Division of Supervision

<sup>4</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>5</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

Team members must discuss any problems identified and recommended corrective actions with credit union management and address any questions management has while the team member is onsite. Team members will discuss any DOR items with the EIC before discussing them with credit union management.

At a minimum, team members will provide the following information (as applicable) in the Team Member survey:

- Detail of time charged
- Complete, comprehensive scope tasks
- Recommendation for applicable risk and CAMELS ratings
- Completed Loan Review
- Examiner's Findings in MERIT
- DOR in MERIT
- Consumer Compliance Violations in MERIT
- Status update for all prior issues in MERIT, as applicable
- Status update for any outstanding administrative action(s)
- Description of problems identified and their relationship to/impact on the CAMELS ratings (to be included in the Examination Overview)
- Comments for the Closed Information Questionnaire
- Any recommendations for changes to future supervision plans or budgeted hours
- Other workpapers to support problems identified or recommended actions

**Note:** The team member responding to the survey may summarize their review in a memo or other document addressing the above items as applicable and attach it to the Team Member survey.

## **EIC Responsibilities**

Before starting a team examination or supervision contact that includes three or more team members (including the EIC), the EIC will communicate individual responsibilities and any additional expectations for documentation to all

team members, including specialized examiners (**RLS**<sup>1</sup>, **RCMS**<sup>2</sup>, **RISO**<sup>3</sup>, etc.). This is typically done through an email, the Exam Logistics section of the Exam Form, or a Team Member Survey in MERIT. At a minimum, the EIC will provide team members:

- The location of the credit union, hours of operation, dress code, travel considerations (rental cars needed, lodging, etc.)
- Summary of existing and emerging concerns
- Individual responsibilities and time budgeted
- Additional documentation team members are expected to provide the EIC beyond the items required in the Team Member Responsibilities section)
- Due date for completing applicable sections of MERIT and providing requested information back to the EIC

The EIC is responsible for delegating and coordinating the work of the team members and ensuring the quality of the examination. This includes, but is not limited to, ensuring:

- Risk areas are adequately identified and assessed
- The examination report is cohesive
- Credit union management understands and agrees with the areas of concern
- An administrative record is well documented in MERIT
- Expectations for the frequency and timeliness of syncing offline MERIT data (for example, if team members are working offline, the EIC may request **exam staff**<sup>4</sup> sync to MERIT daily by 5 p.m. local)

EICs will not remove team members from the exam or contact in MERIT unless the team member did not participate on the exam or contact.

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*Last updated June 23, 2023*

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<sup>1</sup>Regional Lending Specialist

<sup>2</sup>Regional Capital Markets Specialist(s)

<sup>3</sup>Regional Information Systems Officer

<sup>4</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

## District Management Templates

- Supervision Chronology Report
- Team Memo
- **LCRE**<sup>1</sup> Form
- Concentration Risk Job Aid

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*Last updated January 4, 2021*

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<sup>1</sup>Loan Concentration Risk Evaluation

# Examination Complaints

Credit union officials have the right to appeal or file a complaint on examination issues directly to the RD. This would include any written or informal appeal or complaint related to an examination or supervision contact or other supervisory determination and may take the form of complaints against supervisory examiners, examiners, requests for a different examiner, or requests for some type of change to the examination report.

In addition, part 309 of the [Riegle Community Development and Regulatory Improvement Act of 1994](#) required the NCUA to establish an independent appellate process to review material supervisory determinations. In 2017, the NCUA Board approved a final rule ([part 746, subpart A](#)) outlining the review process. After making a request for reconsideration from the RD, a credit union may request a review by the Office of Examination and Insurance or appeal directly to the Supervisory Review Committee. A credit union may also file an appeal with the NCUA Board challenging the decision by the Supervisory Review Committee.

Examination material supervisory determination is defined as written decisions by a program office that may significantly affect the capital, earnings, operating flexibility, or that may otherwise affect the nature or level of supervisory oversight of a credit union. The term includes, but is not limited to:

- Composite **CAMELS**<sup>1</sup> ratings of 3, 4, and 5 and all component ratings of those composite ratings
- Adequacy of loan loss reserve provisions
- Loan classifications on loans that are significant as determined by the appealing credit union

To be appealable to the committee, an examination complaint must be filed by a credit union within 30 days of the Regional Office's final determination or the final determination of the Office of Examination and Insurance, if applicable. A complaint regarding a FISCO examination may be made to the NCUA if the final determination was made by the NCUA examiner. If a final determination

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

was made by the state examiner, the NCUA will turn the complaint over to the state for the appropriate action.

## Material Supervisory Determination Exclusions

The following are excluded from the term “material supervisory determination:”

- A composite CAMELS rating of 1 or 2
- A component CAMELS rating, unless the rating has a significant adverse effect on the nature or level of supervisory oversight of an insured credit union
- The scope and timing of supervisory contacts
- A decision to appoint a conservator or liquidating agent for an insured credit union
- A decision to take prompt corrective action pursuant to section 216 of the [Federal Credit Union Act](#) and NCUA regulations part 702, [Capital Adequacy](#)
- Enforcement-related actions and decisions, including determinations and the underlying facts and circumstances that form the basis of a pending enforcement action
- Preliminary examination conclusions communicated to an insured credit union before a final exam report or other written communication is issued
- Formal and informal rulemakings pursuant to the [Administrative Procedure Act](#)
- Requests for NCUA records or information under the [Freedom of Information Act](#) and NCUA regulations part 792, [Requests for Information Under the Freedom of Information Act and Privacy Act, and by Subpoena; Security Procedures for Classified Information](#), and the submission of information to the NCUA that is governed by this statute and regulation, and
- Determinations for which other appeals procedures exist

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*Last updated July 31, 2018*

## Examination Complaint Investigation Goals

Our main goal is to anticipate and resolve problems at the field level whenever possible. We expect the investigative process to:

- Determine the real issues and work towards solutions
- Reach agreements based on facts and complete necessary corrective action
- Identify potential deficiencies in agency systems, methods, and procedures and effect correction
- Identify examiner performance issues
- Provide a written response from the RD to the credit union within a 30-day timeframe on all appeals that involve material supervisory determinations

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*Last updated July 29, 2015*

## Roles and Responsibilities

### Division of Supervision

**DOS**<sup>1</sup> is responsible for coordinating the examination complaint investigation with **exam staff**<sup>2</sup>. Upon receipt of an examination complaint, DOS will:

- For FISCUs, review the complaint to identify if the NCUA or state made the final determination. If it was the NCUA, the complaint will be processed by DOS. If the state examiner made the final determination, the complaint will be forwarded to the state for processing.
- Review the complaint and identify if it is for a material supervisory determination as defined in NCUA regulations § 746.103, [Material supervisory determinations](#).
  - DOS will ensure the region responds in writing to all material supervisory determination exam complaints within 30 calendar days, and to all other exam complaints within 60 calendar days.

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<sup>1</sup>Division of Supervision

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Draft and send memo to [acknowledge the examination complaint](#) to the credit union within five days of receipt of the complaint in the regional office.
- Prepare and send a work assignment to complete a [Regional Summary](#) to the SE (or ARDP) that includes a copy of the credit union's examination complaint. A copy of the examination complaint will be sent to the Examiner-In-Charge, if warranted.
- Review the completed field [Regional Summary](#) and analyze the recommendations for appropriate support and justification. Upon concurrence, DOS will submit the recommendation and proposed response (use the [Respond to Examination Complaint](#) sample) to the RD for approval and signature. DOS will mail the signed letter using the region's preferred expedited mail delivery service with a copy to the SE and Examiner.
- DOS will post copies of the original complaint, acknowledgement letter, response letter and completed [Regional Summary](#) to the central office via **E&I**<sup>1</sup> SharePoint Post Office.

## Regional Director

The RD, or their designee, will:

- Review all appeals
- Notify the **OIG**<sup>2</sup> immediately if an appeal concerns NCUA staff involvement in waste, fraud, or abuse against the U.S. government
- Route all appeals to the DOS director for processing

## Exam Staff Review

The SE will be responsible for investigating all complaints. If the SE is named in the complaint, the associate ARDP or their designee may be asked, depending on the nature of the complaint, to handle the investigation.

The SE (or ARDP) will contact the credit union officials and the examiner and will schedule any meetings necessary to facilitate the investigation.

The SE (or ARDP) will complete the investigation and send a report to DOS outlining the investigation steps, the findings, agreements, and

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>The NCUA's Office of the Inspector General



recommendations for action. The SE response will also include a draft [response](#) to the credit union for the RD's signature.

The SE may request an extension of the investigation timeframe for any complaint not considered a material supervisory determination as defined in NCUA regulation § 746.103, [Material supervisory determinations](#), by sending an e-mail request to the ARDP explaining the reason for the extension. The ARDP will notify the SE of his or her decision by e-mail with a copy to the DOS

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*Last updated October 30, 2023*

## Exam Complaints Templates

- Acknowledge Examination Complaint
- Regional Summary of Exam Appeal and Complaint
- Respond to Examination Complaint (sample)

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*Last updated July 29, 2015*

# Examination Reports

The policies outlined in this NSPM section apply to all documentation prepared by the NCUA in relation to an examination or supervision contact when such documentation is delivered to a third party such as credit union management, a CUSO, or a vendor. These materials are part of the agency's formal administrative record, and represent important communication from the NCUA.

The administrative record is the total collection of information needed for decision-making purposes. It must present a complete, factual, and fully documented history of a credit union's problems. It should also clearly document the efforts taken (or not taken) by both the credit union officials and the NCUA to resolve those problems.

Examiners will ensure the administrative record documents their concerns about a credit union. Examiners must compile the administrative record through **MERIT**<sup>1</sup> workpapers, examination/supervision contact reports or other written communications to credit union officials.

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*Last updated March 11, 2020*

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

## Examination Report

An examination report is the NCUA's official report to a credit union provided as the result of an examination, insurance review, or supervision contact. An examination report's key purpose is to communicate the results of the contact and any NCUA concerns to a credit union so it can make appropriate changes in its practices, operations, or financial condition and avoid [more formal remedies](#). This is accomplished by identifying problems and providing corrective action. **MERIT**<sup>1</sup> exam workpapers and schedules designed to support an examination report and examiner's conclusions are also important parts of the administrative record.

The **FFIEC**<sup>2</sup> released the [Policy Statement on the Report of Examination](#) on March 6, 2019 as part of its [Examination Modernization Project](#), which is aimed at reducing unnecessary regulatory burden on community financial institutions.

During an examination, team members use the [total analysis process](#) described in the [Examiner's Guide](#), and send pertinent information on review areas to the EIC. The EIC uses this information to prepare the examination report. The EIC usually delivers completed examination reports to the board of directors at the conclusion of an examination. A credit union board of directors and senior management are a report's primary users, and examiners and EICs should write the report with this in mind.

The EIC is the author of an examination report, regardless of whether changes occur to the report during the review process. If a material disagreement occurs between an EIC and the SE during the report review process, the EIC may note their original position and objection to required changes in the Closed Information Questionnaire.

EICs will clearly label report documents as drafts before reviewing them with credit union officials, and will inform credit union officials that an exam report is not considered final until it has officially been issued to the credit union officials.

Besides complying with the agency's [general documentation standards](#), examination reports must be comprehensive and:

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Federal Financial Institutions Examination Council

- Properly identify all material concerns related to the seven risk areas (credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risk)
- Properly prioritize, support, and address material concerns
- Support conclusions with appropriate documentation, relevant facts, and citations and clearly document the rationale to support:
  - **CAMELS**<sup>1</sup> component and composite ratings
  - Risk ratings
  - Noted violations of compliance with applicable laws and regulations
  - Any material supervisory determinations
- Outline proper corrective actions to ensure problems are resolved in a timely manner
- Establish a documented administrative record to support future administrative action and problem resolution, if necessary

Examiners should set aside time throughout an examination to discuss any identified problems with management and officials. Examiners must provide a draft copy of the [DOR](#), [Examiner's Findings](#), and [Loan Exceptions](#) with sufficient time for Management to review before a [joint conference or exit meeting](#). An EIC may not introduce new information that has not been provided to credit union management in advance at the joint conference, exit meeting, or in the final examination report.

Examiners may withhold key assertions from management if they merit discussion directly with a credit union board of directors or supervisory committee. An example of such a circumstance is suspected [fraud](#). More information about [joint conferences and exit meetings](#) is available in the NSPM.

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*Last updated October 26, 2022*

## Report Components

For credit union examinations and supervision, an official examination report is comprised of the following documents:

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

Component	Requirement
<a href="#">Cover Letter</a>	Required
<a href="#">Table of Contents</a>	Required
<a href="#">Examination Overview</a>	Required for an FCU (and a FISCO, when the NCUA issues a report)
<a href="#">Document of Resolution</a>	As applicable
<a href="#">Examiner's Finding</a>	As applicable
<a href="#">Loan Exception Schedule(s)</a>	As applicable
<a href="#">Supplementary Facts</a>	As applicable
<a href="#">Status Update</a>	As applicable
<a href="#">FISCO CAMELS Disclosure</a>	Required for a FISCO

**Only the workpapers and documents listed in the Table of Contents are part of the official examination report given to credit union officials.** Examiners will use the **MERIT**<sup>1</sup> Exam Report Template to organize examination reports and document official report components and workpapers given to credit union officials. At a minimum, examiners must provide a credit union copies of the [Cover Letter](#), [Table of Contents](#), [Examination Overview](#), and any other [applicable report documents](#).

State regulator examination reports may contain different key documents and workpapers. NCUA examiners must follow [FISCO procedures](#) when conducting an examination or contact in a FISCO.

Besides the official examination report documents, examiners may include additional [supporting workpapers](#), schedules, checklists, or forms that support their conclusions within the official examination report.

*Last updated October 26, 2022*

## Cover Letters

A cover letter must:

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

- Explain the risk-focused or defined scope of examination
- Explain the examination appeal process
- Describe key documents included in the examination report
- Include the names of the agency or agencies issuing the report
- Note the receiving credit union's name and charter number
- Identify the "as of" date of the exam report

Examiners must use the standard cover letter template for the appropriate type of examination or contact (available in **MERIT**<sup>1</sup>).

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*Last updated October 26, 2022*

## Table of Contents

Examiners will use the **MERIT**<sup>2</sup> Exam Report Template to organize examination reports and document official report components and workpapers given to officials. To create a Table of Contents, examiners must create the exam report in MERIT Exam Report form. This form creates a table of contents in a MS Word format and ensures the table of contents is visible in the examination report.

The table of contents and examination report serves as the NCUA's permanent record and documents what the NCUA provided to credit union officials.

While examiners may informally provide a credit union additional documentation necessary to support their conclusions and assist in gaining resolution to problems uncovered during the examination or supervision process (schedules, [supporting workpapers](#), questionnaires, examiner-designed workpapers), only the workpapers and documents listed in the table of contents are considered part of the official examination report. Exam staff should add appropriate workpapers to the official examination report as needed to support the administrative record. Instructions are available in the [NCUA and SSA MERIT User Guide](#).

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*Last updated October 26, 2022*

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

## Examination Overview

The Examination Overview is a critical element of an examination report. In it, examiners must disclose the component and composite **CAMELS**<sup>1</sup> ratings and each final risk rating to the credit union. If no material risks exist, the examination overview is generally brief.

Examination overviews must be accurate, clear, thorough, and consistent with agency policy.

### **Accurate**

The overview should accurately represent information observed by the examination team or provided by the credit union, and must justify the assigned CAMELS and risk ratings.

Examiners must support the conclusions presented in the overview. Examiners should include the rationale behind assigned CAMELS and risk ratings by referencing appropriate documentation and providing relevant facts.

### **Clear**

Examiners will apply standards established in the [Plain Writing Act](#) and the [NCUA Style Guide](#) (formerly known as the Communications Manual) to create an overview that organizes information in a logical manner, while explaining and supporting the assigned CAMELS and risk ratings. Examiners may organize content by CAMELS component, risk rating (with an emphasis on how each risk rating impacts the CAMELS code), or topically (by issues identified in a credit union).

All documentation prepared by NCUA staff should be fact-based, professional, and objective. Staff will use clear, concise, well-organized, language that is appropriate to the subject matter and the intended audience. Simple language and short sentences are generally the most effective.

Examiners will describe material concerns, the adequacy of a credit union's risk management practices, and the credit union's risk profile in clear terms. Examiners must also clearly outline the reasons for assigning CAMELS ratings, and such reasons must be consistent with 22-CU-05 [CAMELS Rating System](#).

For example, if an examiner has rated the Capital CAMELS component a 3, they should explain what conditions lead to the conclusion that capital does

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

not fully support the credit union's current and prospective risk profile. Simply noting that a credit union's capital ratio is below peer is not sufficient--the examiner must outline the credit union's risk profile and explain why capital levels are less than satisfactory related to the risk profile.

## ***Thorough***

Examiners will prepare an Overview that:

- Summarizes areas of elevated risk (credit, interest rate, liquidity, transaction, compliance, strategic, reputation) identified during the examination; all risk ratings must be disclosed, and elevated risk areas must be summarized and justified
- Discusses the credit union's current and future risk profile and the adequacy of the credit union's risk management practices
- Explains and justifies CAMELS (component and composite) and elevated risk ratings
- Presents a professional, concise discussion of key issues in context of the credit union's overall condition

References to [other components of the examination report](#) can minimize redundancy and direct readers to additional information contained in the report. Examiners should not duplicate content from a [DOR](#), but briefly identify the problem(s) identified during the examination or contact and the effect on CAMELS and risk ratings, and refer credit union officials to the applicable DOR section(s) of the exam report for more comprehensive information.

Examiners should provide enough information to allow credit union officials to understand the circumstances and information that lead to the assignment of CAMELS and risk ratings.

Conclusions for CAMELS ratings must be consistent with NCUA Letter to Credit Unions22-CU-05 [CAMELS Rating System](#) . For example, if an examiner rates the Management CAMELS component 4, they must describe the specific circumstances that result in:

- Deficient management and board performance or risk management practices that are inadequate considering the nature of the credit union's activities,
- An excessive level of risk exposure, and



- The inadequate identification, monitoring, and controlling of significant risks.

## **Consistent with NCUA Guidance**

Examination Overviews must be consistent with applicable NCUA policy.

Examiners must also prepare material that is consistent with agency guidance related to the preparation of written material (see the [NCUA Style Guide](#), formerly the NCUA Communications Manual) and the assignment of CAMELS and risk ratings (see the [Examiner's Guide](#)). More guidance can be found in NCUA Letter to Credit Unions 22-CU-05 [CAMELS Rating System](#).

Such consistency ensures that all credit unions are evaluated in a fair manner and provided useful examination reports.

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*Last updated March 11, 2020*

## **Document of Resolution**

Problems included in a DOR must be significant enough that an examiner would recommend escalating to the next level of elevated enforcement action (for example, an [RDL](#) or [LUA](#)) for failure to correct the problem. DOR items are those that management must begin to address immediately or within a compressed timeframe due to the risk associated with the problem. A DOR must concisely describe a problem (including all supporting facts) and outline the corrective action necessary to resolve it.

Sometimes, a problem may take significant time to be fully resolved. In such an instance, a credit union must initiate action to address the items quickly, even if it may take a year or more to fully resolve the problem or comply with the corrective action item.

When [developing a DOR](#), an examiner will detail the person(s) responsible, [provide a citation\(s\)](#) for the problem, and establish the timeframe for taking corrective action. The NCUA expects faithful performance from credit union management on all agreements reached and documented in a DOR. Credit union management's failure to address DOR items may result in [administrative action](#).

In cases of unforeseen circumstances, such as a disaster or pandemic, **exam staff**<sup>1</sup> should be flexible and reasonable with DOR corrective action time-frames and follow up.

Section 206(b)(1) of the [Federal Credit Union Act](#) gives the NCUA the ability to terminate insurance for unsafe and unsound practices. While a DOR may not lead to termination of insurance, the Act implies that credit unions must operate in a safe and sound manner as a condition of insurance. NCUA regulations § 741.3, [Criteria](#), also requires credit unions to operate in a safe and sound manner as a condition of insurance.

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*Last updated May 12, 2022*

## ***Issues – Document of Resolution***

A DOR is entered as an Issue in **MERIT**<sup>2</sup>. Entering the DOR as an Issue in MERIT improves the administrative record by allowing unresolved DOR items to be tracked and updated. The Issues Management Section in MERIT allows examiners to track the status of all DORs for which they are the Issue Owner, the Action Owner (where one exists), or both.

Examiners must use the Issues Management section in MERIT to draft a DOR. This can be done within an individual scope task or at the exam level. To ensure a full administrative record of the problem areas, examiners will:

- Create DOR Items and assign problem codes, assign Issue Owners using the Issue section in MERIT.
- Ensure DOR items are consistent between the Issues section and the DOR issued to the credit union.
- Require credit union management to submit a written action plan within 30 days of receipt of the official examination report, if they do not agree to the DOR or adopt the DOR at the joint conference
  - If communication and negotiation efforts are unsuccessful and a DOR is not adopted, examiners will require management to provide an alternative resolution plan and note management's failure to adopt the DOR in the Closed Information Questionnaire. Exam staff will use elevated [administrative action](#) if management's action plan

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

is insufficient to address the problem(s) and the problem(s) remain unresolved.

- Update the status of all DOR items from prior exams (resolved, unresolved, or no longer applicable) and provide appropriate documentation in Issue Management in MERIT.

If an SSA provides a DOR to a credit union, but does not enter it as an Issue in MERIT, NCUA examiners must update the Issues Management Section in MERIT to document any DOR that meet the NCUA's definition of a DOR.

When preparing a DOR, examiners will:

- Describe the root problem(s) concisely, including any corresponding details and facts that support the conclusion that the problem warrants a DOR item in the description box of the Issue Details form.
  - For example, in a credit union with multiple accounts that are out of balance, the DOR should address the cause of the poor record-keeping rather than only requiring the credit union to balance the accounts. The credit union must not only balance all accounts, but also ensure staffing, controls, and procedures are in place to prevent future out-of-balance situations
- Outline appropriate corrective action to resolve the identified problem in the Action Required section of the Issue Details form.
  - Examiners should use corrective actions suggested by credit union management if the action will adequately resolve the problem.
- Document the agreed-upon timeframe(s) for completion in the due date box in the Issue Details form.
  - Do not cite "ongoing" as the timeframe for correction.
- Cite the specific section of the Federal Credit Union Act, NCUA regulations, [Federal Credit Union Bylaws](#), or other authority
  - For safety and soundness concerns that present undue risk to a credit union, examiners should cite § 206(b)(1) of the [Federal Credit Union Act](#) or NCUA regulation § 741.3, [Criteria](#). If a credit union violates more than one of the above, [cite the highest authority](#).

- Identify the specific person(s) or committee(s) responsible for correcting each DOR item by name and title in the Person Responsible section of the Issue Details form.

During the course of a **WCC**<sup>1</sup> 26/3.1 FISCO Regular review, NCUA examiners will add any problem codes (and associated corrective action) needed beyond those entered by the SSA to [complete a review of a state exam](#).

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*Last updated October 26, 2022*

## **Content Criteria**

Problems requiring immediate attention that examiners will address in a DOR include:

- Systemic, recurrent, or willfully negligent compliance violations
- [BSA violations](#), in accordance with the agreement between the NCUA and **FinCEN**<sup>2</sup>
- Unsafe or unsound practices that reasonably threaten a credit union's stability
- Unsafe or unsound practices are any action or lack of action that, if left uncorrected, may result in substantial loss or damage to a credit union or its members, including but not limited to:
  - Operating with an inadequate level of net worth or capital for the type, quality, and concentration of assets held
  - Engaging in lax lending and/or collection practices that include, but are not limited to:
    - Extending inadequately secured credit
    - Originating credit without obtaining current financial information
    - Extending credit without adequate controls
    - Extending credit with inadequate diversification of risk
  - Operating without adequate liquidity

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<sup>1</sup>Work Classification Code

<sup>2</sup>Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

- Operating without adequate internal controls
  - Examples include internal control weaknesses that can lead to persistent recordkeeping errors, numerous loans granted outside of policy, or manipulation of records
- Failure to keep accurate books and records. This includes an accounting and control structure that does not provide for accurate full and fair disclosure of financial statements, which may lead to or mask severe financial problems
- Operating without a credit risk management program commensurate with the types of credit extended to the membership
- Operating without an asset/liability risk management process commensurate with the complexity of the balance sheet
- Inadequate corporate governance

When determining whether a problem qualifies as a DOR, examiners will consider the following:

- If left unresolved, could the violation or problem cause the credit union serious financial or operational damage?
- Does the problem result in fundamental noncompliance with laws and/or regulations?
- Is the problem something that would need to be escalated to the next level of enforcement action (PWL, LUA, etc.) if unresolved?
- Is the problem a result of management's inability or unwillingness to properly identify, measure, monitor, and control risk?
- Is the problem widespread throughout the credit union?

While problems that meet the criteria above likely warrant a DOR, examiner judgment is necessary to determine whether a problem meets the definition of a DOR. Examiners will consider the circumstances surrounding a problem and the relative impact on a credit union when determining if a practice is unsafe or unsound at a particular credit union.

If a problem has been ongoing for many years, examiners must use judgment to determine whether it meets the definition for a DOR. Examiners should take the appropriate action, which may include:

- Marking a DOR no **NLA**<sup>1</sup> because it has not caused harm to a credit union's financial or operational condition
- Issuing a new corrective action plan to better address the root cause of the problem
- Moving the problem to the Examiner's Findings
- Recommending escalated enforcement action

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*Last updated March 11, 2020*

## Exclusions

Examiners should refrain from documenting every problem in a DOR. Specifically, examiners should not document the following items in a DOR:

- **Suggestions or items for management to consider.** Examiners may provide suggestions, recommendations, or options a credit union should consider in the Supplementary Facts section of an exam report.
- **Broad or overly general statements that require a credit union to "comply with the examination report" or to correct problems included in the Examiner's Findings section.** The cover letter attached to each examination report will outline management's responsibilities, which include acting on the report to correct all deficiencies. **CAMELS**<sup>2</sup> and risk ratings should reflect management's ongoing failure to correct problems noted in the DOR or [Examiner's Findings](#), if necessary.
- [Examiner's Findings](#) that are only escalated because they have gone unresolved. Numerous uncorrected Examiner's Findings may be indicative of uncooperative or ineffective management and may impact a credit union's CAMELS rating, its risk ratings, or both. A DOR to address uncooperative or ineffective management may be warranted in such circumstances. If circumstances change and the unresolved Examiner's Finding subsequently meets the criteria for a DOR, examiners should document the problem and corrective action in the DOR.
- **Blanket statements that require a credit union to comply with an [LUA](#).** By signing, credit union management agrees to correct the

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<sup>1</sup>No longer applicable

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

deficiencies noted in an LUA. To maintain the administrative record, examiners must document the status of an LUA in the examination report.

- A DOR issued to a credit union with an outstanding LUA may only include new problems and corrective action plans that are not already addressed in an LUA.
- For DORs that are issued and then incorporated into an LUA, the examiner should continue to include them in the Issue Management thereby maintaining them as an Issue in **MERIT**<sup>1</sup>.
- If a credit union fails to comply with an LUA, examiners should discuss the need for additional enforcement action with the SE. At a minimum, the CAMELS and risk ratings should reflect management's failure to comply with an LUA.

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*Last updated October 26, 2022*

## **Development Process**

The development of a DOR is outlined in the [DOR development decision tree](#), which begins with discussing the identified problem or problems with management and working to reach agreement that a problem(s) exists. Examiners will ask credit union management to develop an acceptable corrective action plan, or plans, to resolve the problem(s) identified in a DOR.

When drafting a DOR, examiners will:

- Use the "SMART" principle when developing a corrective action plan (Specific, Measurable, Achievable, Results-oriented, and Timely)
- Begin corrective action plans with an action verb
- Tailor the DOR and corrective action plans specifically to the credit union and the experience of the management team
  - Corrective action plans will generally be more detailed and specific in credit unions that have more complex problems and/or less sophisticated management.
- Prioritize the order of DOR items, placing the most critical problems up front

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

- Examiners should ensure the DOR focuses only on the most critical items at that contact.
- Categorize similar or related DOR items into logical groups when practical
  - For example, group four separate DOR items related to credit risk weaknesses under a “Credit Risk Management” sub-heading in the DOR.

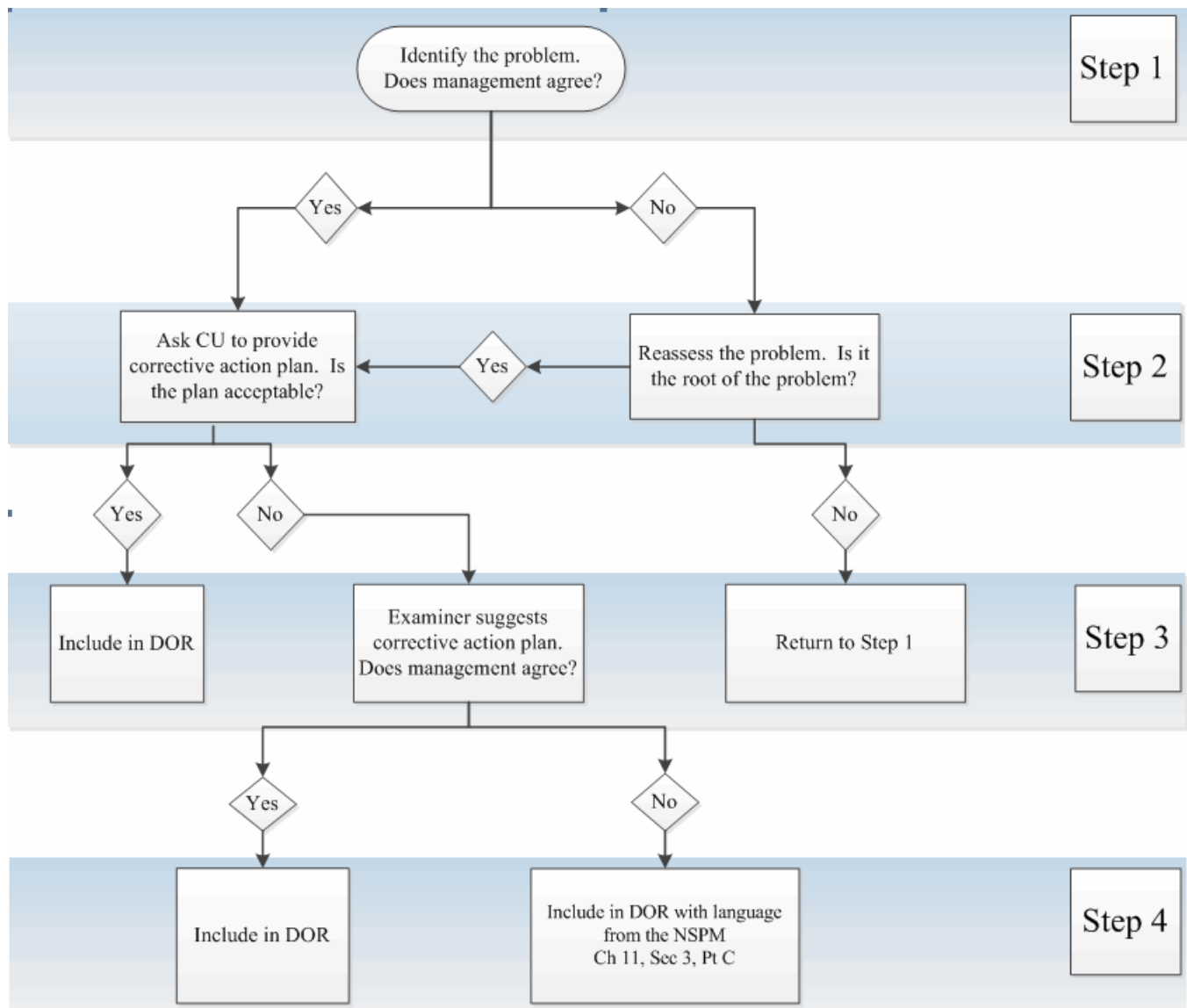
Examiners should work with credit union management to develop reasonable goals to include in a DOR. Examiners should consider issuing individual DORs to achieve quarterly goals if a DOR corrective action plan will take more than one year to reflect full compliance. Each individual DOR should include an applicable timeframe for completion.

When presenting a final examination report to the officials, examiners should request the board of directors enter a formal board resolution into the minutes to document agreement to resolve all DOR items.

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*Last updated March 11, 2020*





## Request Monthly Financial Statements

The NSPM's FCU and FISCU Program sections instruct examiners to obtain monthly financial statements for all troubled institutions where the financial condition is a problem and the credit union represents significant risk to the **NCUSIF**<sup>1</sup>.

Because credit unions requiring monthly monitoring generally have material concerns, examiners may document the requirement to send monthly financial statements and board packets in a DOR. This provides documentation

<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

that management has agreed to submit these items to the examiner by a specified time each month. When including this action item in the DOR, examiners will use the transaction risk option under the risk areas in the Issue Management section.

*Last updated October 26, 2022*

## Cease or Suspend Credit Union Activity

Examiners will use the following process when issuing a DOR that requires a credit union to cease or suspend an activity.

Step	Notes
1. Obtain and document SE approval or disapproval in the <a href="#">Closed Information Questionnaire</a> when issuing a DOR that requires a credit union to cease an activity.	<p>Depending on the severity of the situation, escalated administrative action (<a href="#">RDL</a>, <a href="#">LUA</a>, <a href="#">C&amp;D</a><sup>1</sup>, etc.) may be necessary.<sup>2</sup></p> <p>For example, if a credit union has placed a large percentage of its assets in member business loans in a two-month period without adequate controls, policies, or procedures, a Cease and Desist order may be warranted besides a DOR.</p> <p>Clearly outline the steps the credit union must take to resume the activity in the DOR.</p>
2. Identify when you will perform a follow-up contact (on or off-site) to determine if the credit union has complied with the DOR item based on the timeframe for completion provided to the credit union.	Include this time in the Examinable Entity Form in <a href="#">MERIT</a> <sup>3</sup> .
3. Instruct the credit union to contact the RD in writing when it has taken the steps outlined in the DOR item	The regional office will then notify the examiner and SE.

<sup>1</sup>Cease and desist

<sup>2</sup>For example, if a credit union has placed a large percentage of its assets in member business loans in a two-month period without adequate controls, policies, or procedures, a Cease and Desist order may be warranted in addition to a DOR.

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

Step	Notes
and wants to resume the activity (this is done through the examination report).	
4. Perform a contact (on or off-site) within 120 days of being notified by the credit union that it is in compliance with the DOR to assess the credit union's compliance and determine whether the DOR can or should be lifted.	The ARD may approve exceptions to the 120-day follow-up requirement.
5. Complete a MERIT contact and issue a report to officials notifying them of whether they have met the requirements to resume the activity.	If the credit union has inadequately corrected the problem(s), outline the remaining steps it must take to resume the activity.

This process does not prohibit an examiner from issuing DOR corrective action items to address the residual risk of the activity with timeframes for completion that correspond with the examiner's supervision plan.

*Last updated October 26, 2022*

## Disagreements

If management disagrees with a problem identified in a DOR, the EIC will evaluate the reasons for the disagreement and ensure the core problem(s) have been identified. Once the core problem(s) is identified and agreed upon, the EIC will ask management to develop an acceptable corrective action plan(s).

If management cannot provide an acceptable corrective action plan, the EIC will develop a plan and strive to get management's agreement. If management does not agree to comply with an EIC-developed corrective action plan, the EIC will:

- Weigh management's failure to identify and resolve problems in the management component and overall composite **CAMELS**<sup>1</sup> ratings

<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

- Incorporate the following language into the DOR, along with the EIC-developed corrective action plan:
  - “These plans for action, although not approved by the credit union officials, are recommended to correct the area of concern. The officials have agreed to review the plans and to notify the Regional Director, National Credit Union Administration, (ADDRESS), by (DATE), of the actions to be taken.”

Acceptable corrective action plan(s) developed by either a credit union or an examiner must be included in the finalized DOR.

For problems an examiner determines to be particularly severe, the EIC will notify their supervisor and consider drafting an [RDL](#) urging credit union officials to either accept the resolution offered in the DOR or to formulate an acceptable alternate plan that recognizes and resolves the problem(s). However, when agreement cannot be reached and the overall risk to a credit union warrants it, it may be necessary to recommend escalated [administrative action](#).

Examiners should document all cases of disagreement and the intended steps to ensure proper resolution and follow-up of the problems identified in the Closed Information Questionnaire of the **MERIT**<sup>1</sup> record. If an examiner suspects or has identified [fraud](#) or ethical concerns, a more unilateral approach may be necessary. In such instances, examiners should notify the supervisory examiner.

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*Last updated October 26, 2022*

## ***Follow-up***

Generally, examiners should follow-up on DOR items within 120 days after the completion due date has passed. In the case of **CAMELS**<sup>2</sup> 3, 4, and 5 credit unions, the current follow-up supervision requirements outlined in the [District Management](#) section of this manual will allow for adequate follow-up on DORs.

If an examiner cannot complete a follow-up within the 120 day timeframe, they must document the reason a follow-up contact was not completed, along with SE approval, in the [Closed Information Questionnaire](#).

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

In a composite CAMELS 1 or CAMELS 2 credit union with a DOR, examiners should evaluate whether a CAMELS 1 or 2 rating is warranted. If it is, the examiner can set the timeframe for completion to coincide with the next scheduled contact or examination. If a time-sensitive DOR needs to be completed before the next scheduled contact or examination, examiners will follow-up within 120 days of the timeframe for completion.

Examiners will follow-up on outstanding DOR items through supervision. Examiners must follow policy outlined in this manual (see [FCU Program and Procedures](#) and [FISCU Program and Procedures](#)) when completing on- and offsite supervision.

Examiners should track DOR timeframes for completion and follow-up with credit union management by phone or e-mail to discuss the status of DOR items as part of offsite supervision. Examiners will mark DORs that can be confirmed offsite as resolved or unresolved in the Issue Management Section accordingly and close the **MERIT**<sup>1</sup> contact.

For items that must be reviewed onsite, examiners will determine their status and update the Issue Management section at a credit union's next scheduled onsite contact. For simplicity, examiners may consider using the next scheduled contact date to determine the timeframe for completion.

When onsite for a follow-up contact or at the next examination, examiners should include review of the prior DOR in the [examination scope](#). If an examiner identifies an unresolved DOR item, they should first identify why the item is unresolved to properly address and resolve the recurring problem. The reason a DOR item remains unresolved will determine the subsequent steps necessary.

When determining appropriate follow-up action, examiners should consider whether a corrective plan has proven to be unachievable or unreasonable, and management's response to the plan.

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*Last updated October 26, 2022*

## Written Response

If a credit union fails to take corrective action within the timeframe stated in a DOR, the examiner must request the credit union submit a written response. This applies to all credit unions, regardless of **CAMELS**<sup>2</sup> rating.

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

Examiners may include an action item in the DOR requiring a credit union to provide a written response to the examination report by a specific date. Examiners may also address this request in any other section of the examination report as needed. When including this action item in a DOR, examiners will use the Non-reportable (Discussion-Only) Disposition risk option in the DOR Issue.

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*Last updated October 26, 2022*

## ***Closed (Resolved) or NLA DOR Items***

Examiners must close DOR Issues when the credit union has implemented the Action agreed upon in the corrective action plan, even if a credit union's financial trends do not yet reflect the improvements the actions were intended to correct.

**Example:** A credit union agrees to a DOR corrective action plan that requires the institution to reduce operating expenses to address negative earnings and a high operating expense to average asset ratio. Upon [follow-up](#), the examiner finds that, while the credit union has made adequate expense cuts, the operating expense to average asset ratio remains high. The ratio will not reflect the full impact of the expense cuts for two more quarters. The examiner should close the DOR Issue and Action (where one exists).

When closing a DOR Issue, examiners may address any ongoing risk associated with the corrective action plan in a variety of ways that include, but are not limited to:

- Documenting the credit union's compliance with the DOR in the Resolution Summary field of the Issue form in **ISM**<sup>1</sup> and can also document elsewhere in the [Examination Overview](#)
  - Examiners may document that management should continue to monitor a specific operating area or risk area until the credit union reaches an agreed-upon goal.
- Creating a new DOR Issue for the credit union to achieve an agreed-upon goal (examiners should provide a resolution timeframe that provides adequate time to accomplish the goal)

There may be instances when an examiner will need to close a DOR Issue in Issue Management, even though it has not been resolved because the issue is no longer applicable. Examiners must provide a comment in the Issue

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<sup>1</sup>Issues Management in MERIT

Resolution Summary field of the form when closing an Issue that is no longer applicable.

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*Last updated February 2, 2023*

## ***Recurring or Unresolved DOR Items***

Examiners must ensure that items significant enough to be included in a DOR are resolved in a timely manner. For any credit union with a recurring or unresolved DOR item, regardless of its **CAMELS**<sup>1</sup> rating, **exam staff**<sup>2</sup> will:

- Ensure repeat problem areas are properly noted, with accurate comments and accurate dates of identification
  - When the original identification date is used for a repeat DOR item, examiners will ensure the corrective action is the same as the previous DOR (not necessarily the wording, but the type of corrective action).
- Document credit union officials' failure to adequately resolve problems by placing an asterisk beside the repeat DOR item and include a footnote, "This is either a repeat or carry-over DOR. Please see the DOR Status Update document for specific information on individual DOR items."
- Consider the quality of management, and weigh management's failure to resolve problems in the management CAMELS component and overall composite rating

If a credit union fails to take corrective action within the timeframe stated in a DOR, the examiner will require the credit union to [submit a written response](#). This applies to all credit unions, regardless of their CAMELS rating. If a credit union fails to take the corrective action agreed to at the last examination/supervision contact, examiners will document why management failed to take corrective action in the Issue Management section. If additional documentation is necessary beyond what is provided to a credit union in the DOR or other sections of the exam report, examiners may use the Closed Information Questionnaire.

If a credit union fails to address outstanding DOR items, the examiner will recommend additional enforcement action, such as an [RDL](#), [LUA](#), or [PWL](#).

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

If the supervisor disagrees with additional enforcement action, examiners will document the rationale in the Closed Information Questionnaire, as well as the nature of the problem, agreements to correct the problem, their supervision plans, and the reason no additional enforcement action was pursued.

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*Last updated October 26, 2022*

## Quality Control

**E&I**<sup>1</sup> periodically reviews reports and samples examinations to ensure compliance. E&I will notify the regions of any long-standing problems and DOR items. **Regions**<sup>2</sup> are responsible for following up with **exam staff**<sup>3</sup>.

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*Last updated March 11, 2020*

## Examiner's Findings

The Examiner's Findings reflect problems that credit union management must address, but do not currently threaten the viability of the credit union or represent [systemic violations](#). Management can decide the timeframe and approach for correcting these problems, and can do so in the normal course of business.

Repeated failure to resolve problems in the Examiner's Findings could indicate a serious underlying management deficiency and result in a [DOR](#) to address management's lack of controls to ensure problem resolution. However, failure to resolve these problems does not automatically warrant escalating a finding to a DOR. Examiners should decide the root problem and determine if that meets the [DOR content criteria](#).

Generally, Examiner's Findings only include a statement of a problem. Examiners may provide a recommended corrective action to resolve a problem when necessary, such as when a credit union needs specific direction or asks for guidance on correcting certain problems.

When drafting an Examiner's Finding, examiners should cite the specific section of the [Federal Credit Union Act](#), NCUA regulations, [Federal Credit Union Bylaws](#), or other authority that applies to the subject matter. If a credit union has violated more than one authority, examiners should [cite the highest authority](#).

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



## Unresolved Prior Examiner's Findings

If an examiner finds that a credit union has not corrected prior Examiner's Findings, they must determine the reason behind the lack of resolution and the materiality of the concern. Numerous uncorrected Examiner's Findings may indicate management is uncooperative or ineffective, and that may suggest the need for other [administrative action](#).

At a minimum, examiners should list any uncorrected Examiner's Findings noted during previous examinations under a heading such as "Examiner's Findings Noted at Previous Examination Not Yet Corrected," or by identifying the Examiner's Finding and including a similarly worded footnote. Examiners should not automatically escalate repeat Examiner's Findings to a [DOR](#).

However, if an Examiner's Finding is escalated to a DOR, the finding will be marked as resolved and the status box of the Examiner's Finding will contain a statement such as "Finding escalated to a DOR."

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*Last updated October 30, 2023*

## Loan Exceptions Schedule(s)

Examiners should list weaknesses in loan underwriting, lack of compliance with credit union underwriting policies, regulatory compliance issues, etc. on the loan exceptions schedule(s).

If used, examiners will include the loan exceptions schedule(s) in the official examination report. If the loan review reveals material or systemic weaknesses, the examiner should address these issues in other portions of the examination report as needed.

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*Last updated March 11, 2020*

## Status Update

Exam staff will use the Status Update template to document a credit union's compliance with outstanding administrative actions ([LUA](#), [PWL](#), etc.) and [NWRPs](#). For each document, **exam staff**<sup>1</sup> should provide a separate Status Update. For example, if a credit union has an outstanding LUA and NWRP, exam staff will create a Status Update for each of the outstanding documents.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

At a minimum, exam staff will include each outstanding corrective action or goal and the most current status of each in the Status Update.

Exam staff will include the Status Update(s) in the official examination report provided to credit union officials. However, if a credit union does not have any outstanding enforcement actions or an NWRP, exam staff should exclude this document from the report.

When upgrading a credit union from a **CAMELS**<sup>1</sup> 4 or 5, or removing an LUA, exam staff must complete a Status Update.

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*Last updated March 11, 2020*

## Supplementary Facts

The primary purpose of the Supplementary Facts document is to provide additional, detailed information that enhances or supports issues already discussed in the [Examination Overview](#) or other portion of the examination report.

Examples of items to discuss in the Supplementary Facts include:

- Background information related to specific concerns documented elsewhere in the examination report. For example, a detailed analysis of **IRR**<sup>2</sup> modeling concerns, which may not be appropriate for an overview discussion but should be documented and shared with credit union officials.
- Information about new laws or regulations that impact or will soon impact a credit union.
- Background information on more detailed or complex accounting issues affecting the credit union.
- Other issues such as bond claims, fraud concerns, or contingent liabilities that warrant further discussion.

If the Supplementary Facts include discussion of issues that affect a credit union's operations or information supporting other documents in the examination report, examiners must include it with the official examination report provided to the officials.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>Interest rate risk

However, if an examiner only includes content provided for informational purposes (for example, to provide recommendations or suggestions), they can exclude the Supplementary Facts document from the official examination report and only provide it to management informally.

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*Last updated March 11, 2020*

## Supporting Workpapers

Besides the examination report documents provided to a credit union, examiners must complete and include sufficient workpapers in **MERIT**<sup>1</sup> to support the examiner's conclusions, and the NCUA's administrative record. As outlined in the NSPM, national guidance dictates the required workpapers for each type of examination or contact.

### Examination Scope

The examination scope describes the type, depth, and results of review conducted within each risk area during a credit union examination and, in some cases, supervision contact. Additional guidance on completing the scope tasks can be found in the following:

- [FCU Program and Procedures](#) section of the NSPM
- [FISCU Program and Procedures](#) section of the NSPM
- Chapter 7 of the [NCUA and SSA MERIT User Guide](#)

The most recent NCUA Instruction 5000.20, [Examination Scope](#), discusses expectations for conducting reviews of specific areas in more detail.

### Exam Form Console

The Exam Form captures basic information for all contact types. There are several tabs in the Exam Form, of which include:

1. General Exam Information
2. Time Detail
3. Completion Information

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

## Consumer Compliance Violations

Examiners must document violations of federal regulation detected during the examination and supervision process as Consumer Compliance Violation Issues in MERIT. Examiners will follow the procedures for **BSA**<sup>1</sup> violations outlined in the [BSA Supervision](#) section of the NSPM.

## MERIT Questionnaires

MERIT questionnaires are available to assist examiners in completing examination steps. Examiners must include all questionnaires required in the applicable scope tasks.

Examiners must use their judgment to determine when best to use questionnaires and optional questionnaires.

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*Last updated October 26, 2022*

## Effective Writing

Staff must prepare documents as per the [NCUA Style Guide](#) (formerly the NCUA Communications Manual) and [plain writing guidelines](#). All documentation prepared by NCUA staff should be fact-based, professional, and objective. Staff will use clear, concise, well-organized, language that is appropriate to the subject matter and the intended audience. Simple language and short sentences are generally the most effective.

Following such guidelines helps improve the effectiveness of written materials by making information easier for the recipient(s) to understand. Examiners should consider the needs of their readers and avoid the use of jargon and overuse of technical terms, acronyms, adjectives, and adverbs. When considering an abbreviation, or how many to use, examiners should keep in mind that abbreviations should make a document easier to understand. The effectiveness of documentation is significantly diminished if the overuse of abbreviations make a document harder for readers to understand by forcing them to refer to the list of approved abbreviations provided in the [NCUA Style Guide](#) (formerly the NCUA Communications Manual).

While each examiner will develop an individual style of writing, the following suggestions may be helpful in increasing effective communication:

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<sup>1</sup>Bank Secrecy Act

- Organize content with the reader in mind. Accurate and descriptive topical headings, in order of importance, promote reader interest.
- Comments should be as brief as possible while still retaining accuracy and clarity.
- Comments should be factually objective and not phrased as criticisms of particular individuals.
- Limit comments related to minor issues, recommendations, or material concerns that were corrected during the examination.
- Ratios or percentages are meaningful to examiners, but their significance is not always apparent to credit union officials. Examiners should not rely on ratios alone to convey ideas. Cited ratios should support a conclusion or recommendation, and should be explained to the reader.

## Plain Language

The NCUA is responsible for ensuring that agency staff prepare documents according to plain writing guidelines. The plain writing guidelines used by the NCUA can be found at [PlainLanguage.gov](https://www.plainlanguage.gov). Plain language is communication your audience can understand the first time they read or hear it; it is easy to understand and use.

A [plain language checklist](#) is available on PlainLanguage.gov. In general, use the following tips when preparing written correspondence:

- Write for the average reader
- Organize content to serve the reader's needs
- Remove unnecessary words
- Avoid "nesting" information in more than two or three levels
- Use short sections and sentences
- Use familiar words
- Simplify complex material using lists and tables
- Express requirements with "must" (avoid "shall," which is ambiguous)
- Use active voice
- Place words carefully (avoid large gaps between the subject and object and place modifiers appropriately)

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Last updated March 11, 2020

## Citations

Examiners may cite a credit union for violating a law, regulation, or failing to comply with enforcement orders or other enforceable conditions.

**Note:** Examiners may not cite a credit union for violating supervisory guidance. Refer to the References section for further details.

When citing a violation, examiners will:

- Cite the [highest, most specific authority](#)
- List multiple citations, if necessary
  - Exam staff may also include references. For example, examiners should cite § 741.3(b)(5) for violations of the **IRR**<sup>1</sup> rule, but can also reference NCUA Letter to Credit Unions NCUA Letter to Credit Unions 12-CU-11, [Interest Rate Risk Policy and Program Frequently Asked Questions](#), to provide a credit union additional information regarding the regulation.
- Refrain from citing “safety and soundness” or “unsound business practice” (if necessary, cite NCUA regulations § 741.3, [Criteria](#) , as appropriate)
- Use “part” when referring to the entire part of a regulation (“part 723” or “part 702”)
- Use “Section” (when a citation appears at the beginning of a sentence) or “§” when referring to a specific section of a regulation (“Section 723.8” or “§ 723.8”)

Section 206(b)(1) of the [Federal Credit Union Act](#) gives the NCUA the ability to terminate insurance for unsafe and unsound practices. While a DOR may not lead to termination of insurance, the act implies that credit unions must operate in a safe and sound manner as a condition of insurance. NCUA regulation § 741.3, [Criteria](#) also requires credit unions to operate in a safe and sound manner as a condition of insurance.

The following hierarchy of citations includes the most common citations used by NCUA examiners. Laws and statutes are the highest authority an examiner

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<sup>1</sup>Interest rate risk

can cite, followed by regulations. Examiners should always cite the highest, most specific authority. Below are a few examples of laws, statutes and regulations.

## 1. Laws and statutes

- [Federal Credit Union Act](#)
- Federal consumer financial protection laws
- State law

## 2. Regulations

- NCUA regulation (including preamble, as needed)
- Federal consumer financial protection regulations
- [Federal Credit Union Bylaws](#)
- **GAAP**<sup>1</sup>/FASB rules

Exam staff may cite the NCUA regulations, including appendices, in **MERIT**<sup>2</sup> Issues, unless the appendix specifically states it is only providing guidance or the specific provision(s) use non-mandatory wording such as “should.” If the appendix states it is only guidance, **exam staff**<sup>3</sup> should examine the source of the authority for the guidance, which is in the main part of the regulation or the appendix (for example, the Gramm-Leach-Bliley Act and Fair Credit Reporting Act are the authority for Appendix A to part 748). In these cases, exam staff should note the source of authority as the Citation and the Appendix as Guidance in the MERIT Issue.

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*Last updated February 2, 2023*

## References

Examiners may reference regulator or industry guidance and manuals to provide additional information or clarity to credit union officials. Guidance and manuals do not have the force and effect of law—the NCUA does not take

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<sup>1</sup>Generally Accepted Accounting Principles

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>“exam staff” includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

enforcement actions based on such guidance.<sup>1</sup> Examiners may not criticize a credit union for “violating” guidance or a manual.

Examiners may not cite a credit union for violating guidance.

In general, guidance outlines an agency’s supervisory expectations or priorities and articulates an agency’s general views regarding appropriate practices for a subject area. Examples of practices that an agency generally considers consistent with safety-and-soundness standards or other applicable laws and regulations, including those designed to protect consumers, are often presented in such guidance.

When an examiner identifies unsafe or unsound practices in an area that does not constitute a violation of law or regulation, or other deficiencies in risk management (including compliance risk management), they may reference guidance to provide examples of safe and sound conduct, appropriate consumer protection and risk management practices, and other actions for addressing compliance with laws or regulations.

### ***Regulator or industry guidance***

- [FFIEC](#) guidance
- NCUA [IRPS](#) (including preamble, as needed)
- NCUA [General Counsel Opinion Letter](#)
- NCUA [Letters to Credit Unions and other guidance](#)
  - Letters to Credit Unions
  - Letters to Federal Credit Unions
  - Risk Alerts
  - Regulatory Alerts
  - Accounting Bulletins
  - Policy statements
  - FAQs
  - Interagency guidance

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<sup>1</sup>Government regulations generally have the force and effect of law. Such regulations generally take effect only after an agency proposes a regulation to the public and responds to comments on the proposal in a final rulemaking document.



## ***Regulator or industry manuals***

- [Examiner's Guide](#)
- [NCUA Chartering and Field of Membership Manual](#)
- [NCUA Accounting Manual for Federal Credit Unions](#)

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*Last updated March 11, 2020*

# Fair Lending Examination Program and Procedures

The NCUA created its Office of Consumer Financial Protection in 2010 to demonstrate the increased importance the agency places on consumer protection. The **OCFP**<sup>1</sup> is responsible for consumer compliance policy, program, and rulemaking, fair lending examinations, interagency coordination for consumer financial protection and compliance issues, consumer complaints, and financial literacy programs.

With the exception of FCUs that have more than \$10 billion in assets (which are under the supervisory authority of the [CFPB](#) for consumer financial protection matters), the NCUA enforces the [Equal Credit Opportunity Act](#) and [Regulation B](#) in FCUs, and the Home Mortgage Disclosure Act and [Regulation C](#) in all federally insured credit unions. The OCFP's Division of Consumer Compliance Policy and Outreach is responsible for conducting fair lending examinations and off-site supervision contacts, as well as HMDA enforcement.

The NCUA also assesses compliance with the [Fair Housing Act](#) and reports violations to the Department of Justice. The NCUA conducts on-site fair lending examinations and off-site supervision contacts with FCUs to assess compliance with fair lending laws using the **FFIEC**<sup>2</sup> [Interagency Fair Lending Examination Procedures](#) (Aug. 2009). For more information regarding the OCFP's fair lending reviews, visit the [Fair Lending Compliance Resource](#) section of the [Consumer Compliance Policy and Outreach's SharePoint site](#).

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*Last updated September 30, 2019*

## Roles and Responsibilities

### OCFP Responsibilities

#### ***Risk Assessment and Credit Union Selection***

- Request recommendations for fair lending examinations and off-site supervision contacts from regional offices at least annually

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<sup>1</sup>The NCUA's Office of Consumer Financial Protection

<sup>2</sup>Federal Financial Institutions Examination Council

- Analyze HMDA data provided annually to the NCUA from federally insured credit unions, in coordination with the Office of the Chief Economist
- Select FCUs for on-site fair lending examinations and off-site supervision contacts based on a credit union's fair lending risk profile (which includes information provided by regional offices) and member discrimination complaints
  - **OCFP**<sup>1</sup> will attempt to work high-risk referrals into each year's schedule of examination and supervision contacts.
- Notify the appropriate regional office and seek input before contacting the credit unions selected for a fair lending examination. The notification will include:
  - A list of FCUs selected, along with a summary of the basis for selection and any preselected focal points to be reviewed
  - A request for the date of each credit union's next safety and soundness exam and point of contact (supervisory examiner or district examiner), if available
  - A request for information on any unusual circumstances OCFP should consider before proceeding with a fair lending examination
- Notify the appropriate regional office of the reason why a fair lending examination request was not accepted

### ***Examinations, Supervision Contacts, and Follow Up***

- Notify credit unions at least four weeks in advance of the fair lending examination or off-site supervision contact
  - OCFP will provide the appropriate regional office with a courtesy copy of credit union notification letters.
- Request volunteers to assist with fair lending examinations and supervision contacts, as needed, through a Notice of Interest to all NCUA staff, in consultation with the Office of Human Resources

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<sup>1</sup>The NCUA's Office of Consumer Financial Protection

- Complete fair lending examinations and off-site supervision contacts according to guidelines outlined in the [FFIEC Interagency Fair Lending Examination Procedures](#)
- Recommend corrective action, including informal or formal administrative action or **DOJ**<sup>1</sup> referral, when deficiencies are identified in a fair lending examination or supervision contact
  - OCFP will consult with the appropriate regional office before recommending a referral to DOJ.
  - OCFP will copy the appropriate regional office on OCFP Director Letters, and will consult with the appropriate regional office before issuing an LUA, PWL, or **C&D**<sup>2</sup>.
- Track, monitor, and follow-up on compliance with corrective actions including, but not limited to, Examiner's Findings and DOR items, as needed
- Participate, as resources permit, on fair lending reviews conducted during safety & soundness examinations

OCFP normally schedules fair lending examinations independently of safety and soundness examinations. However, OCFP will attempt to schedule concurrently if the regional office expresses a preference.

### ***HMDA Late and Non-Filers***

- Analyze HMDA data to determine if any federally insured credit unions that were required to file HMDA data for a specific year either did not do so in a timely manner or failed to file.
- Notify appropriate regional offices of any HMDA late or non-filer federally insured credit union
  - OCFP will consult with the appropriate regional office before issuing PWLs, or sending OCFP Director Letters or **CCPO**<sup>3</sup> Director Letters to federally insured credit union concerning a HMDA late or non-filer matter. OCFP will copy the appropriate regional office and, if applicable, the appropriate SSA on any PWLs, OCFP Director Letters or

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<sup>1</sup>U.S. Department of Justice

<sup>2</sup>Cease and desist

<sup>3</sup>Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

CCPO Director Letters sent to a federally insured credit union concerning a HMDA late or non-filer matter.

## Regional Office Responsibilities

- Respond to OCFP's annual request for recommendations regarding which credit unions to examine or supervise
  - The regional office will provide the name and charter number of credit unions with elevated fair lending risks, as well as a brief description of the basis for the recommendation.
- Submit high-risk cases to OCFP on an ad hoc basis
- Consult with OCFP on fair lending related LUAs, PWLs, C&Ds, and DOJ referral cases
- Notify the appropriate SSA of information provided by OCFP concerning any HMDA late or non-filer state chartered credit union

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*Last updated January 22, 2018*

## Federal Credit Union Selection for Review

**OCFP**<sup>1</sup> selects FCUs for either an on-site fair lending examination or an off-site supervision contact based on a credit union's risk profile. Federal credit unions selected for a fair lending examination or off-site supervision contact exhibit elevated fair lending risk characteristics.

Criteria used to determine a FCU's fair lending risk may include:

- HMDA outliers determined from review of annual HMDA reports
- Fair lending findings or violations noted in recent safety and soundness examinations
- Elevated compliance risk noted in recent safety and soundness examinations
- The volume, types, or complexity of the lending products and services offered, or types of communities served
- Lending discrimination complaints against the credit union

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<sup>1</sup>The NCUA's Office of Consumer Financial Protection

The number of federal credit unions selected may vary each year based on available resources. OCFP may also participate in a fair lending review of a federal credit union during a **WCC**<sup>1</sup> 10 exam.

## Field Recommendations

Given their direct knowledge of credit union lending practices, policies, and management strengths and weaknesses, **exam staff**<sup>2</sup> are in the best position to identify credit unions having elevated fair lending risk.

OCFP is particularly interested in identifying credit unions that have:

- Lending policies or practices that discriminate on a prohibited basis
- Lending personnel who have made negative statements towards protected groups or individuals (including documentation of such comments in loan files)
- Member or employee complaints alleging lending discrimination
- Systemic ECOA ([Regulation B](#)) or HMDA ([Regulation C](#)) violations
- Discretionary loan underwriting or pricing practices, when present with limited or no monitoring or internal controls
- Lending distinctions tied to geography that may disproportionately impact protected groups or individuals
- Lending programs that are available to specific groups, individuals, or select employee groups, but not the entire field of membership
- Particular incentives created by employee compensation structures that may disproportionately impact protected groups or individuals

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*Last updated January 22, 2018*

## Requested Participation for SCU Selected for Review by SSA

When requested by an SSA, **OCFP**<sup>3</sup> may participate or assist on a fair lending examination conducted at a state-chartered credit union by its SSA. The OCFP

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<sup>1</sup>Work Classification Code

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>The NCUA's Office of Consumer Financial Protection

Director will determine whether to participate on such examinations. The determination to participate will depend on available resources. Depending on the size and scope of an examination, OCFP may request assistance with the examination from the region whose coverage includes the state requesting participation.

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*Last updated January 22, 2018*

## On-Site Fair Lending Exams (WCC 03)

NCUA staff use **WCC**<sup>1</sup> 03, **OCFP**<sup>2</sup> On-site Fair Lending Review, for on-site fair lending examinations. Fair lending examinations are used to:

- Enforce credit union compliance with fair lending laws and regulations and HMDA and Regulation C compliance, and strengthen credit unions' fair lending programs through risk-based examination procedures, including transaction testing
- Educate credit unions on fair lending and consumer protection laws and regulations.

Fair lending examinations are risk-based and conducted in accordance with the August 2009 [FFIEC Interagency Fair Lending Examination Procedures](#).

At the conclusion of the exam, a FCU will receive a written fair lending examination report, and the analyst- or examiner-in-charge will conduct an on-site meeting to discuss the findings. District examiners will be notified in advance of meeting dates and times, and may attend if they choose.

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*Last updated January 22, 2018*

## Off-Site Fair Lending Exams (WCC 33)

NCUA staff use **WCC**<sup>3</sup> 33, **OCFP**<sup>4</sup> Off-site Fair Lending Supervision Contact, for off-site fair lending reviews.

Off-site supervision contacts are used to:

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<sup>1</sup>Work Classification Code

<sup>2</sup>The NCUA's Office of Consumer Financial Protection

<sup>3</sup>Work Classification Code

<sup>4</sup>The NCUA's Office of Consumer Financial Protection

- Determine whether a credit union has adequate policies, procedures, and internal controls to ensure compliance with fair lending laws and regulations.
- Educate credit unions on fair lending and consumer protection laws and regulations.

Off-site supervision contacts are more limited in scope than on-site fair lending examinations. Supervision contacts generally include a fair lending baseline review with no transaction testing.

The analyst- or examiner-in-charge will communicate with FCU staff throughout each off-site supervision contact. At the conclusion of the off-site supervision contact, the FCU will receive a written report and the analyst- or examiner-in-charge will hold an exit meeting by phone. District examiners will be notified in advance of meeting dates and times.

If an off-site supervision contact identifies possible discriminatory practices or significant findings of non-compliance with fair lending laws and regulations, the FCU will be considered for a future fair lending examination.

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*Last updated January 22, 2018*

## Contact Documentation

NCUA staff will record and include the findings and supporting information of a fair lending examination or supervision contact in **MERIT**<sup>1</sup>. The administrative record in MERIT should fully support violations and weaknesses noted.

Item	Examiner's will...
MERIT Scope Task	Document the scope for the current examination or contact, areas and depth of review, and results of the review
MERIT Consumer Compliance Violations Issue	Document regulatory violations
<a href="#">Examination Overview</a>	Provide a credit union information related to the fair lending review and address deficiencies requiring corrective action (as needed)
<a href="#">Examiner's</a>	Provide a credit union information related to the fair lending review

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform



Item	Examiner's will...
<a href="#">Findings</a>	and address deficiencies requiring corrective action (as needed)
DOR forms	Provide a credit union information related to the fair lending review and address deficiencies requiring corrective action (as needed)
Issue Management	Enter problem codes for tracking purposes  <i>Problems documented in a DOR must be significant enough that OCFP<sup>1</sup> would recommend escalating to the next level of elevated enforcement action for failure to correct the problem.</i>
Closed Information Questionnaire	Address noteworthy items or actions taken during the contact/examination that are not discussed elsewhere in the report, or discuss management's ability and willingness to correct areas of concern

**CAMELS<sup>2</sup>** and risk ratings are assigned by district examiners according to safety and soundness guidelines and will not be changed during a fair lending examination or supervision contact. Fair lending examiners can make recommendations to the appropriate region to adjust CAMELS and risk ratings, when serious violations are noted.

The analyst- or examiner-in-charge will include additional work papers completed which contribute to the administrative record.

Regional offices, supervisory examiners, and district examiners receive notice of fair lending examination or supervision contact completion and access to the report through the MERIT notification process.

*Last updated October 26, 2022*

## Contact Follow-Up

**OCFP<sup>3</sup>** will provide recommendations for corrective action when deficiencies are identified in a fair lending examination or supervision contact. OCFP is responsible for follow-up of compliance with corrective actions, including, but not limited to Examiner's Findings and DOR items.

<sup>1</sup>The NCUA's Office of Consumer Financial Protection

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>The NCUA's Office of Consumer Financial Protection

OCFP will track DOR timeframes for completion and follow-up with credit union management consistent with the standards outlined in the [Administrative Remedies](#) section of this manual. Resolution of corrective action items should be documented in a **MERIT**<sup>1</sup> 4.15 - FISCO Fair Lending or 4.3 - FCU Fair Lending contact (**WCC**<sup>2</sup> 33).

During onsite examinations and supervision contacts, district examiners will consult with OCFP before declaring an Examiner's Finding or DOR item resolved.

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*Last updated October 26, 2022*

## Administrative Remedies

Many of the administrative remedies used by safety and soundness examiners are also available to the **OCFP**<sup>3</sup>. The timeframes for taking administrative actions take into account OCFP's process for consulting with other NCUA offices, federal or state financial regulators, and, as appropriate, the credit union. This process is important in resolving any factual disputes and addressing potential legal issues before taking a formal agency action.

## Report of Administrative Actions

The OCFP will monitor and follow-up on any outstanding administrative action items. OCFP will maintain a record of all informal and formal administrative actions including, but not limited to, OCFP Director Letters, PWLs, and civil money penalties. The OCFP will provide a quarterly report of these informal and formal administrative actions to the **E&I**<sup>4</sup> Director. The report will include administrative actions newly issued, currently outstanding (with the exception of OCFP Director and **CCPO**<sup>5</sup> Division Director Letters), and those canceled since the last report.

## Document of Resolution

CCPO analysts will note the person(s) responsible, a citation for the problem, and the timeframe for taking corrective action in the DOR. Credit union management's failure to address DOR items may result in elevated administrative

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Work Classification Code

<sup>3</sup>The NCUA's Office of Consumer Financial Protection

<sup>4</sup>Office of Examination and Insurance

<sup>5</sup>Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

action (for example, OCFP Director Letter, PWL). See the [Document of Resolution](#) section of the NSPM for additional guidance on issuing DORs.

## OCFP Director / CCPO Division Director Letters

The OCFP Director Letter is used when a credit union has serious and/or persistent problem areas that are not being adequately resolved. The OCFP Director Letter may be issued in conjunction with a fair lending examination to emphasize an area of concern. Typically, the CCPO Division Director Letter is used to respond to a first-time late or non-filed HMDA Report.

OCFP will consult with the appropriate regional office before sending an OCFP Director or CCPO Division Director letter in connection with a fair lending exam or HMDA late or non-filer matter. OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA, with a copy of the OCFP Director or CCPO Division Director Letter.

Document	Description
Fair Lending Examination	The OCFP Director Letter should be issued to the credit union within 30 days of the completion date of the fair lending examination or supervision contact.
HMDA Report	The applicable OCFP Director Letter or CCPO Division Director Letter should be issued to the credit union within 90 days of the availability of HMDA data.

## Preliminary Warning Letter

A Preliminary Warning Letter is a warning of potential formal administrative action if corrective action is not taken. The OCFP may issue a PWL when a credit union has not adequately resolved serious and/or persistent problem areas identified during a fair lending examination, or in response to repeated late-filed or non-filed HMDA reports. A PWL will not be issued as a result of an OCFP fair lending off-site supervision contact.

OCFP will consult with the appropriate regional office before issuing a PWL in connection with a fair lending exam or HMDA late or non-filer matter. OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA, with a copy of the PWL.

For a **fair lending examination**, the PWL should be issued to the credit union within 60 days after completion of the exam.

- OCFP will forward the draft PWL to the appropriate regional office for review.
- Within 10 days of receiving the draft PWL, the regional office will review the PWL and notify OCFP of its review and any recommended changes. If the regional office is aware of additional safety and soundness concerns, it may propose issuing a PWL directly from the Region to address both fair lending and safety and soundness concerns.
- OCFP will schedule a follow-up contact within 120 days of issuing a PWL to assess the credit union's compliance.

For a **HMDA report**, a PWL is issued after the credit union's second HMDA late filing or non-filing within a five-year period. The PWL should be issued to the credit union within 90 days of the availability of HMDA data.

- The PWL should require a written response from the credit union to OCFP, with a copy to the appropriate regional office, within 30 days of receipt of the PWL indicating what actions the credit union has taken or plans to take to address the HMDA late or non-filing matter.
- The OCFP will review the credit union's response and determine whether corrective action plans are appropriate.
- If the OCFP determines corrective actions plans are not appropriate, OCFP will schedule an off-site supervision contact within 240 days of the availability of HMDA data to counsel the credit union on appropriate policies and procedures.

## Civil Money Penalty

The **OGC**<sup>1</sup> must be consulted on all Civil Money Penalty actions and they must be approved as outlined in the [NCUA's Delegations of Authority](#). The OCFP will also consult with the appropriate regional office before seeking a CMP against a credit union. The OCFP will provide the appropriate regional office and, if applicable, the appropriate SSA with a copy of the CMP.

Federal law provides that a CMP may be assessed against a credit union for a late-filed or non-filed HMDA report. A CMP is typically issued after the credit union's third late HMDA filing or non-filing within a five-year period. The CMP

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<sup>1</sup>The NCUA's Office of General Counsel

should be issued to the credit union within 120 days after the availability of HDMA data.

## DOJ Referrals

Under the [Equal Credit Opportunity Act](#), regulators, including the NCUA, must refer a matter to **DOJ**<sup>1</sup> whenever the agency has reason to believe that a credit union has engaged in a pattern or practice of discouraging or denying applications for credit in violation of 15 U.S.C.<sup>2</sup> § 1691(a) of ECOA. The initiating office (OCFP, in the case of a fair lending examination conducted by that office, or the applicable regional office or **ONES**<sup>3</sup> in the case of a fair lending violation addressed during a safety and soundness examination (**WCC**<sup>4</sup> 10)) will consult with each other and OGC before taking any action to refer cases to DOJ. OGC will deliver all referrals for ECOA violations to DOJ.

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*Last updated January 22, 2018*

## Administrative Items

### Timeframe to Complete and Upload Fair Lending Examinations/Supervision Contacts

Except for minor differences with start dates, fair lending examiners will complete and close all examinations and supervision contacts consistent with standards outlined in the NSPM's [District Management](#) section. The start date for a fair lending examination is the date the analyst- or examiner-in-charge first charges time to the examination, and generally corresponds to the date pre-examination scoping begins. The start date for a fair lending supervision contact is the date the analyst- or examiner-in-charge receives supervision contact materials from a credit union.

### Notifying a Credit Union of a Fair Lending Examination or Supervision Contact

**OCFP**<sup>5</sup> will provide adequate advance notice before starting a fair lending examination or supervision contact. When a fair lending examination runs

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<sup>1</sup>U.S. Department of Justice

<sup>2</sup>Supervisory Committee

<sup>3</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>4</sup>Work Classification Code

<sup>5</sup>The NCUA's Office of Consumer Financial Protection

concurrently with a safety and soundness examination, OCFP will coordinate all scheduling efforts with the district examiner.

Unless special circumstances exist, OCFP will give credit union officials a minimum notice of four weeks. The **CCPO**<sup>1</sup> Division Director must approve notification periods of less than four weeks. This approval will be documented in the report's [Closed Information Questionnaire](#).

As part of the notification process, OCFP will prepare a notification cover letter and document request list for fair lending examinations and supervision contacts. OCFP will revise the document request list to meet the needs of the particular examination or contact. OCFP will provide the notification package to the credit union at least four weeks before the fair lending examination or supervision contact start date.

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*Last updated February 2, 2023*

## Quality Assurance

**CCPO**<sup>2</sup>'s fair lending program officer (or designee) will perform a written quality control review (QCR) of each fair lending examination. QCRs will evaluate and address:

- The adequacy of problem identification and corrective actions
- Whether examination documentation provides a sufficient administrative record to support the review of focal points, and **OCFP**<sup>3</sup>'s findings and recommendations
- Consistency in OCFP's application of DORs, Examiner's Findings, Loan Exceptions, and recommendations

The fair lending program officer will review each fair lending supervision contact and document the review for the CCPO Director in a summary spreadsheet. Supervision contact reviews will evaluate supervision contact findings, recommended corrective actions, and recommendations for follow-up work. The fair lending program officer will advise the CCPO Director of any recommendation for follow-up work noted in a fair lending supervision contact.

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<sup>1</sup>Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

<sup>2</sup>Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

<sup>3</sup>The NCUA's Office of Consumer Financial Protection

CCPO's fair lending program officer will provide QCRs to CCPO analysts within 45 days of examination completion.

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*Last updated January 22, 2018*

# FCU Program and Procedures

The NCUA's examination program institutes standards for a high quality examination process and establishes guidelines to:

- Identify and mitigate current and emerging risks to the **NCUSIF**<sup>1</sup>
- Ensure credit unions are in compliance with applicable laws, regulations, and directives
- Initiate appropriate corrective actions supported by a sufficiently detailed administrative record
- Facilitate timely resolution of supervisory concerns

This section of the NSPM explains how examiners will supervise FCUs in their districts. Supervision efforts will vary depending on the size of the credit union, the risk to the NCUSIF, and other circumstances as applicable. Supervision includes, but is not limited to, examinations, follow-up examinations, onsite contacts, offsite contacts, offsite monitoring, and trending analysis (for example, Call Report/FPR Trending).

The examination and supervision program is the most important component of managing risk to the NCUSIF and protecting members. Refer to the [comparison of examination and supervision programs for federal credit unions and FISCUs](#) for a high-level overview.

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*Last updated July 29, 2015*

## MERIT Exam Tasks (Scope)

The scope is the permanent record of procedures performed during an examination/supervision contact. All **WCC**<sup>2</sup> 10 examination procedures will be guided by the expectations outlined in the current NCUA Instruction 5000.20, [Examination Scope](#).

## Exam Staff

Exam staff must thoroughly document the areas reviewed, the results, and the recommended action. Comments like "completed" or "inadequate" are insufficient. Exam staff must include a description of the area reviewed and

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>Work Classification Code



results obtained, regardless of whether references to other work papers are included in the **MERIT**<sup>1</sup> scope.

The Scope should be a comprehensive synopsis of what occurred during the examination or supervision contact. When applicable, the completed **IRR**<sup>2</sup> Workbook represents the Scope for the IRR review and it is acceptable for **exam staff**<sup>3</sup> to state "Refer to IRR Workbook" in the Results of Review section of the Scope Task. Exam staff may also use the narrative conclusion for the final risk assessment. The IRR workbook framework includes the necessary scope elements of review steps (either required or baseline), fields to enter the results of each review step, a narrative conclusion (in the overall tab), and the IRR rating (high, moderate, or low).

A comprehensive scope will enable the exam staff of the next examination to become familiar with the history of the credit union in a shorter amount of time. Exam staff must complete the Exam Form in MERIT.

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*Last updated February 2, 2023*

## Examiner-in-Charge

EICs are responsible for the sufficiency of the MERIT scope. For team exams/supervision contacts, the EIC should task each scoping area before the rest of the team's arrival onsite as part of their pre-exam planning.

EICs must continually evaluate the appropriateness of the scope and document procedures commensurate with the size and complexity of a credit union throughout the course of an examination or supervision contact. EICs will fully evaluate areas that represent a significant risk or potential risk to a credit union.

If extenuating circumstances require completing an examination or contact off-site, exam staff will:

- Conduct examinations in accordance with the most recent version of NCUA Instruction 5000.20, [Examination Scope](#), to the greatest extent possible using offsite procedures such as those described in the [Examiner's Guide](#).

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Interest rate risk

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- No scope tasks are automatically deferred. Exam staff must determine the procedures they can conduct offsite based on the information provided by a credit union and availability of credit union staff for virtual meetings.
- Transaction testing and overseeing management activities cannot typically be conducted offsite. However, reviewing loan samples or bank statements provided by the credit union may still be valuable procedures to conduct, even if exam staff are unable to watch credit union staff create the source document. Exam staff will document in the scope that they could not observe a credit union generate these documents.
- Discuss any inability to complete a sufficient review of the required examination procedures described in the most current version of NCUA Instruction 5000.20, [Examination Scope](#), with their supervisor to determine whether to convert the examination (WCC 10/WCC 11) to a supervision contact (WCC 22/WCC 23). This does not apply to continuous examinations conducted by **ONES**<sup>1</sup> examiners.

If an examiner is unable to complete a required examination Scope Task, they should cancel the Scope Task as outlined in the MERIT NCUA and SSA User Guide, and indicate in the mandatory comments box why the Scope Task could not be completed (for example, offsite posture).

- Examiners should check the box next to "Required scope not completed/deferred" in the Exam Form and note in the Scope Completion

## E&I

**E&I**<sup>2</sup> will review, and update when necessary, the scope expectations in conjunction with changes in key risk indicators, economic conditions and regional concerns by January 1 each year.

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*Last updated May 12, 2022*

## Membership Data Information

Membership Data Information will be collected for all natural person federal credit unions in accordance with NCUA Letter to Credit Unions 21-CU-08,

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Office of Examination and Insurance

[Implementation of Modernized Systems](#). Detailed instructions on membership data collection can be found in Chapter 6: Loan and Share Analytics of the [NCUA and SSA MERIT User Guide](#).

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*Last updated October 26, 2022*

## Federal Credit Union Examinations (WCC 10)

NCUA examiners will use **WCC**<sup>1</sup> 10 for FCU examinations, including **SCUEP**<sup>2</sup> defined-scope examinations. Examiners will reference the most recent NCUA Instruction 5000.20, [Examination Scope](#), Appendix B, for required and baseline review areas. For an FCU SCUEP defined-scope examination, examiners will reference Appendix A for required Tier 1 review areas.

As noted in the Instruction, examiners must use their judgment to adjust the Scope to focus on areas of heightened risk.

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*Last updated February 2, 2023*

## Federal Credit Union Supervision Contacts

Supervision contacts typically fall into one of three categories:

1. Follow-up exams
2. Onsite supervision contacts
3. Offsite supervision contacts

For a full list of **WCC**<sup>3</sup> definitions, refer to the most current Instruction 5000.13, [Work Classification Code Definitions](#).

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*Last updated July 29, 2015*

## Follow-Up Examinations for Troubled/Problem Federal Credit Unions (WCC 22)

Follow-up examinations are more comprehensive than other onsite supervision contacts and require data analysis to support the **CAMELS**<sup>4</sup> ratings and administrative action recommendations. Examiners will support in the scope,

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<sup>1</sup>Work Classification Code

<sup>2</sup>Small Credit Union Examination Program

<sup>3</sup>Work Classification Code

<sup>4</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

or by other means that can be made part of the administrative record, all the critical problem areas identified during the regular examination. Examiners will indicate the supervision contact was a follow-up examination by selecting "FCU Follow Up Exam" as the Contact Sub-Type when creating the contact in **MERIT**<sup>1</sup>. Examiners typically only perform follow-up examinations on CAMELS 3, 4, or 5 credit unions.

A *follow-up examination* is a type of onsite supervision contact that applies to both FCUs and FISCUs.

At a minimum, examiners will perform a follow-up examination, which must include a joint conference with the board of directors, during the following intervals:

Credit Union Description	Follow-Up Exam Requirements
CAMELS 3 > \$50 million	180 days (from completion date to start date)
CAMELS 4 or 5 > \$50 million	120 days (from completion date to start date)

### ***Timeframe Exceptions for Follow-Up Examinations***

Examiners will consult their supervisor and request an extension via email if they cannot start a follow-up examination within the required timeframe. The guidelines for requesting an extension are:

Credit Union Description	Maximum Extension	Guidelines
CAMELS 3 > \$50 million	Follow-up timeframe may not exceed 240 days based on supervisor approval	Any request for an extension of the 180-day requirement must include information which demonstrates that the FCU will not represent increased risk to the NCUSIF <sup>2</sup> resulting from the extended timeframe. Supervisor <sup>3</sup> must approve all requests for extension and forward approval to the region's DOS <sup>4</sup> mailbox. The ARDP or ARDO, as appropriate, must approve and document in writing any additional extensions

<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>3</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

<sup>4</sup>Division of Supervision

Credit Union Description	Maximum Extension	Guidelines
		and associated considerations.
CAMELS 4 or 5 > \$50 million		Any request for an extension of the 120-day requirement must include information which demonstrates that the FCU will not represent increased risk to the NCUSIF resulting from the extended timeframe. The ARDP or the ARDO, as appropriate, must approve and document in writing extensions for follow-up examinations.

Any approvals to exceed the timeframes listed above require the supervisor or ARDP, as applicable, to forward their approval via email to DOS with supporting documentation. All timeframe extension approvals will include a projected completion date.

### ***Small Credit Union Supervision Requirements***

CAMELS 3, 4 or 5 FCUs with less than \$50 million in assets may receive an onsite supervision contact in lieu of a follow-up examination. The supervision contact or follow-up examination will occur at the frequency described below.

Credit Union Description	Follow-Up Exam or Supervision Contact Requirements	Guidelines
CAMELS 3 FCUs with less than \$50 million in assets	Onsite supervision between examinations is at the discretion of the region	If BSA <sup>1</sup> or recordkeeping issues are present, the timeframes for those targeted review contacts will be followed.
CAMELS 4 or 5 FCUs with less than \$50 million in assets	Must be started within 210 days of the examination	No waiver for the 210-day contact requirement for CAMELS 4 or 5 credit unions less than \$50 million in assets is available. If BSA or recordkeeping issues are present, the timeframes for those targeted review contacts will be followed and will not be considered the supervision con-

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<sup>1</sup>Bank Secrecy Act

Credit Union Description	Follow-Up Exam or Supervision Contact Requirements	Guidelines
		tact necessary to meet this requirement unless all outstanding DOR items receive a full review.

SEs/examiners will use sound judgment to determine, on a case-by-case basis, the contact requirements for any FCU meeting these criteria (within the 210 days for CAMELS 4 or 5 FCUs), tailoring the supervision needs to the credit union. Regional Directors and supervisors may require different contact timeframes or supervision plans for specific risks in a specific credit union.

Examiners will support in the scope, or by other means that can be made part of the administrative record, all the critical problem areas identified during the regular examination. The contact must include a joint conference with the board of directors.

Each region will establish monitoring procedures for follow-up examinations and timeframe extensions, until a national system is developed and implemented. The ARDP will review the applicable report(s) and share them with the supervisors to evaluate appropriateness and timeliness of completion contacts to ensure a quality and timely supervision program.

### ***Follow-Up Examination Documentation***

Examiners document a follow-up examination in MERIT by creating a supervision contact with the Contact Sub-Type "FCU Follow-Up Exam," and charging time to **WCC**<sup>1</sup> 22. At a minimum, the MERIT contact must include:

- All critical input areas
- Scope tasks that were the subject of the follow-up examination, explanations of any change of final risk ratings on the Risk Assessment form
- Documentation regarding compliance with any outstanding administrative actions (LUA, PWL, etc.,) in the Status Update
- Documentation regarding compliance with any outstanding NWRP / RBP in the Status Update

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<sup>1</sup>Work Classification Code

- Documentation of compliance or non-compliance with previous DOR items and updated DOR Issues or Actions (where one or more exists) in Issue Management
- Written narrative report provided to the credit union (for example, Examination Overview, Examiner's Findings, etc.)
- Completed Exam form Completion Information, including all questions and the date of the exit meeting and/or joint conference (a joint conference is required for all CAMELS 3, 4, and 5s, unless the supervisor approves an exception. In the event a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at the next board meeting)
- Updated [Supervision Chronology Report](#) attached to the Documents section on the Examinable Entity form for a CAMELS 3 with assets \$250 million and greater, and CAMELS 4 or 5
- Consumer Compliance Violations in Issues Management, if applicable
- Completed [Closed Information Questionnaire](#)
- Sufficient work papers to support the scope of review and the conclusions drawn and any other information necessary to support the scope and time spent on the contact

Examiners are required to issue a report to the credit union for follow-up examinations. Examiners will [deliver the report as they would an examination report](#). Examiners must discuss required corrective actions, administrative actions, and provide relevant supporting sections of the report to the officials during the joint conference (for example, DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts).

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*Last updated March 25, 2022*

## Onsite Supervision Contact (WCC 22)

An onsite supervision contact is more limited in scope than a follow-up examination. Examiners will typically perform an onsite supervision contact to review one major problem area, to hold a joint conference if it could not be completed as part of the exam, and to review the credit union's compliance with a DOR.

Examiners will perform onsite supervision contacts as needed between regular or follow-up examinations based on the nature and severity of the problems or as their supervisor requires. Examiners must make each contact a results-oriented contact designed to achieve corrective action.

Credit unions with significant recordkeeping concerns require an onsite supervision contact focused on ensuring adequate attention to and correction of problems. See the [Significant Recordkeeping Concerns](#) section of the NSPM for additional guidance for performing supervision contacts for credit unions that have significant recordkeeping concerns.

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*Last updated October 26, 2022*

## **1. Contact Documentation**

Examiners document an onsite supervision contact by completing a 2.2 in **MERIT**<sup>1</sup>. At a minimum, the supervision contact must include:

- The Microstrategy Analytic PDF and dossier (i.e., mstr) files.
- Completed scope tasks covering the areas reviewed.
- Completed Risk Assessment and **CAMELS**<sup>2</sup> forms. Include a rating for each risk area included and reviewed in the contact and each CAMELS component and composite. For CAMELS areas not reviewed during the contact, **exam staff**<sup>3</sup> may enter "DNR" (did not review) in the Reasons/Factors sections
- Written narrative report provided to the credit union if applicable (for example, Examination Overview, Examiner's Findings, etc.). Use the [Closed Information Questionnaire](#) to document additional information when a report is not provided to the credit union and in place of a supervision contact memo.
- Completed Exam Form
- Updated [Supervision Chronology Report](#) saved in the Documents section of the Examinable Entity Form for a CAMELS 3 with assets of \$250 million

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



and greater, all CAMELS 4 or 5 credit unions, and credit unions requiring an onsite follow-up for significant recordkeeping concerns.

- Any other information necessary to support the scope and time spent on the contact (for example, update the Issue Management section with DOR status if focus of contact was to review compliance with DOR items).

Examiners will discuss their findings and recommendations during an exit meeting and issue a written report to the officials if the contact results in required action or changes to a credit union's CAMELS or risk ratings.

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*Last updated: May 3, 2024*

## Offsite Supervision Contacts (WCC 27)

Offsite supervision is discrete supervision or district management activities conducted that are not part of an examination (**WCC**<sup>1</sup> 10) or onsite supervision contact (WCC 22). Offsite supervision contacts are generally very limited in scope and are conducted somewhere other than at a credit union. For example, following up on a DOR through phone or email, reviewing a credit union's response to a DOR, reviewing monthly board packages, or other correspondence with a credit union. Examiners will not change a credit union's composite **CAMELS**<sup>2</sup> rating during a WCC 27 contact and if there is a prior exam or contact in **MERIT**<sup>3</sup>, they should not generate a CAMELS form.

### ***Documentation for Offsite Contacts Eight Hours or Longer***

A contact is required for all WCC 27 offsite contacts to complete discrete activities (for example, review board packages or credit union's response to a DOR) if **exam staff**<sup>4</sup> charge eight hours or more. Examiners document an offsite supervision contact of eight hours or more by closing a contact report in MERIT and charging time to WCC 27.

At a minimum, the examiner must include a completed Exam Form with documentation of the contact scope, progress, conclusions, recommendations, etc. This information should be included in the Examiner Comments field in the Exam Notes section of the Exam Form. If exam staff need more room to document the contact, they may attach additional documentation on the Exam

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<sup>1</sup>Work Classification Code

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>4</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

Form or create a scope task for that purpose. Examiners must also ensure the supervision plans on the Examinable Entity Form are current to close the contact.

Exam staff will not use offsite supervision (WCC 27) to charge time for substantive work that is completed as part of an examination (WCC 10) or onsite supervision contact (WCC 22), even if the work is completed offsite.

### ***Documentation for Offsite Contacts Shorter Than Eight Hours***

Time spent performing offsite supervision in increments less than eight hours for the same credit union should be aggregated and closed on a quarterly basis, shortly after the end of the quarter. If the aggregate time charged in a quarter is less than eight hours, a contact in MERIT is not required.

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*Last updated May 3, 2024*

## **Monthly Financial Monitoring (WCC 27)**

Examiners must maintain a report showing, at a minimum, monthly balance sheet, income statement, delinquency, and net charge off trends for the following:

- Any **CAMELS**<sup>1</sup> 4 or 5 credit union with more than \$250M in assets
- Any CAMELS 3 credit union with more than \$1B in assets
- All cases assigned to the Division of Special Actions
- All troubled institutions in which financial condition is a concern and the credit union represents significant risk to the **NCUSIF**<sup>2</sup> (as in the case of a large, troubled institution)

Examiners may use the **SATEX**<sup>3</sup> workbook to trend this data. Examiners will charge this type of offsite supervision to [WCC 27](#) and will close a contact in **MERIT**<sup>4</sup> as per this chapter's [Offsite Supervision Contacts \(WCC 27\)](#) section.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>3</sup>An Excel workbook consisting of a series of linked spreadsheets. The name is an acronym for "Special Actions Trends Expanded." SATEX spreadsheets are used to capture data from a credit union's monthly financial statements and provide a tool for monitoring and analyzing financial trends. Only the data necessary to track a credit union's performance and problem areas should be entered in SATEX.

<sup>4</sup>Modern Examination and Risk Identification Tool, the examination platform

Examiners should make every effort to receive monthly financials directly from a credit union. For example, a section of the DOR could request financial data and board packets be sent monthly to the examiner. The supervisor will, on a case-by-case basis:

- Notify the FCU when there is a change in district assignment or the monthly financial data is no longer needed
- Determine the format of the examiner's analysis and reporting requirements

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*Last updated May 3, 2024*

## Processing of Call Reports and Trending for Federal Credit Unions (WCC 20)

Examiners will perform offsite supervision while reviewing the Call Report, risk reports, FPRs, and other offsite monitoring tools for their district. Examiners will use **WCC**<sup>1</sup> 20 for FCU reviews. Refer to the NSPM for [more information on trending](#).

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*Last updated July 29, 2015*

## OCFP/Regional Office Fair Lending Examinations and Supervision Contact Coordination

The Office of Consumer Financial Protection (**OCFP**<sup>2</sup>) has supervisory authority to conduct on-site fair lending examinations and off-site fair lending supervision contacts in FCUs.

The NCUA implemented its [fair lending examination program](#) in 1999. With the exception of FCUs that have more than \$10 billion in assets, which are under the authority of the [CFPB](#), the NCUA enforces the [Equal Credit Opportunity Act](#) and [Regulation B](#) in FCUs, and the Home Mortgage Disclosure Act and [Regulation C](#) in all federally insured credit unions.

The Equal Credit Opportunity Act is implemented by Regulation B. The Home Mortgage Disclosure Act is implemented by Regulation C.

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<sup>1</sup>Work Classification Code

<sup>2</sup>The NCUA's Office of Consumer Financial Protection

The Equal Credit Opportunity Act is implemented by Regulation B. The Home Mortgage Disclosure Act is implemented by Regulation C.

The NCUA also assesses compliance with the [Fair Housing Act](#) and reports violations to **HUD**<sup>1</sup> or **DOJ**<sup>2</sup>.

The U.S. Department of Housing and Urban Development and the U.S. Department of Justice enforce the Fair Housing Act.

The U.S. Department of Housing and Urban Development and the U.S. Department of Justice enforce the Fair Housing Act.

The NCUA conducts fair lending examinations at, and supervision contacts with, FCUs to assess compliance with fair lending laws using the **FFIEC**<sup>3</sup>'s [Interagency Fair Lending Examination Procedures](#) (August 2009).

## Federal Credit Union Selection for Fair Lending Review

OCFP [selects federal credit unions](#) for either an on-site fair lending examination or an off-site supervision contact based on a credit union's risk profile. The number of FCUs selected will vary annually, based on available resources.

### Field Recommendations

Given their direct knowledge of credit union lending practices, policies, and management strengths and weaknesses, **exam staff**<sup>4</sup> are in the best position to identify [credit unions that have an elevated fair lending risk](#).

OCFP requests recommendations from regional offices at least once each year. Regional offices should respond to OCFP's request with the name and charter number of credit unions that have elevated fair lending risks, as well as a brief description of the basis for the recommendation.

Regional offices can submit high-risk cases to OCFP on an ad hoc basis. OCFP will attempt to work high-risk referrals into the current year's schedule.

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<sup>1</sup>U.S. Department of Housing and Urban Development

<sup>2</sup>U.S. Department of Justice

<sup>3</sup>Federal Financial Institutions Examination Council

<sup>4</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

OCFP normally schedules fair lending examinations independently of safety and soundness examinations. However, OCFP will attempt to schedule concurrently if the regional office expresses a preference.

## ***Regional Office Notification***

Upon selecting a credit union for a fair lending examination or off-site supervision contact, OCFP will notify the appropriate regional office and seek its input before contacting the credit union.

In notifications to regional offices, OCFP will:

- Provide a list of FCUs selected for a fair lending examination along with a summary of the basis for selection and any preselected focal points that will be reviewed
- Provide a list of FCUs selected for an off-site supervision contact along with a summary of the basis for selection
- For each planned fair lending examination, request the date of the next safety and soundness examination, if available, and a point of contact (supervisory examiner or district examiner)
- For each planned fair lending examination or supervision contact, request information on unusual circumstances that OCFP should consider before proceeding

OCFP will consider information provided by regional offices before making a final determination on fair lending examinations, supervision contacts, and dates. OCFP will courtesy copy the appropriate regional office on credit union notification letters.

## **Fair Lending Examination and Supervision Contact Follow Up**

When OCFP identifies deficiencies in a fair lending examination or supervision contact, it will provide recommendations for corrective action. OCFP is responsible for addressing findings and assuring compliance with [DOR items](#).

Regional offices, supervisory examiners, and district examiners receive notice of fair lending examination or supervision contact completion and access to the report through the **MERIT**<sup>1</sup> notification process.

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

## Field Support of OCFP Examinations and Supervision Contacts

OCFP will request volunteers to assist with fair lending examinations and supervision contacts as needed. Each year, OCFP may recruit volunteers to assist with examinations and supervision contacts annually through a request for volunteers sent to all agency staff made in consultation with the Office of Human Resources.

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*Last updated October 26, 2022*



# FISCU Program and Procedures

The SSA is the primary regulator for FISCUs, whereas the NCUA is primarily responsible for managing risk to the **NCUSIF**<sup>1</sup>. While the NCUA has enforcement authority in FISCUs for various regulations as outlined in the NSPM's Enforcement Authorities section, the SSA is generally responsible for verifying regulatory compliance (with the exception of HMDA). In some instances, the SSA and the NCUA may agree that the NCUA will review regulatory compliance matters typically enforced by the SSA.

The NCUA's FISCU examination program is designed to empower staff to work collaboratively with each SSA to assess the financial and operational condition of FISCUs. Unless otherwise agreed to by the SSA, the state examiner is the EIC for joint examinations and contacts.

## NCUA Onsite Presence Criteria

Onsite participation (including joint examinations, insurance reviews, and onsite supervision contacts) in FISCUs is necessary to effectively assess conditions that may pose a risk to the NCUSIF. Regional management will determine the onsite participation plans for FISCUs as part of the annual resource budget process and in accordance with [NCUA's Examination Scheduling Program](#). Because SSAs vary in their approach to onsite supervision between full examinations, the degree to which each region can use SSA examination and supervision work will also vary.

An SSA will be notified by the NCUA of all FISCUs selected for onsite contacts. Each regional office will provide the criteria used in making these selections to the state to ensure it knows which credit unions the NCUA will select for an onsite contact.

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*Last updated June 23, 2023*

## MERIT Exam Tasks (Scope)

The Scope is the permanent record of procedures performed during an examination or supervision contact. All **WCC**<sup>2</sup> 11 examination procedures will be guided by the expectations outlined in most recent version of NCUA Instruction 5000.20, [Examination Scope](#).

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>Work Classification Code



Examiners must thoroughly document the areas reviewed, the results, and the recommended action. Comments like "completed" or "inadequate" are insufficient. Examiners must include a description of the area reviewed and results obtained regardless of whether references to other work papers are included in the **MERIT**<sup>1</sup> scope.

The Scope should be a comprehensive synopsis of what occurred during the examination or supervision contact. When applicable, the completed **IRR**<sup>2</sup> Workbook represents the Scope for the IRR review and it is acceptable for **exam staff**<sup>3</sup> to state "Refer to IRR Workbook" in the Results of Review section of the Scope Task. The IRR Workbook framework includes the necessary scope elements of review steps (either required or baseline), fields to enter the results of each review step, a narrative conclusion (in the overall tab), and the IRR rating (high, moderate, or low).

A comprehensive Scope will enable the examiner of the next examination to become familiar with the history of the credit union in a shorter amount of time.

EICs are responsible for the sufficiency of the MERIT Scope. For team exams/supervision contacts, the EIC should task each scoping area before the rest of the team's arrival onsite as part of their pre-exam planning. EICs must evaluate the appropriateness of the Scope and document procedures commensurate with the size and complexity of the credit union throughout the course of the examination or supervision contact. EICs will fully evaluate those areas representing a significant risk or potential risk to the credit union.

## NCUA-SSA Joint Scoping

Scoping for FISCO joint exams and contacts may vary--examiners will consider the relationship with the SSA. NCUA examiners will hold meeting(s) with the SSA examiner to establish the NCUA's scope and support resources before or at the start of fieldwork. These meetings may take place by phone or secure email. The examiner responsible for setting up the meeting will depend on the working arrangement with each SSA.

The examiner's objective of the scoping meeting is to:

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Interest rate risk

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Discuss the issues initiating the contact
- Discuss any new information
- Define operational and financial concerns
- Establish review areas

The NCUA's role in conducting joint examinations and contacts is limited to significant risk areas and compliance with laws and regulations for which the NCUA has enforcement authority. When a review reveals additional safety and soundness concerns, examiners will expand the scope and review time in consultation with their supervisor.

If agreements cannot be reached regarding the NCUA's participation, including expansion of the scope, the NCUA examiner will contact their supervisor before or during the examination, who will discuss the matter with the SSA office. Supervisors will request ARDP involvement in the event the supervisor and the SSA office cannot resolve the issue.

**Note:** If extenuating circumstances require an examination or contact offsite, exam staff will:

- Conduct examinations in accordance with the most recent version of NCUA Instruction 5000.20, [Examination Scope](#), to the greatest extent possible using offsite procedures such as those described in the [Examiner's Guide](#).
- No scope tasks are automatically deferred. Exam staff must determine the procedures they can conduct offsite based on the information provided by a credit union and availability of credit union staff for virtual meetings.
- Transaction testing and overseeing management activities cannot typically be conducted offsite. However, reviewing loan samples or bank statements provided by the credit union may still be valuable procedures to conduct, even if exam staff are unable to watch credit union staff create the source document. Exam staff will document in the scope that they could not observe a credit union generate these documents.
- Discuss any inability to complete a sufficient review of the required examination procedures described in the most current version of NCUA Instruction 5000.20, [Examination Scope](#), with their supervisor to determine

whether to convert the examination (WCC 10/WCC 11) to a supervision contact (WCC 22/WCC 23). This does not apply to continuous examinations conducted by **ONES**<sup>1</sup> examiners.

- If NCUA exam staff are unable to complete a required examination Scope Task, they should cancel the Scope Task as outlined in the MERIT NCUA and SSA User Guide and indicate in the mandatory comments box that the Scope Task why it could not be completed (for example, offsite posture).
- If the SSA is unable to complete an agreed-upon Scope Task, NCUA exam staff remains responsible for ensuring it's completion. If the Scope Task cannot be completed by NCUA exam staff, the examiner should cancel it as noted above.
- Examiners should check the box next to "Required scope not completed/deferred" in the Exam Form and note in the Scope Completion Comments box which required Scope Tasks were not completed.

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*Last updated May 12, 2022*

## Exam Types

NCUA examiners will create a **WCC**<sup>2</sup> 11 for both [joint examinations](#) and [independent insurance reviews](#). All WCC 11 joint examinations and insurance reviews will be based on the scope guidelines noted in the most recent NCUA Instruction 5000.20, [Examination Scope](#). **E&I**<sup>3</sup> will review, and update when necessary, the established scope guidelines in conjunction with changes in key risk indicators, economic conditions and regional concerns.

## NCUA Onsite Presence Criteria

Onsite participation (including joint examinations, insurance reviews, and onsite supervision contacts) in FISCUs is necessary to effectively assess conditions that may pose a risk to the **NCUSIF**<sup>4</sup>. The RD will determine the onsite participation plans for FISCUs as part of the annual resource budget process and per the [NCUA's Examination Scheduling Program](#). Because SSAs vary in their approach to onsite supervision between full examinations, the degree to

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>Work Classification Code

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

which each region can utilize SSA examination and supervision work will also vary.

The NCUA will notify the SSA of all FISCUs selected for onsite contacts. Each regional office will provide the specific criteria and reports used in making these selections to the state to ensure they know which credit unions the NCUA will select for an onsite contact.

### **NCUA Limited Review on an SSA's Examination**

If the NCUA conducts a limited review of select areas while working with an SSA on its FISCU exam, two separate solo contacts will be completed in **MERIT**<sup>1</sup>. This includes instances where the region does not perform a joint exam on a state-chartered credit union. NCUA Exam Staff should create an Onsite Supervision Contact 2.10—FISCU Regular in this scenario. Exam staff should refer to the Joint Exams in MERIT chapter of the [NCUA and SSA MERIT User Guide](#) for further details.

Besides the procedures in the NCUA and SSA MERIT User Guide, **exam staff**<sup>2</sup> should note the following:

- NCUA exam staff may not be listed as Co-EIC on the SSA's exam.
- For Loan Concentration Risk Outlier reviews, exam staff should add the Closed Information Questionnaire scope task to their MERIT 2.10 contact and attach the loan Concentration Risk Evaluation form to it once all necessary approvals for the form are obtained.

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*Last updated June 23, 2023*

## **Insurance Reviews (WCC 11)**

The NCUA examiner is the EIC for all insurance reviews. As such, it is the NCUA's responsibility to ensure completion of the **MERIT**<sup>3</sup> examination procedures and work papers.

The scope of an insurance review will focus on safety and soundness concerns. Examiners will complete the examination scope steps (detailed in the most recent version of NCUA Instruction 5000.20, [Examination Scope](#)),

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

concentrating on areas of risk, including compliance with regulations (NCUA and others) that may represent a risk to the **NCUSIF**<sup>1</sup> if the credit union failed to comply.

## ***Insurance Review Documentation***

At a minimum, documentation of an insurance review will include:

- Completed scope
- Indication of compliance or non-compliance with previous [DOR](#), [LUA](#), NWRP/RBP items or agreements relating to safety and soundness
- Completed Issue Management log with appropriate notation of resolved and outstanding issues including DOR items and consumer compliance violations, if applicable
- Status and management's acceptance of current DOR
- Completed Closed Information Questionnaire
- Written narrative report provided to credit union and SSA

## ***Insurance Review Reports***

NCUA examiners will follow the **PSR**<sup>2</sup> process before releasing NCUA **CAMELS**<sup>3</sup> ratings or the final report. With SE concurrence, the examiner may provide certain draft examination documents, including the DOR and Examiner's Findings before the PSR review(s) are complete. If no **DOS**<sup>4</sup> or ARD PSR is required, the SE may approve pre-release of CAMELS ratings. Management must be made aware that draft examination documents, including CAMELS ratings and risk ratings are preliminary and may change before final report is issued. When DOS and/or ARD review is required, the examiner may only release CAMELS ratings after the PSR review is complete.

## ***Joint Conferences***

In CAMELS 1 or 2 FISCUs, the NCUA EIC will hold an exit meeting if a joint conference is not necessary or requested. NCUA examiners must hold a joint

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>Pre-release secondary review

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>4</sup>Division of Supervision

conference for all CAMELS 3, 4, and 5 credit unions.

If a quorum is not present for a joint conference, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at a subsequent meeting. NCUA examiners will notify their supervisor at least three business days before the date and time of the joint conference. The NCUA supervisor will invite the SSA staff to participate in the joint conference.

The SSA may request a copy of examination work papers outlining corrective actions and any related handouts before meeting with credit union officials. These documents should be provided in sufficient time for SSA review and feedback before the meeting. As a courtesy, the SSA should also have an opportunity to review the finalized complete insurance review report before it is issued to the credit union. However, the report is issued at the NCUA's discretion.

Exam staff must follow the requirements from the District Management > Joint Conferences and Exit Meetings section of the NSPM as it relates to credit unions and/or **exam staff**<sup>1</sup> recording meetings.

**Note:** There may be circumstances where a joint conference or exit meeting is held virtually (video or phone). In these cases:

- Annotate the meeting was held virtually in the Closed Information Questionnaire and follow all other NSPM requirements related to joint conferences and exit meetings
- Follow the report issuance requirements discussed in the Disclose NCUA CAMELS and Risk Ratings (if SSA led) or Issue a Report to FISCU (if NCUA led) sections of this FISCU section of the NSPM
- If a credit union staff or officials cannot attend a virtual joint conference/exit meeting, or a quorum is not present, document in the Exam Form in MERIT and send the electronic examination report to the credit union
  - Request the **CEO**<sup>2</sup>/manager and board review the exam report and contact the EIC with any questions

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Chief Executive Officer

- If a LUA must be signed, get hardcopy signatures through mail or fax, or electronic signatures using PDFs

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*Last updated November 21, 2024*

## Joint Examinations (WCC 11)

For joint examinations, the state examiner is the EIC unless otherwise agreed to by the SSA. NCUA examiners are responsible for ensuring **WCC**<sup>1</sup> 11 exams meet the scope guidelines specified in the most recent version of NCUA Instruction 5000.20, [Examination Scope](#). The NCUA EIC will ensure appropriate completion of the Scope Tasks (as they would for any team member). If the work is adequate, the NCUA EIC can accept the work.

If the SSA does not use **MERIT**<sup>2</sup> or the examiner feels the scope will not be adequately completed by the SSA, the NCUA EIC will note this in their Closed Information Questionnaire and document the SSA's work.

To streamline the process and facilitate networking and cooperation between the two agencies, the NCUA will make every effort to schedule joint examinations with the SSA. If the NCUA and the SSA cannot schedule a joint examination, the NCUA will conduct an insurance review. When a joint exam is not possible, the EIC will note the reason(s), and the efforts made to coordinate a joint examination with the SSA, in the Closed Information Questionnaire.

**Note:** NCUA **exam staff**<sup>3</sup> will work with SSA exam staff to complete a joint examination as one MERIT 1.6, 1.7, or 1.8 exam. If the state exceeds the NCUA's maximum allowable timeframe in completing and issuing its report, NCUA exam staff will consider completing their work in a separate MERIT contact. In these situations, NCUA exam staff will ensure the SSA has all the information it needs to complete their scope and close the exam.

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*Last updated February 2, 2023*

## Documentation

For joint examinations, the final examination report will usually be a joint report, which encompasses both NCUA and SSA recommendations. If neces-

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<sup>1</sup>Work Classification Code

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

sary, the NCUA may issue an independent report. The NCUA will notify the SSA of plans to issue a separate report before issuance to the FISCO.

NCUA examiners will review whether the state included the issues and violations and add any missing issues or violations as part of the WCC 26/MERIT 3.1 review.

For WCC 11 (MERIT 1.6, 1.7, or 1.8) Joint Examinations, NCUA examiners must include the following in MERIT:

- NCUA-developed standard examination documents provided to the SSA such as [Examination Overview](#) commentary, [DOR](#) document, and [Examiner's Findings](#)
- Sufficient MERIT work papers to support the scope of review and conclusions
- Completed scope tasks for areas reviewed
- Indication of compliance or non-compliance with previous [DOR](#), [LUA](#), NWRP/RBP items or agreements relating to safety and soundness
- Completed Closed Information Questionnaire

**Note:** It is recommended any documents that are not automatically included in MERIT, such as NCUA-developed standard examination documents provided to the SSA including Examination Overview commentary, DOR document, and Examiner's Findings, be attached in the Documents section of the Exam Form.

## ***Joint Conferences***

If the SSA plans to hold a joint conference, the NCUA examiner will attend and participate in the meeting. If the SSA does not plan to hold a joint conference, the NCUA examiner must hold a joint conference for all **CAMELS**<sup>1</sup> 3, 4, and 5 credit unions.

If a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at a subsequent meeting. NCUA examiners will notify their supervisor of the date and time of the joint conference at least three business days in advance of holding the

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk



joint conference. The NCUA supervisor will notify the SSA staff of the date of the joint conference and invite them to participate.

Exam staff must follow the requirements from the [District Management > Joint Conferences and Exit Meetings section](#) of the NSPM as it relates to credit unions and/or exam staff recording meetings.

SSAs should be informed of the recording before the meeting by exam staff.

**Note:** There may be circumstances where a joint conference and/or exit meeting is held virtually (video or phone). In these cases:

- Annotate the meeting was held virtually in the Closed Information Questionnaire and follow all other NSPM requirements related to joint conferences and exit meetings
- Follow the report issuance requirements discussed in the Disclose NCUA CAMELS and Risk Ratings (if SSA led) or Issue a Report to FISCO (if NCUA led) sections of this FISCO section of the NSPM
- If credit union staff or officials cannot attend a virtual joint conference/exit meeting, or a quorum is not present, document in the Exam Form in MERIT and send the electronic examination report to the credit union
- Request the **CEO**<sup>1</sup>/manager and board review the exam report and contact the EIC with any questions
- If a LUA must be signed, get hardcopy signatures through mail or fax, or electronic signatures using PDFs.

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*Last updated November 21, 2024*

## Communication with an SSA

Open communication between the NCUA and the state supervisory authority is critical to ensure a robust and effective management of risk to the **NCUSIF**<sup>2</sup> posed by FISCUs.

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<sup>1</sup>Chief Executive Officer

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

## Supervisor Responsibilities

The NCUA supervisor's interaction with the SSA is a critical link in this relationship. Therefore, the supervisor will be the primary party responsible for maintaining open and effective communication. The supervisor will maintain both formal and informal communication with the SSA. The supervisor will conduct such meetings as necessary to establish and maintain a positive relationship. However, in those states with few state-chartered credit unions or strong FISCO supervision programs, less frequent and/or more informal communication may be sufficient. Regardless of the circumstances, supervisors should meet face-to-face with SSAs at least annually. The meetings will focus on scheduling, supervision, credit union problem resolution, and addressing issues between respective examiners.

In addition to the face-to-face meetings, the supervisor will maintain phone and email contacts with the SSA for complex or problem credit unions (for example, credit unions with more than \$250 million in assets, credit unions exhibiting negative trends or insurability concerns, credit unions with a composite **CAMELS**<sup>1</sup> rating of 4 or 5, and credit unions with a composite CAMELS rating of 3 or below which in the supervisor's judgment present a material risk to the NCUSIF).

Each December, supervisors will provide the SSA with a list of credit unions the NCUA plans to conduct an examination/supervision contact. The supervisor will state the reason for the NCUA going onsite and may expand or reduce the list throughout the year, as new financial data is available. This will eliminate unwelcome surprises and enable the SSA to plan for NCUA participation into their schedules.

The NCUA reserves the right to go into any FISCO as frequently as warranted, based on risk to the NCUSIF, and may conduct an independent onsite contact when unable to coordinate a joint contact with the SSA. The NCUA will notify the SSA before initiating any such contact and share the report with the SSA before submission to the FISCO.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

## Regional Director and Associate Regional Director Responsibilities

The RD or designated ARDP will meet with the SSA at least once a year. Meetings will focus on the operating agreement, discussing roles, responsibilities, and expectations for the NCUA and the SSA.

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*Last updated July 29, 2015*

## Supervision Contacts

The NCUA supervises FISCUs based on the risk to the **NCUSIF**<sup>1</sup> through onsite contacts and offsite monitoring of statistical financial reports, etc. FISCUs presenting an increased insurability risk will receive onsite supervision contacts. The EIC and supervisor, in consultation with the ARDP, will determine the frequency and timing of onsite supervision contacts. Onsite contacts may be appropriate for focused reviews of identified risks, reduced or limited participation in a contact of a FISCU with less than \$250 million in assets, or for ongoing supervision of problem credit unions.

The NCUA will make every effort to coordinate joint NCUA/SSA contacts but reserves the right to perform independent onsite contacts. For instance, if the NCUA suspects fraud at a credit union, then an immediate onsite contact will be necessary.

The NCUA may perform independent onsite contacts when necessary due to scheduling issues. The NCUA will offer to provide the SSA a draft copy of solo NCUA contact reports before issuance to the FISCU. The SSA may also perform solo onsite supervision contacts. If the SSA issues a report, the NCUA examiner has the option of reviewing the SSA supervision reports and charging offsite supervision time to **WCC**<sup>2</sup> 28.

The NCUA considers the timing of the next SSA examination when scheduling onsite supervision. However, if a timely joint contact is not possible, the NCUA may need to make an onsite contact independent of the SSA. The NCUA supervisor is responsible for contacting the SSA if onsite supervision is necessary before the next scheduled examination. If the NCUA supervisor and SSA cannot reach an agreement regarding necessary action, the supervisor will contact the ARDP who will further discuss the concerns with the SSA and make

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>Work Classification Code

necessary arrangements either for a joint contact or an independent NCUA contact.

*Last updated July 29, 2015*

## Follow-Up Examinations for a Troubled/Problem FISCU (WCC 23)

Follow-up examinations are more comprehensive than other onsite supervision contacts and require an analysis of data to support the **CAMELS**<sup>1</sup> ratings and administrative action recommendations.

### ***Follow-Up Examination Timeframes***

At a minimum, examiners will perform a follow-up examination, which must include a joint conference with the board of directors, when the credit union is a:

Credit Union Description	Follow-Up Exam Requirements
CAMELS 3 > \$250 million	NCUA examiners will perform a follow-up examination in conjunction with the SSA at least every 180 days (from completion date to start date)
CAMELS 4 or 5 > \$250 million	NCUA examiners will perform a follow-up examination in conjunction with the SSA at least every 120 days (from completion date to start date)

In FISCUs with less than \$250 million in assets, the RD has authority to determine the risk priority needs of a follow-up examination and establish an alternate schedule based on regional risk priorities and impact to the **NCUSIF**<sup>2</sup>.

### ***Timeframe Exceptions for Follow-Up Examinations***

Examiners will consult their supervisor and request an extension via email if they cannot start a follow-up examination within the required timeframe. The guidelines for requesting an extension are:

<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

Credit Union Description	Maximum Extension	Guidelines
CAMELS 3 > \$250 million	Contact time-frame may not exceed 240 days based on supervisor approval	Any request for an extension of the 180-day requirement must include information which demonstrates that the credit union will not represent increased risk to the NCUSIF resulting from the extended time-frame. <b>Supervisor</b> <sup>1</sup> must approve all requests for extension and forward approval to the region's <b>DOS</b> <sup>2</sup> mailbox. The ARDP or ARDO, as appropriate, must approve and document in writing any additional extensions and associated considerations.
CAMELS 4 or 5 > \$250 million		Any request for an extension of the 120-day requirement must include information demonstrating that the credit union will not represent increased risk to the NCUSIF resulting from the extended timeframe. The ARDP or the ARDO, as appropriate, must approve and document in writing extensions for follow-up examinations.

Any approvals to exceed the timeframes listed above require the supervisor or ARDP, as applicable, to forward their approval via email to DOS with supporting documentation. All time frame extension approvals will include a projected completion date.

Tracking of the above timeframes will be determined by the NCUA examination completion date for NCUA onside participation (joint).

Each region will establish monitoring procedures for FISCU follow-up examinations and timeframe extensions similar to what is required for supervision of FCUs. The ARDP will review the applicable report(s) and share them with their supervisors to evaluate appropriateness and timeliness of completion contacts to ensure a quality and timely supervision program.

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<sup>1</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

<sup>2</sup>Division of Supervision

## ***Follow-Up Examination Documentation***

Examiners will support in the Scope, or by other means that can be part of the administrative record, all the critical problem areas identified during the regular examination. Examiners will indicate the supervision contact was a follow-up examination by selecting "FISCU Follow Up Exam" as the Contact Sub-Type when creating the contact in **MERIT**<sup>1</sup>. Examiners must document a completed Scope and sufficient work papers to support the scope of the review and conclusions.

The administrative record for FISCUs must also be comparable to FCUs, including maintenance of a Supervision Chronology Report. All follow-up examinations will include a report to the FISCU. The final report may either be a joint report with the SSA or a stand-alone NCUA report.

- All critical input areas
- Scope tasks that were the subject of the follow-up examination
  - Explanations of any change of final risk ratings on the Risk Assessment form
- Sufficient work papers to support the scope of review and the conclusions drawn
- Documentation regarding compliance with any outstanding administrative actions ([LUA](#), [PWL](#), etc.,) in the Status Update
- Documentation regarding compliance with NWRP/RBP in the Status Update
- Documentation of compliance or non-compliance with previous DOR items and updated DOR Issues or Actions (where one or more exists) in Issue Management
- Written narrative report provided to the credit union (or to the SSA to include in their report if applicable) (for example, Examination Overview, Examiner's Findings, etc.)
- Completed Exam form Completion Information, including all questions and the date of the exit meeting and/or joint conference (a joint conference is required for all CAMELS 3, 4, and 5s, unless the supervisor

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

approves an exception. If a quorum is not present, examiners will instruct the credit union's management to note it in the board minutes and provide documentation to the examiner regarding whether management adopted the DOR at the next board meeting)

- Updated [Supervision Chronology Report](#) attached to the Documents section on the Examinable Entity form for a CAMELS 3 with assets \$250 million and greater, and CAMELS 4 or 5
- Consumer Compliance Violations in Issue Management, if applicable
- Completed [Closed Information Questionnaire](#)
- Any other information necessary to support the scope and time spent on the contact

When the SSA issues the report to the credit union, the NCUA EIC will work with the SSA to ensure the report includes required corrective actions, administrative actions, and will provide relevant supporting sections of the report to the officials during the joint conference (for example, DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts). The NCUA EIC will follow up to ensure the SSA issues the report timely. If the SSA does not issue a report as previously agreed or if the report is not timely, the NCUA EIC will notify their supervisor and plan to issue their own report (as discussed in the paragraph below).

When the NCUA issues the report to the credit union, the NCUA EIC will [deliver the report as they would an examination report](#). Examiners must discuss required corrective actions, administrative actions, and provide relevant supporting sections of the report with the officials during the joint conference (for example, DOR, Examiner's Findings, and other appropriate work papers such as the Supplementary Facts).

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*Last updated February 2, 2023*

## Onsite Supervision Contacts (WCC 23)

An onsite supervision contact is more limited in scope than an examination or a follow-up examination. Examiners will typically perform an onsite supervision contact to review targeted risk area(s), to hold a joint conference if one could not be completed as part of the exam, or to review the credit union's compliance with a DOR, among other areas of focus.

## Contact Timeframes

Examiners will perform onsite supervision contacts as needed between regular or follow-up examinations based on the nature and severity of the problems or as their supervisor requires. Examiners will need to make each contact a results-oriented contact designed to achieve corrective action on some, if not all, of the areas identified during an exam. The NCUA EIC or supervisor will coordinate with the SSA as appropriate.

## Recordkeeping Problems at FISCUs

The NCUA EIC, in consultation with their supervisor, will determine whether to accept the SSA's limited scope onsite contacts to resolve recordkeeping problems in place of an NCUA onsite contact. When [review of an SSA report \(WCC<sup>1</sup> 26 Review\)](#) discloses material recordkeeping problems, the examiner will contact their supervisor and the SSA to determine if an onsite contact is necessary. See the [Significant Recordkeeping Concerns](#) section of the NSPM for additional guidance on performing supervision contacts for credit unions that have significant recordkeeping concerns.

## Contact Documentation

Examiners document an onsite supervision contact by completing a 2.10 in **MERIT<sup>2</sup>**. At a minimum, the supervision contact must include:

- The Microstrategy Analytic PDF and dossier (i.e., mstr) files
- Completed scope tasks covering the areas reviewed..
- Completed Risk Assessment and **CAMELS<sup>3</sup>** forms. Include a rating for each risk area included and reviewed in the contact, and each CAMELS component and composite. For CAMELS areas not reviewed during the contact, **exam staff<sup>4</sup>** may enter "DNR" (did not review) in the Reason-/Factors sections.
- Written narrative report provided to the credit union if applicable (for example, [Examination Overview](#), [Examiner's Findings](#), etc.). Use the

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<sup>1</sup>Work Classification Code

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>4</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



Closed Information Questionnaire to document additional information when a report is not provided to the credit union and in place of a supervision contact memo.

- Updated [Supervision Chronology Report](#) saved in the Documents section of the Exam Form for a CAMELS 3 with assets \$250 million or more, and CAMELS 4 or 5 credit unions.
- Any other information necessary to support the scope and time spent on the contact (for example, update Issue Management log with DOR status if focus of contact was to review compliance with DOR items, etc.)

Examiners will discuss their findings and recommendations during an exit meeting and issue a written report to the officials if the contact results in required action or changes to CAMELS or risk ratings.

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*Last updated May 3, 2024*

## Offsite Supervision Contacts (WCC 28)

Offsite supervision of FISCUs may be necessary in a variety of situations. Examiners conduct offsite supervision for discrete supervision or district management activities that are not part of an examination (**WCC**<sup>1</sup> 11) or onsite supervision contact (WCC 23). Offsite supervision contacts are generally very limited in scope and conducted somewhere other than at the credit union. For example, following up on a DOR through phone or email, reviewing a credit union's response to a DOR, reviewing monthly board packages, or other correspondence with the credit union.

Offsite supervision of FISCUs may entail review of SSA supervision contacts completed between examinations (the NCUA asked the SSAs to supply the regional office copies of reports for any follow-up or supervision contacts. The regional office will send the district examiner a copy of all reports and correspondence received).

Examiners will not change a credit union's composite **CAMELS**<sup>2</sup> rating during a WCC 28 unless the WCC 28 is a review of an SSA onsite contact. When a WCC 28 is used to review an SSA onsite contact, examiners should follow the guidelines outlined under [Review of State Examinations](#) regarding dis-

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<sup>1</sup>Work Classification Code

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

agreements in CAMELS and notification of troubled condition as outlined in various sections of this NSPM section.

### ***Documentation for Offsite Contacts Eight Hours or Longer***

A contact is required for all WCC 28 offsite contacts to complete discrete activities (for example, review board packages or credit union's response to the DOR) if **exam staff**<sup>1</sup> charge eight hours or more. Examiners document an offsite supervision contact of eight hours or more by closing a contact in **MERIT**<sup>2</sup> and charging time to WCC 28.

At a minimum, the examiner must include a completed Exam Form with documentation of the contact scope, progress, conclusions, recommendations, etc. This information should be included in the Examiner Comments field in the Exam Notes section of the Exam Form. If exam staff need more room to document the contact, they may attach additional documentation on the Exam Form or create a scope task for that purpose. Examiners must also ensure the supervision plans on the Examinable Entity Form are current to close the contact.

Exam staff will not use offsite supervision (WCC 28) to charge time for substantive work that is completed as part of an examination (WCC 11) or onsite supervision contact (WCC 23), even if the work is completed offsite.

### ***Documentation for Offsite Contacts Less Than Eight Hours***

Exam staff will aggregate time spent performing offsite supervision in increments less than eight hours for the same credit union on a quarterly basis, shortly after the end of the quarter. If the aggregate time charged in a quarter is less than eight hours, a contact in MERIT is not required. This does not apply to contacts for credit unions with **BSA**<sup>3</sup> violations that must be resolved by a specific date. Examiners will attach documentation for BSA-related resolution contacts in MERIT. See the NSPM's [BSA Supervision](#) section for more information.

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*Last updated May 3, 2024*

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>3</sup>Bank Secrecy Act

## Monthly Financial Monitoring (WCC 28)

Examiners must maintain a report showing, at a minimum, monthly balance sheet, income statement, delinquency, and net charge off trends for the following:

- Any **CAMELS**<sup>1</sup> 4 or 5 credit union with more than \$250M in assets
- Any CAMELS 3 credit union with more than \$1B in assets
- All assigned to the **DSA**<sup>2</sup>
- All troubled institutions in which financial condition is a concern and the credit union represents significant risk to the **NCUSIF**<sup>3</sup> (as in the case of a large, troubled institution)

Examiners may use the **SATEX**<sup>4</sup> workbook to trend this data. Examiners will charge this type of offsite supervision to [WCC 28](#) and will close a contact in **MERIT**<sup>5</sup> as per this chapter's [Offsite Supervision Contacts \(WCC 28\)](#) section.

Examiners will make every effort to receive monthly financials directly from the credit union. For example, a section of the DOR could request financial data and board packets be sent each month to the respective SSA and NCUA examiner. If the examiner does not receive monthly financials directly from the credit union, their supervisor will on a case-by-case basis:

- Work with the SSA office to determine how the NCUA examiner may obtain the monthly financial information needed and follow-up on requested reports
- Notify the SSA and FISCO when there is a change in district assignment or the monthly financial data is no longer needed
- Determine the format of the examiner's analysis and reporting requirements

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*Last updated May 3, 2024*

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>Division of Special Actions, discretionary supervisory actions, or Director of Special Actions

<sup>3</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>4</sup>An Excel workbook consisting of a series of linked spreadsheets. The name is an acronym for "Special Actions Trends Expanded." SATEX spreadsheets are used to capture data from a credit union's monthly financial statements and provide a tool for monitoring and analyzing financial trends. Only the data necessary to track a credit union's performance and problem areas should be entered in SATEX.

<sup>5</sup>Modern Examination and Risk Identification Tool, the examination platform

## Review of State Examinations

Exam staff will review state examination reports for all SSA-led examinations regardless of whether the NCUA participated with the SSA. Review of State Exams are not required for the joint, NCUA-led examinations where the NCUA issues the final report, and the state does not issue a report. The Review of State Exam's effective date must match the SSA examination's effective date.

### ***Review of State Contacts***

The SSA may also perform independent onsite supervision contacts or follow-up examinations. If the SSA issues a report during a supervision contact or follow-up examination, NCUA **exam staff**<sup>1</sup> may review the SSA's report and charge offsite supervision time to **WCC**<sup>2</sup> 28. If the NCUA examiner documents their review in **MERIT**<sup>3</sup>, they will complete a MERIT contact sub-type 4.9, and follow the relevant guidelines in the [FISCU Program > Supervision Contacts > Offsite Supervision Contacts \(WCC 28\) section](#).

### ***Conducting a Review of State Exam***

Exam staff will begin the Review of State Exam once they are notified the SSA examination has been closed in MERIT. For states that do not use MERIT, the SSA will send a hard copy of the examination report to the regional office, which forwards the material to the assigned examiner.

Exam staff perform all Reviews of State Exams in MERIT. The level of review required will differ based on whether the NCUA participated in the examination under review.

When completing a Review of State Exam in which the NCUA participated, exam staff will:

- Decide whether the examination identifies and addresses the material issues agreed to during the examination
- Ensure the material issues and concerns agreed to during the examination are in the final report provided to the credit union (for example,

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Work Classification Code

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

### Examination Overview, DOR)

- If material issues are missing or concerns are unaddressed in the final examination report, exam staff will notify their supervisor and document the material issues or concerns the examination report inadequately covers
- Determine if the **CAMELS**<sup>1</sup> ratings match the rating that was agreed to during the examination
- Ensure supervision plans for the credit union documented during the examination remain adequate.

When completing a Review of State Exam of an examination in which the NCUA did not participate, exam staff will:

- Review the SSA's and the NCUA's supervision efforts to date.
- Determine the appropriateness of the SSA's scope.
- Determine if the SSA has properly identified and addressed material risks.
- Document any material risks that were not adequately addressed in the examination report.
- Assign NCUA CAMELS ratings.
  - If there are any CAMELS differences, exam staff will communicate, through their supervisor, any adverse differences in the composite rating to the SSA (for example, if the NCUA's rating is CAMELS composite 3, 4 or 5 and the SSA's rating is better).
  - If exam staff assign a CAMELS composite rating of 4 or 5 during the review and the NCUA CAMELS rating is worse than the rating the SSA assigned and the NCUA did not participate in the examination, exam staff will schedule an onsite contact to evaluate material risks more fully. The NSPM outlines the [required timeframes for completing the onsite contact](#).
- Determine if there are any material weaknesses that would support additional supervision.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

- Recommend whether a joint examination or contact is needed. If there are significant concerns, exam staff may recommend a joint contact rather than wait until the next joint examination.
- Document recommended actions or communication to resolve any material risk oversights or inadequate corrective action identified in the SSA report. For example, exam staff may draft a RD letter to the SSA if the report failed to identify or properly address material concerns.
  - NCUA exam staff will first discuss the concerns with their supervisor, who will then discuss with their SSA counterpart. If the issue cannot be resolved at that level, an RD letter may be needed.

The review should provide an analysis of the credit union's operational and financial condition; this review is not a recap of the SSA's report. Exam staff will provide enough information to give a clear picture of this condition.

When a Review of State Exam discloses material recordkeeping problems, exam staff will contact their supervisor to determine if an onsite contact is needed. If necessary, the supervisor will coordinate with the SSA to schedule an onsite contact.

Examiners should use their discretion in charging time to complete reviews of state examinations. Examiners should contact their supervisor if the budgeted hours are not sufficient to complete the review process.

Supervisors should approve extra time if the review warrants more hours. For example, if exam staff note substantial differences between the agreed upon report and the final report issued by the SSA or a considerable amount of time has passed between the examination and review, more time may be needed. Examiners document supervisor approval in the Review of State Exam.

## ***Assigning CAMELS and Risk Ratings***

Exam staff will assign all CAMELS ratings and all seven risk ratings during a Review of State Exam. Examiners must consider the effects of the CAMELS composite rating on a FISCO's troubled condition designation. Per NCUA regulation § 701.14, [Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition](#), either the NCUA or the SSA can declare a FISCO in troubled condition; however, the NCUA will not designate a FISCO to be in troubled condition without first making an onsite contact.

For reviews of joint or independent SSA examinations, if NCUA exam staff assigns the same CAMELS composite rating as the SSA, the following actions are required based on the CAMELS composite rating:

- **CAMELS composite 1, 2, or 3**—No further action needed
- **CAMELS composite 4 or 5**—For newly downgraded CAMELS 4 or 5 FISCUs, NCUA exam staff must verify whether the FISCU was given notice of its troubled condition status during the examination by either the SSA or NCUA

For reviews of independent SSA examinations, if NCUA exam staff assigns a CAMELS composite rating of 3, 4, or 5, and the SSA CAMELS composite rating is a 1 or 2, supervisory concurrence is required. Exam staff will document the concurrence in the Closed Information Questionnaire. The NCUA exam staff will also work through their supervisor to schedule an insurance review or on-site supervision contact as needed to evaluate risk and reach conclusions on the appropriate CAMELS composite rating, as well as agreements for corrective action with credit union management, if necessary.

A subsequent onsite contact is needed to designate a FISCU in troubled condition after a Review of State Exam to validate the CAMELS ratings. See the NSPM for more information on [notices of troubled condition for FISCUs](#).

An onsite supervision contact must be completed within 60 calendar days of completing the Review of State Exam for FISCUs that the NCUA is downgrading to a CAMELS composite 4 or 5 rating. The onsite supervision contact is to validate the CAMELS rating and trigger the troubled condition designation. However, if there is an official or senior executive officer vacancy, examiners must start the onsite contact within 10 business days of completing the Review of State Exam.

The **ED**<sup>1</sup> must approve any exception to this policy. The requirement to provide management four weeks' notice of the contact is waived, though examiners should provide management as much notice as possible unless fraud is suspected.

When NCUA exam staff assign a CAMELS composite 3 rating and it is worse than the SSA composite rating, exam staff, in concurrence with their supervisor, will determine the best course of action to more fully evaluate material risks. This may include obtaining, through the supervisor, more examination

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<sup>1</sup>Executive Director

information from the SSA during the Review of State Exam or scheduling an onsite contact, as appropriate.

## ***Timeframes***

Exam staff will complete the assigned Review of State Exam and **initiate** a Supervisory Review of State Exam survey within 30 calendar days of notification of the completed SSA examination. The supervisor may complete this survey over the 30 days allotted to exam staff for their Review of State Exam, but within the five business days allotted for survey completion in the [NSPM's Quality Assurance Program>Quality Assurance Roles and Responsibilities](#) section.

The 30 days will start the day exam staff receive notification of the completed SSA examination (or if the report is submitted hard copy, the day the regional office provides exam staff with the report). Supervisors may approve workload-based extensions up to 45 days. Examiners will document the extension approval in the Closed Information Questionnaire.

Once the Supervisory Review of State Exam survey has been completed and received, exam staff should close the Review of State Examination contact within one business day.

## ***MERIT Procedures***

Exam staff will perform all Reviews of State Exams in MERIT. To complete a Review of State Exam, exam staff will:

- Review the state's exam documentation (if available) and final examination report.
  - Exam staff should attach the SSA's final examination report to the Exam form in MERIT if the SSA's exam report is not in its MERIT exam.
- Select all seven risk areas when creating the review.
- Under the Participation Field, select NCUA Only when creating the review. NCUA Only under the Participation Field when creating the review.
- Generate the Required Scope Tasks
- Complete the **Review of State Examination** scope task.



- This requires exam staff to answer the questions in the scope task. Exam staff must provide comments for any question answered with “no” for questions 1.a., 1.b, and two through six.
- Attach the Microstrategy Analytic PDF and dossier (mstr) files to the Exam form if these documents are not in the SSA's MERIT exam.
- Complete the **NCUA Risk Assessment** form.
- Complete the **NCUA CAMELS Assessment** form.
- Enter any new Issues (DORs and Compliance Violations) as Draft Issues that must be tracked and which the SSA did not include as Draft Issues in MERIT
  - For items in the SSA report that meet [the NCUA’s definition of a DOR](#), NCUA exam staff must enter the DOR as a Draft Issue if the SSA did not do so (including if the SSA does not use MERIT). Exam staff or their supervisor should notify their SSA contact when they do this to confirm who should be listed as Issue owner. If the SSA already input a concern meeting the NCUA's definition of a DOR as an Examiner's Finding Draft Issue, it does not also need to be entered as a DOR issue. SSA DORs that do not meet the NCUA definition may be entered at exam staff’s discretion.
- Complete the Examinable Entity Form's **NCUA Projected Future Contact Hours** section.
  - Document any recommendation for future exams, contacts, and budget projections for the next examination cycle. Exam staff must input the next anticipated Review of State Exam in the Anticipated Completion field if no exams or onsite contacts are recommended or planned.
- Enter the Actual Start Date and Actual Completion Date in the Milestones form
- Input contact hours in the Contact Hours section of the Exam Form
- Answer the four questions in the Closure Details section of the Completion Information section of the Exam Form

- Initiate the Supervisory Review of State Exam survey to get the supervisor's concurrence on recommended supervision plans and other follow-up actions.
- When publishing the report, select all issues under the Issue Management section, if applicable
- Perform any needed follow-up action (for example, verbal communication with the SSA, Regional Director letter)

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*Last updated November 21, 2024*

## ***Attaching SSA Documentation***

When completing a Review of State Examination, exam staff will attach the documentation reviewed (typically, the examination report if the SSA's MERIT exam does not include the report) to the Exam Form in MERIT.

For joint examinations with an SSA that does not use MERIT, exam staff will attach the workpapers and documentation provided by the SSA to the Exam Form in MERIT. Workpapers and documentation includes, but is not limited to:

- Scope steps
- Examination report
- CAMELS and risk ratings and justification for each
- Examiner's Findings
- DOR items
- Questionnaires

Exam staff will input the SSA's Compliance Violations and DORs that meet the NCUA's definition of a DOR into Issue Management.

## ***Request More Information from an SSA***

Exam staff will notify their supervisor when an SSA report does not have enough information to determine the credit union's risk exposure. The supervisor may contact the SSA to gather more information or authorize exam staff to contact the SSA directly. If exam staff do not receive the requested information, they will draft an appropriate RD letter to the SSA. The supervisor will also contact the SSA when a review or other information reveals a need for an immediate contact at a specific FISCO.

Also, if an SSA did not close a resolved issue during its MERIT contact, exam staff or their supervisor should reach out to their respective SSA contact person to confirm whether they may close the issue during the Review of State Examination contact.

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*Last updated November 21, 2024*

## Processing Call Reports and Trending for a FISCU (WCC 21)

Examiners will perform offsite supervision while reviewing the Call Reports, risk reports, FPRs, and other offsite monitoring tools for their district. Examiners will use **WCC**<sup>1</sup> 21 for FISCU reviews. Refer to the NSPM for [more information on trending](#).

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*Last updated July 29, 2015*

## Request Additional Information from an SSA

Examiners notify their supervisor when an SSA report is lacking adequate information to determine the risk. Depending on the relationship with the SSA, the supervisor may contact the SSA or may reach an agreement with the SSA for the examiner to contact the SSA office or the SSA EIC directly to gather additional information. If the examiner does not receive the requested information, the examiner will draft an appropriate Regional Director letter and cover memo. The supervisor will also contact the SSA when the reviews or any other information reveals a need for an immediate contact at a specific FISCU.

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*Last updated July 29, 2015*

## Disclose NCUA CAMELS and Risk Ratings

Examiners will strive to disclose the NCUA **CAMELS**<sup>2</sup> rating simultaneously with the SSA during the final meeting with management and officials, but only after they have received a completed **PSR**<sup>3</sup> or DSCR, as applicable.

A final meeting is the last meeting with the credit union and the NCUA present. In most cases, this will be the same as the exit meeting or the joint conference.

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<sup>1</sup>Work Classification Code

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>Pre-release secondary review

The NCUA CAMELS and supporting rationale will be documented using the FISCU CAMELS Disclosure Form. The NCUA EIC will clearly identify the conditions supporting the individual component ratings and the overall composite rating.

The examiner will use and deliver to the credit union the FISCU CAMELS Disclosure Form located in the **MERIT**<sup>1</sup> job aids. Exam staff will also publish this form in MERIT.

**Note:** When publishing the FISCU CAMELS Disclosure Form, **exam staff**<sup>2</sup> should not send issues to Issue Management (in other words, do not select draft issues in the Issue Management field of the Exam Report form) on joint SSA-led exams where the NCUA is the Co-EIC. Exam staff should allow the SSA to perform this function when they publish the final report.

For CAMELS composite 1 or 2 FISCUs requiring a [DSCR](#), the examiner, in consultation with their SE, may decide, based on concerns (or lack thereof) noted during the examination to send the FISCU CAMELS Disclosure Form via secured email or share during an exit meeting. The SSA will be invited to participate in the meeting.

For CAMELS composite 3, 4, or 5 FISCUs, a joint conference is required to deliver the NCUA CAMELS. If a PSR or DSCR cannot be completed before the SSA's joint conference, NCUA exam staff may have to schedule a separate joint conference to disclose the NCUA CAMELS rating that provides time for PSR or DSCR completion. The SSA will be invited to participate in the NCUA CAMELS disclosure joint conference.

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*Last updated June 23, 2023*

## Joint FISCU Examinations/Contacts

### ***Exam Staff Responsibilities***

The NCUA EIC will assign component and composite CAMELS ratings during joint contacts based on the work and conclusions reached by both the SSA and NCUA examiners. For **WCC**<sup>3</sup> 11 and WCC 23 contacts, NCUA examiners will do the following:

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Work Classification Code

- Work cooperatively with the SSA examiner in charge and maintain ongoing communications during the examination, which will include a meeting to discuss differences in CAMELS rating conclusions and attempts to resolve any component or composite differences with the SSA.
- In the event a component or composite rating differs from the respective SSA rating, and the EIC is unable to reach agreement with the SSA, the NCUA EIC will notify their NCUA supervisor and seek concurrence for their CAMELS ratings.
  - Once the NCUA supervisor has concurred with the CAMELS ratings, the examiner will proceed to disclose the NCUA's CAMELS as outlined above.
  - If the SSA does not disclose a CAMELS rating either onsite, or if done later than the final meeting, the NCUA will still disclose its rating as outlined above.
  - In situations where the NCUA EIC issues a different component or composite CAMELS rating than the SSA, the EIC will document efforts to reach agreement with the SSA on the CAMELS rating in the NCUA [Closed Information Questionnaire](#).

### ***NCUA Supervisor Responsibilities***

The NCUA supervisor is responsible for ensuring the NCUA EIC supports the CAMELS rating and communicates actively with their SSA counterpart(s) to resolve differences. For WCC 11 and WCC 23 contacts, NCUA supervisors will:

- Review supporting information with in-process examinations to provide concurrence for CAMELS ratings assigned to the FISCU when issuing a differing CAMELS rating
- Communicate with the SSA in advance to notify the SSA supervisory staff that the NCUA has a differing CAMELS rating when the NCUA and SSA EIC cannot agree on a consistent CAMELS rating
- Prioritize performing DSCRs of CAMELS for FISCUs in order to allow for the expeditious disclosure of NCUA CAMELS ratings to FISCUs

### ***Regional Office Responsibilities***

The regional office is responsible for facilitating open communication with the SSAs and completing quality control over the assigned ratings.

## CAMELS Differences During WCC 26 Reviews

This procedure applies to WCC 26 reviews where the NCUA examiner did not participate onsite during the examination and has not previously disclosed CAMELS to the FISCO as outlined above. As discussed in the NSPM, NCUA examiners evaluate CAMELS when performing WCC 26 reviews of state examinations. For WCC 26 reviews, the following apply:

- When the examiner performing the WCC 26 review assigns the same rating as the SSA composite rating, no additional action is needed; unless, the composite rating is a 4 or 5. For newly downgraded CAMELS 4 or 5 FISCUs, the NCUA examiner must verify whether the FISCO was given notice of its troubled condition as outlined in the NSPM.
- When the NCUA examiner assigns a different composite rating, but chooses to rate the credit union a composite CAMELS 1 or 2, no further action is needed.
- When the NCUA examiner's rating differs from the SSA composite rating and a composite CAMELS 3 is assigned by the NCUA, the examiner, in concurrence with their SE, will determine the best course of action to more fully evaluate material risks. This may include obtaining, through the SE, additional examination information from the SSA before completing the WCC 26 contact or scheduling an onsite contact, as appropriate.
- When the NCUA examiner's rating differs from the SSA composite rating and a composite CAMELS 4 or 5 is assigned by the NCUA, the examiner will schedule an onsite review sufficient to more fully evaluate material risks. The examiner may obtain, through their supervisory examiner, additional examination information from the SSA to more fully evaluate risks before completing the WCC 26 contact or scheduling an onsite contact, as appropriate.

See the [Reviews of SSA Examinations](#) section of the NSPM for timeframes for completing the subsequent onsite contact. A credit union is not considered in troubled condition based on an NCUA CAMELS rating until an onsite contact is performed.

For more information about troubled credit unions, see the Notice of Troubled Credit Union section of the NSPM.

## ***Exam Staff Responsibilities***

The following process is used for WCC 26 reviews when the examiner assigns a CAMELS composite rating of 3, 4 or 5 which differs from the SSA assigned rating:

- The NCUA examiner will obtain supervisor concurrence for CAMELS differences with the SSA where the NCUA issues a composite CAMELS 3, 4, or 5 rating.
- The NCUA examiner will work through their supervisor to schedule an insurance review or on-site supervision contact within the appropriate period of time, [as outlined in the NSPM](#).
  - The purpose of the requested insurance review or on-site supervision contact will be to evaluate risk and reach conclusions on the appropriate CAMELS rating, as well as agreements for corrective action with credit union management.

## ***NCUA Supervisor Responsibilities***

- Supervisors will assist the examiner in obtaining more information on material issues within an examination report as needed.
- Supervisors will follow up with the SSA to ensure insurance reviews or on-site supervision contacts are scheduled within a reasonable timeframe.

## ***Regional Office Responsibilities***

- The regional office is responsible for facilitating open communication with the SSAs to discuss differences in CAMELS identified during WCC 26 reviews.
- ARDPs will decide whether NCUA examiners will perform a contact without SSA participation if joint contacts cannot be scheduled within a reasonable period of time. Documented ARDP approval is needed if a joint contact cannot be scheduled within a reasonable timeframe and the NCUA does not perform its own insurance review or on-site supervision contact.

## E&I Responsibilities

**E&I**<sup>1</sup> will monitor national and regional trends with respect to differences in CAMELS ratings and summarize the frequency and magnitude of CAMELS differences within regions and selected states no less than annually. The goal for such reviews is to ensure the consistent application of CAMELS, especially in instances when an NCUA CAMELS differs from the SSA CAMELS.

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*Last updated October 14, 2021*

## Joint Conferences

Joint examinations of FISCUs with a **CAMELS**<sup>2</sup> rating of a 3, 4, or 5 will include a joint conference with a majority of the board of directors. NCUA staff will attend these meetings, appropriately addressing all NCUA concerns. Examiners will disclose the NCUA CAMELS ratings (components and composite) to the board both verbally and in writing.

The SSA examiner and the NCUA EIC will hold an exit meeting in CAMELS 1 or 2 FISCUs if a joint conference is not necessary or requested. In this situation, examiners will disclose the NCUA CAMELS ratings during the exit meeting. Exit meetings should occur as soon as possible after the completion of fieldwork subject to reasonable accommodation for SSA advance review of draft documents.

The timeframe for scheduling joint conferences and exit meetings should comply with the 90-day guideline for examination completion.

Exam staff must follow the requirements from the District Management > Joint Conferences and Exit Meetings section of the NSPM as it relates to credit unions and/or **exam staff**<sup>3</sup> recording meetings. SSAs should be informed of the recording before the meeting by exam staff.

**Note:** There may be circumstances where a joint conference or exit meeting is held virtually (video or phone). In these cases:

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



- Annotate the meeting was held virtually in the Closed Information Questionnaire and follow all other NSPM requirements related to joint conferences and exit meetings.
- Follow the report issuance requirements discussed in the [Disclose NCUA CAMELS and Risk Ratings](#) (if SSA led) or [Issue a Report to FISCO](#) (if NCUA led) sections of this FISCO section of the NSPM.
- If credit union staff or officials cannot attend a virtual joint conference/exit meeting, or a quorum is not present, document in the Exam Form in **MERIT**<sup>1</sup> and send the electronic examination report to the credit union.
- Request the **CEO**<sup>2</sup>/manager and board review the exam report and contact the EIC with any questions.
- If a LUA needs to be signed, get hardcopy signatures through mail or fax, or electronic signatures using PDFs.

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*Last updated November 21, 2024*

## Issue a Report to a FISCO

Generally, during joint contacts, the SSA publishes the final report and closes the **MERIT**<sup>3</sup> exam (some state exceptions do exist). In instances where the NCUA takes the lead, as a courtesy, the SSA should be able to review the finalized examination report before it is issued to the credit union. However, issuance of the exam report is at the NCUA's discretion. NCUA staff will invite the SSA to the joint conference.

NCUA examiners will ensure work papers from their review are attached to scope tasks in the joint MERIT exam, or provided to the SSA EIC electronically if separate MERIT exams are being performed. The NCUA EIC will draft sections or work with the SSA to draft sections of the Examination Overview, DOR, or comparable document pertaining to the NCUA's areas of concern including documentation to support the report's findings and conclusions.

To ensure the best possible results in resolving any anticipated dispute with the SSA examiner, the NCUA EIC will identify and discuss with the SSA examiner, as early as possible in the examination process, any corrective actions to

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Chief Executive Officer

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

be required of the FISCU, including respective **CAMELS**<sup>1</sup> component and composite ratings.

Any disagreements concerning the content of documents will be resolved before meeting with FISCU management. If agreement is not possible at the examiner level, NCUA examiners will contact their supervisor who will discuss the matter with the SSA office and ARDP. If agreement is still not possible, examiners will draft an NCUA Concerns section for the SSA to include in the issued report. This should outline the issues and required resolution. Examiners will work to obtain agreement from the SSA to include this section in the final report to management. Should the SSA not include this section, examiners will discuss these concerns with their supervisor, provide documentation in the **WCC**<sup>2</sup> 26 review regarding the issues, and draft a Regional Director letter to the FISCU stating the NCUA's concerns and necessary corrective action.

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*Last updated October 26, 2022*

## Exam and Contact Closure

Exam staff will close contacts for FISCU onsite contacts as they would for FCUs. Exam staff will [enter the examination/supervision completion date on the Exam Form in the Milestones section](#). The completion date is the day **exam staff**<sup>3</sup> last charged time to the exam or contact and is required to be within five business days of the latest of the following dates:

- Date of last onsite
- Date of exit meeting
- Date of joint conference
- Date exam staff receive the completed DSCR or **PSR**<sup>4</sup> (for NCUA-issued reports)

If the completion date exceeds five business days due to items such as conferences, training, or leave, exam staff will document the circumstance(s) in the [Closed Information Questionnaire](#), noting supervisor concurrence.

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*Last updated October 14, 2021*

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

<sup>2</sup>Work Classification Code

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>4</sup>Pre-release secondary review

## Credit Union Enforcement Action

The NCUA will communicate with the SSA on an ongoing basis regarding all [PCA](#) actions that involve a FISCU taken under NCUA regulation part 702, [Capital Adequacy](#) .

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*Last updated July 29, 2015*

## Consumer Compliance Program

If the SSA is responsible for determining consumer compliance in the FISCU, the SSA's procedural responsibilities include:

- Completing the consumer compliance checklists during the examination
- If compliance violations are identified in the FISCU
  - Entering violation(s) and problem codes in the Issue Management tab in **MERIT**<sup>1</sup> (**ISM**<sup>2</sup>)
  - Describing the problem/deficiency and the actions the credit union plans to initiate to resolve the situation (preferably using the Supplementary Facts document)
- Continuing to document the violation(s) in MERIT (or email the examination, including the compliance forms/documents, to the regional office)

If a compliance violation exists, and the SSA did not include it in the Issue Management section, the NCUA examiner completes it during the **WCC**<sup>3</sup> 26 review.

If the credit union is unable or unwilling to take corrective action, the NCUA examiner:

- Reviews the situation
- Consults with their supervisor to determine what further action, if any, is needed on the NCUA's part

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Issues Management in MERIT

<sup>3</sup>Work Classification Code

- Seeks assistance from **OGC**<sup>1</sup> if violations are serious (examiner should work through the regional office to seek assistance)
- Notifies their supervisor and the SSA of the determination

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*Last updated October 26, 2022*

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<sup>1</sup>The NCUA's Office of General Counsel

# Prompt Corrective Action

PCA is designed to restore and improve the net worth of federally insured credit unions. When a credit union is subject to PCA, **exam staff**<sup>1</sup> will monitor compliance with all applicable provisions of PCA contained in NCUA regulation part 702, [Capital Adequacy](#). This section establishes national policy and guidelines NCUA staff will follow when completing PCA-related work assignments and examination/supervision of PCA-related issues.

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*Last updated October 26, 2022*

## Prompt Corrective Action Classification

### Exam Staff Responsibilities

- Determine the effective date and PCA classification as defined in NCUA regulations §§ 702.101(c), [Effective date of capital classification](#), and 702.102, [Statutory net worth categories](#)
- Ensure credit unions under your supervision comply with all requirements of part [702, Capital Adequacy](#)

At its discretion, the regional office may provide documentation to **exam staff**<sup>2</sup> to determine the effective date of classification or if a credit union is newly chartered. However, it is incumbent on exam staff to recognize their district's information.

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## Net Worth Category Classification

Exam staff must consider if a credit union meets any applicable risk-based requirements for PCA classification.

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

Credit Union NOT Classified as New Under PCA						
Capital classification	Net worth ratio		Risk-based capital ratio, if applicable		CCULR <sup>1</sup> , if applicable	And subject to following condition (s)...
Well Capitalized	7% or greater	And	10% or greater	Or	9% or greater*	
Adequately Capitalized	6% to 6.99%	And	8% or greater	Or	N/A	And does not meet the criteria to be classified as well capitalized.
Under-capitalized	4% to 5.99%	Or	Less than 8%	Or	N/A	—
Significantly Under-capitalized	2% to 3.99%	—	N/A	—	N/A	Or if “under-capitalized at <5% net worth and (a) fails to timely submit, (b) fails to materially implement, or (c) receives notice of the rejection of a net worth restoration plan.
Critically Under-capitalized	Less than 2%	—	N/A	—	N/A	—

\* A qualifying complex credit union opting into the CCULR framework should refer to NCUA regulation § 702.104(d)(7), [Treatment when ceasing to meet](#)

[the qualifying complex credit union requirements](#), if its CCULR falls below 9.0 percent.

Credit Union Classified as New	
Capital Classification	Net Worth Ratio
Well Capitalized	7% or greater
Adequately Capitalized	6 to 6.99%
Moderately Capitalized	3.5% to 5.99%
Marginally Capitalized	2% to 3.49%
Minimally Capitalized	0% to 1.99%
Uncapitalized	Less than 0%

For PCA purposes, a "new" credit union is one that has been in operation for less than 10 years and has total assets of \$10 million or less.

The NCUA Board may reclassify a well-capitalized credit union as adequately capitalized. It may also require an adequately capitalized or undercapitalized credit union to comply with certain mandatory or discretionary supervisory actions as if it were classified in the next lower capital category (each of such actions are later referred to generally as "reclassification") in the following circumstances (NCUA regulation § 702.102(b), [Reclassification based on supervisory criteria other than net worth](#)):

1. The credit union is in an unsafe or unsound condition.
2. The credit union has not corrected a material unsafe or unsound practice of which it was, or should have been, aware.

## Effective Date of Classification

The effective date of the net worth classification, as defined in NCUA Regulations § 702.101(c), [Effective date of capital classification](#), is the most recent of the:

- Last day of the calendar month following the end of the calendar quarter (determined by the Call Report filing and the most typical effective date);
- Date the credit union received subsequent written notice from the NCUA or, if state-chartered, the appropriate SSA, of:
  - a decline in net worth category due to a correction of an error or misstatement in the credit union's most recent Call Report; or
  - a reclassification to a lower net worth category on safety and soundness grounds

If you are recommending lowering the credit union's net worth category to less than well capitalized based on an examination or supervision contact, you must complete the following actions:

- Obtain your supervisor's concurrence, note the agreement in the [Closed Information Questionnaire](#) scope task, and document the corrected net worth category in the [Examination Overview](#).
- If the examination or the supervision contact reduces net worth to a lower category, and you are not issuing a report to the credit union, prepare a draft letter to formally notify credit union officials of the corrected net worth category and the required PCA action(s) (see sample RDLs.) Forward the draft letter through your supervisor to the regional **DOS**<sup>1</sup> mailbox for processing. This should be rare. In most circumstances, your findings to lower a credit union's net worth category would be significant, and warrant publishing a **MERIT**<sup>2</sup> contact report to the officials for the administrative record.

## Reclassification Based on Correction

The effective date of an examination or supervision contact-based correction to a net worth category varies depending on whether the credit union is federally chartered or state-chartered:

Credit Union Description	Effective Date
FCU	If the contact involves publishing a MERIT contact report (such as an examination or follow-up exam-

<sup>1</sup>Division of Supervision

<sup>2</sup>Modern Examination and Risk Identification Tool, the examination platform



Credit Union Description	Effective Date
	ination), the effective date is the date the officials receive the final report. If the contact does not involve publishing a report in MERIT, the effective date will be the date the credit union receives the notification letter.
FISCU	<p>NCUA exam staff should consult and work cooperatively with the appropriate SSA official before correcting a net worth category of a FISCU. NCUA exam staff will promptly notify the appropriate SSA of its decision to correct a net worth category. The effective date will depend on whether it was an independent or joint examination:</p> <ul style="list-style-type: none"> <li>• Effective classification date for an independent examination completed by the SSA: when the SSA releases its official examination report</li> <li>• Effective classification date for a joint examination, when the NCUA EIC knows the SSA will provide a timely examination report to the FISCU: once the SSA releases its official examination report</li> <li>• For joint examinations in which the SSA may not release its examination report for several months, or for an independent insurance review completed by the NCUA, follow the same procedure used for FCUs (i.e., through a notification letter) but give the SSA an opportunity to review the draft notification letter before it is issued and copy the SSA on the final letter.</li> </ul>

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# Earnings Retention Requirements for “Adequately Capitalized” or Lower Federally Insured Credit Unions

NCUA regulations part 702, Subpart A, [Prompt Corrective Action](#), contains regulatory guidance regarding the earnings retention requirements for adequately capitalized or lower credit unions. Earnings retention waiver filing procedures are discussed in the NSPM's [Regulatory Waivers and other Regulatory Actions](#) section.

## Exam Staff Responsibilities

- Review the accuracy and adequacy of the quarterly net worth increases since the last supervision contact during examinations, follow-up examinations, or other supervision activity
- Determine if a FICU needs to request an earnings retention waiver for the current or foreseeable quarters during the course of any examination, follow-up examination, or other supervision activity
  - If it is likely that a credit union must request an earnings retention waiver, you must address this issue in the examination report. Your supervision plans must incorporate adequate follow-up to ensure earnings retention waiver requests are filed no later than 14 days before quarter end.
- Document the violation in the exam report if you determine a FICU failed to meet the earnings retention requirements for one or more of the previous quarters during the course of an examination, follow-up examination, or other supervision activity
  - The NCUA can take supervisory or other enforcement action against credit unions that either decrease their earnings retention without permission or persistently fail to file their waiver requests no later than 14 days before quarter end. Exam staff should instruct management to establish procedures to reduce dividends to achieve the required earnings retention requirements or obtain an earnings retention waiver from the NCUA before paying dividends.
- Prepare a brief memo outlining your findings and forward it to your supervisor if you identify a federal credit union that failed to meet its earnings

retention requirements and did not seek a waiver (§ 702.106, [Prompt corrective action for adequately capitalized credit unions](#)) through supervision activity outside of an examination or follow-up examination

- Include a draft letter that notifies the officials of the credit union. The supervisor will e-mail the memo and draft letter to **DOS**<sup>1</sup> Mail for processing.
- In a joint FISCO exam, **exam staff**<sup>2</sup> should work with the SSA to ensure the exam addresses the credit union's failure to meet its earnings retention requirements without a waiver
  - If the problem is seen through other supervision activity, you will follow the procedures outlined in the NSPM and work with the SE to alert the SSA of the regulatory violation before the notification letter is sent to the FISCO. The SSA will also be copied on the notification letter.

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## Net Worth Restoration Plans and Revised Business Plans

Exam staff are responsible for monitoring compliance with the proper filing and maintenance of a NWRP under NCUA regulation § 702.111, [Net worth restoration plans](#), and a RBP for new credit unions under NCUA regulation § 702.206, [Net worth restoration plans](#). RDs have delegated authority in the management of the NWRP and RBP approval process.

Credit unions with a **NWR**<sup>3</sup> of less than six percent are required to have in place an NCUA-approved NWRP or, in the case of new credit unions, an initial business plan or an RBP. Credit unions classified as complex per NCUA regulation § 702.103 [Applicability of risk-based capital measures](#), must also meet a **RBC**<sup>4</sup> requirement. If the credit union fails to meet its RBC requirement, it is classified as undercapitalized.

A credit union is defined as "complex" if the credit union's quarter-end total assets exceed \$500,000,000.

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<sup>1</sup>Division of Supervision

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Net worth ratio

<sup>4</sup>Risk-Based Capital

A NWRP/RBP questionnaire is available in **MERIT**<sup>1</sup>. A sample [NWRP/RBP and assumptions workbook](#) is available in the NSPM. The NCUA's Office of Credit Union Resources and Expansion may be available to assist new credit unions with RBPs, and other credit unions with less than \$10 million in assets. The regions should contact **CURE**<sup>2</sup> to determine if this is feasible for a particular credit union.

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## Failure to Submit an NWRP/RBP

**DOS**<sup>3</sup> will monitor credit unions that fail to submit a NWRP/RBP and contact the supervisor for a status report when the NWRP/RBP is not received by the due date.

When any credit union fails to file the NWRP within regulatory timeframes, **exam staff**<sup>4</sup> will draft a RDL (use the [Notify Credit Union of Need to Submit NWRP/RBP template](#)), through their supervisor. The RDL will give the credit union 15 calendar days after receiving the notice to submit the NWRP in accordance with NCUA regulation § 702.111, [Net worth restoration plans](#). The supervisor will submit the letter to DOS Mail within three business days of receipt. FISCUs may require SSA consultation.

Sometimes credit unions may be in the process of or choose to seek a merger. The RD can agree to accept a merger plan in lieu of a NWRP/RBP. However, the RD's approval should be subject to the credit union filing an acceptable merger plan or NWRP by a reasonable but specified deadline.

If the merging credit union is critically undercapitalized the deadline should be set to ensure compliance with NCUA regulation § 702.109, [Prompt corrective action for critically undercapitalized credit unions](#).

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>NCUA's Office of Credit Union Resources and Expansion

<sup>3</sup>Division of Supervision

<sup>4</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

# Processing a Federal Credit Union NWRP/RBP

## ***Division of Supervision Responsibilities***

Due to the time sensitivity of NWRP/RBP packages, **DOS**<sup>1</sup> should perform a cursory review of the incoming package for completeness, ensuring all the required information as outlined in NCUA regulation § 702.111(c), [Contents of NWRP](#), or § 702.206(b), [Contents of revised business plan](#), is included. For incomplete packages, DOS will draft a letter returning the NWRP/RBP and request the missing information.

For substantially complete packages, DOS will prepare:

- A work assignment and send the NWRP/RBP to the **exam staff**<sup>2</sup> and the supervisor with a required response date at least 10 business days before the RD's response deadline
- A letter to the credit union and provide a date by which the RD will respond consistent with NCUA regulation § 702.111(f), [Review of NWRP](#), or § 702.206(d), [Review of resvised business plan](#).

When it receives the recommendation from exam staff, it will process the outgoing correspondence ensuring the regulatory response deadlines are met.

## ***Exam Staff Responsibilities***

Upon receipt of a substantially complete package, exam staff will contact the credit union to obtain any missing documentation.

You and your supervisor must analyze the NWRP/RBP and provide a written recommendation in a Regional Summary. You can also reference the optional PCA Checklist to ensure all components of the plan are present and satisfy regulatory requirements.

You must also submit a draft letter that outlines the [approval](#) or [denial](#) of the NWRP/RBP to DOS Mail through your supervisor. If you are recommending denial of the plan, the letter must list the specific deficiencies in the plan that warrants denial. When preparing a Regional Summary where **CURE**<sup>3</sup> assisted with the NWRP, exam staff will note CURE's assistance in the summary.

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*Last updated October 26, 2022*

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<sup>1</sup>Division of Supervision

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>NCUA's Office of Credit Union Resources and Expansion

## Processing a FISCU NWRP/RBP

A FISCU will submit its plan to the RD and the SSA. The processing procedures for FCUs apply to FISCUs, besides the following steps:

- Supervisors will coordinate all related issues directly with the SSA
- Supervisors will, unless submitted directly to the regional office, obtain documentation of the SSA's approval or denial
- **DOS**<sup>1</sup> will courtesy copy the appropriate SSA on all signed correspondence between the RD, DOS, and a FISCU including any RD approval or denial letters

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## Monitoring NWRPs and RBPs after Approval

Exam staff will:

- Monitor each credit union operating with a NWRP or RBP
- Complete a [quarterly PCA tracking report](#) for these credit unions until the [plan is no longer needed](#)
- Provide their supervisor with the quarterly PCA tracking report

Field supervisors will provide the PCA tracking reports to **DOS**<sup>2</sup>. Exam staff and their supervisor are responsible for monitoring compliance with the NWRP/RBP. Exam staff will perform supervision contacts of these credit unions to assess compliance with PCA and overall net worth stability. Exam staff should document their compliance review in the Status Update of each examination's Exam Form.

If a review determines a credit union has materially fallen short of the plan's earnings and net worth ratio goals, **exam staff**<sup>3</sup> will:

- Instruct the credit union to adjust financial and operational strategies to come into compliance with the NWRP/RBP

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<sup>1</sup>Division of Supervision

<sup>2</sup>Division of Supervision

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Advise, when appropriate, the credit union to develop and submit a revised NWRP/RBP, or
- Pursue additional supervisory remedies, such as [administrative action](#).

If the review determines the existing, approved plan is no longer adequate, exam staff will send an e-mail (through their supervisor) to their region's DOS mailbox along with a draft RDL (use the [Notify CU of Need to Revise or Replace NWRP template](#)) instructing the credit union to submit a revised plan.

Documentation will include a comparison of the credit union's actual performance with its current NWRP/RBP. The quarterly PCA tracking report outlines a credit union's action plan and quarterly NWRP/RBP targets for net worth ratio, earnings retention, assets, etc. and can be used to document and track the plan's performance.

Any findings or concerns relating to the NWRP should also be cited in the examination report as appropriate.

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## NWRP/RBP that are No Longer Needed

Once a credit union with a NWRP is effectively classified as "adequately capitalized" under PCA and successfully remains so for four consecutive calendar quarters, the credit union is no longer required to operate under a NWRP as it is no longer in effect.

A new credit union's RBP remains in effect until they are no longer considered new (for example, the credit union has been in operation more than ten years or has assets greater than \$10 million)..

With the supervisor's concurrence, **exam staff**<sup>1</sup> will review the credit union's financial and operational condition, confirm the accuracy of the net worth classification, and draft a memo to the RD confirming the NWRP or RBP is no longer in effect.

- Your memo will include a draft letter advising the credit union that the NWRP is ending. (Use the [Notify Credit Union that NWRP RBP Is No Longer Required](#) template.)

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Your memo will include supervision plans, if necessary, for monitoring PCA compliance (earnings retention) until the credit union becomes “well capitalized.”
  - In the case of FISCUs, the supervisor will contact the SSA to discuss the NWRP/RBP ending and ongoing supervision plans. The SSA will receive a courtesy copy of the letter notifying the FISCU the NWRP/RBP is no longer in effect.
- The supervisor will review the recommendation and draft letter and forward these items to **DOS**<sup>1</sup> for processing.
- The regional office will issue the letter to credit unions formally acknowledging the NWRP/RBP is no longer in effect.

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## Invoking Discretionary Supervisory Actions and Other Corrective Actions for a Critically Undercapitalized Credit Union

### Discretionary Supervisory Actions

For DSAs, **exam staff**<sup>2</sup> will submit through their supervisor:

- A Regional Summary
- The credit union’s most recent balance sheet and income statement

**DOS**<sup>3</sup> will review and process the action for RD approval (and NCUA Board approval if necessary).

- If NCUA Board approval is necessary, the region is responsible for submitting the BAM and obtaining concurrence from **E&I**<sup>4</sup> and **OGC**<sup>5</sup> within completion due dates for Board actions.

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<sup>1</sup>Division of Supervision

<sup>2</sup>“exam staff” includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Division of Supervision

<sup>4</sup>Office of Examination and Insurance

<sup>5</sup>The NCUA’s Office of General Counsel



## Other Corrective Actions for Critically Undercapitalized Credit Unions

For critically undercapitalized credit unions, the NCUA may approve other corrective action in lieu of conservatorship or liquidation § 702.109(c), [Mandatory conservatorship, liquidation or action in lieu thereof](#). The RD has delegated authority to approve **OCA**<sup>1</sup> for credit unions with assets less than \$5 million. The NCUA Board approval as well as concurrence from E&I is required for credit unions greater than \$5 million in assets.

### ***Processing***

NCUA Instruction 4820, [Enforcement Manual](#), addresses the required contents of OCA packages. For OCA requiring RD approval only, use the [Regional Summary of OCA RD Approval](#) template.

### ***Timing of Submission***

Submission timing is critical, especially when NCUA Board approval is required. The NCUA has 90 days from the effective date the credit union became critically undercapitalized to approve OCA. The region is responsible for submitting the BAM and obtaining concurrence from E&I and OGC within completion due dates for Board actions.

### ***FISCUs***

Joint actions with the SSA are preferred for FISCUs. However, exam staff can recommend actions without SSA concurrence, if necessary. You should note the concurrence or non-concurrence of the SSA in the Regional Summary.

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## Monitoring and Controls

### Regional Level Reporting

- **Regions**<sup>2</sup> will monitor credit union compliance with PCA and maintain records of all PCA actions.

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<sup>1</sup>Other corrective action

<sup>2</sup>"Regions" includes ONES (unless otherwise specified)

- Each region will submit a PCA status report to **E&I**<sup>1</sup> each quarter by the 25<sup>th</sup> of the 2<sup>nd</sup> month following quarter end.
- The regional offices are responsible for maintaining the administrative record supporting actions taken.

Until a centralized database/tool is developed, regions will continue to use reporting systems currently in place.

## E&I Level Reporting

E&I will:

- Review on a quarterly basis regional activity to track regional and national trends for consistency and policy formation purposes
- Issue a national-level summary of the quarterly regional reports analyzing national trends
- Periodically request a sampling of actions taken under this section of the NSPM for quality control purposes as part of an ongoing quality assurance process

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## Prompt Corrective Action Templates

### General

- Quarterly PCA Tracking Report
- Regional Summary of **DSA**<sup>2</sup> Board Approval (**E&I**<sup>3</sup> format)
- Regional Summary of DSA RD Approval
- Regional Summary of **OCA**<sup>4</sup> RD Approval

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Division of Special Actions, discretionary supervisory actions, or Director of Special Actions

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>Other corrective action

## Net Worth Restoration Plans and Revised Business Plans

- Non-Critically Undercapitalized Net Worth Category Reclassification
- Critically Undercapitalized Net Worth Reclassification
- Sample Pro Forma Financials and Ratios (.xls)
- NWRP/RBP and Assumptions Workbook Sample
- Regional Summary of NWRP/RBP Review
- NWRP/RBP Review Checklist
- Approve NWRP/RBP
- Deny NWRP/RBP
- Notify Credit Union of Need to Revise or Replace NWRP
- Notify Credit Union of Need to Submit NWRP/RBP
- Notify Credit Union that NWRP/RBP Is No Longer Required

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# Postmortems and CU Closure/Failure Reporting

A postmortem is a report that documents the NCUA's investigation and analysis and/or SSA's supervision of a failed credit union. The primary purposes of a postmortem are to:

- Determine and analyze the causes of credit union failures and resulting losses to the **NCUSIF**<sup>1</sup>
- Identify ways to better address problems before they result in a loss to the NCUSIF
- Assess the strengths and weaknesses of the NCUA's various supervision and risk management policies and programs
- Develop recommendations to improve NCUA's programs and training

If a postmortem preparer identifies obvious gross negligence at a credit union, they will notify their supervisor, who will ensure the appropriate Regional Director is informed of the situation. This may result in a separate recommendation for a formal enforcement or other legal action against individuals affiliated with the credit union.

Among other things, preparing a postmortem includes:

- Analyzing examination reports
- Interviewing NCUA staff, including **exam staff**<sup>2</sup> and exam supervisors for the credit union over the past three years
- Reviewing documentation associated with the supervision of the subject credit union(s), such as:
  - 5300 Call Reports
  - FPRs
  - Pertinent regional and national policies and procedures

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Credit union data and correspondence maintained at the regional office
- Office notes and correspondence regarding credit union supervision

A postmortem should be well-documented and well-researched, with a focus on why the credit union failed. It should also include the NCUA's recommendations on how similar failures can be prevented.

## Requirements

The NCUA requires a postmortem on any credit union that has an estimated loss at the failure date (the effective date of the assisted merger or effective date of the liquidation) of \$2 million or more. However, **OIG**<sup>1</sup>, **E&I**<sup>2</sup>, or the region responsible for supervisory oversight of a failed credit union may elect to complete a postmortem on a failed credit union that results in a loss below this threshold.

The region responsible for supervisory oversight of a failed credit union will determine the estimated loss (not cash outlay) to the NCUSIF as of the failure date.

## Thresholds for Postmortems Using Loss at Failure

Loss Amount	Entity Responsible for Conducting Postmortem	Deviations from the Thresholds
\$2 million to \$5 million and not reviewed by the OIG	Region	An RD may establish a lower threshold or require a postmortem for any failed credit union for quality control purposes. If the region determines completion of a postmortem required by this policy is not warranted, it need not be completed if the E&I Director concurs in writing.
> \$5 million and not reviewed by the OIG	E&I	E&I Director may assign completion of a postmortem on failures with an estimated loss at failure date of less than \$5 million. In these cases, the region will not complete a

<sup>1</sup>The NCUA's Office of the Inspector General

<sup>2</sup>Office of Examination and Insurance

Loss Amount	Entity Responsible for Conducting Postmortem	Deviations from the Thresholds
		postmortem. E&I will notify the region of its intent to complete a postmortem within 60 days of a credit union's failure date. If E&I determines completion of a postmortem required by this policy is not warranted, it need not be completed if the ED <sup>1</sup> concurs in writing.
> \$25 million and in excess of 10 percent of total credit union assets or when OIG decides to conduct a review	OIG	OIG is required to conduct a review under part 216 (12 U.S.C. 1790d(j)) of the Federal Credit Union Act for losses at this level. OIG may conduct a review of any failed credit union and will typically do so when there are unusual circumstances. Whenever OIG conducts a review, E&I and the region will not complete a postmortem.

E&I will maintain a postmortem tracking report to monitor compliance with the NSPM and distribute it to the regions annually.

## Roles and Responsibilities

The table below summarizes postmortem roles and responsibilities.

Postmortem	Region as Lead	E&I as Lead
Prepare draft	Region	E&I
Review draft	E&I, SSA & OGC <sup>2</sup>	Region, SSA & OGC
Review final	Region	E&I
Distribute final	Region	E&I
Create final redacted	Region	E&I

<sup>1</sup>Executive Director

<sup>2</sup>The NCUA's Office of General Counsel

Postmortem	Region as Lead	E&I as Lead
Review redacted final	E&I	Region & SSA
Distribute redacted final	E&I	E&I
Closure/Failure questionnaire	Region	Region

## Completion Timeframe

E&I will distribute a final redacted postmortem report within 12 months of a credit union's failure date unless a longer time period for a specific postmortem is approved by the ED.

## Conflicts of Interest

Staff responsible for preparing a postmortem must be free from apparent conflicts of interest or possible lack of objectivity (for example, the analyst performing the postmortem was an examiner who served as EIC in a previous examination at the failed credit union). If the preparing office identifies a conflict of interest, it will assign another employee, or if necessary, coordinate with another office for completion of the postmortem.

## Draft

To begin the postmortem drafting process, a preparer should carefully review and analyze the administrative record, including relevant documentation and examination reports, regional office files, and examiner files. Preparers should also interview NCUA staff involved with the specific credit union case. Circumstances may also warrant discussion with the auditors, the bonding company, **AMAC**<sup>1</sup>, or the respective SSA (consultation with OGC is necessary before meeting with external parties). The templates to this chapter include potential interview questions a preparer may use to gather information and develop an understanding about the supervision of a credit union that later failed.

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<sup>1</sup>Asset Management Assistance Center

## Template

A postmortem template is available in the templates section of this chapter. Adhering to the template will help a preparer draft a report that achieves the desired purpose and focuses on the reasons for a credit union's failure.

Postmortem Section	Description
Cover Page	Identifies the credit union's name and charter number, the region or office that prepared the postmortem, and month and year a postmortem was completed
Table of Contents	Automatically populates page numbers and section titles when updated
Purpose, Objectives, and Scope	Provides reason(s) for conducting a postmortem and the process applied; template includes boilerplate language that can be easily updated to ensure all required, relevant information is included
Executive Summary	<p>This section is generally one page and contains a brief introductory paragraph that includes:</p> <ul style="list-style-type: none"> <li>• Supervision background</li> <li>• Credit union's asset size</li> <li>• Date the credit union was placed into conservatorship, merged, liquidated, purchased and assumed, or resolved through some other action</li> <li>• Explanation of why the credit union was placed into conservatorship, merged, etc.</li> <li>• Estimated dollar loss to the NCUSIF as of the failure date</li> <li>• Bulleted list of contributing factors associated with the credit union's failure</li> </ul>



Postmortem Section	Description
<b>Background</b>	<p>A narrative discussion of the supervision and relevant information about credit union management's activities and decisions, field of membership changes, etc. The length of this section will vary depending upon the circumstances of a credit union, but the preparer should be as thorough as possible.</p> <p>Content should focus on problems contributing to failure and support the reasons for failure listed in the Executive Summary, the Observations and Lessons Learned, and Recommendations.</p>
<b>Observations and Lessons Learned</b>	<p>Observations related to the credit union failure (including any supervision or resolution weaknesses) and lessons learned regarding those observations; the preparer may reach out to AMAC for input on this section.</p>
<b>Recommendations</b>	<p>Recommendations to address observations included in the preceding section; may identify additional recommendations. Recommendations should include specific action items an office or region can carry out and must be measurable and achievable.</p> <p>The preparer should identify the office responsible for implementing each recommendation and consult (formally or informally) with it about the reasonableness of any recommendations before distributing a postmortem.</p>
<b>Corrective Action Taken</b>	<p>Lists any corrective actions (Letter to Credit Unions, Supervisory Letter, regulation, etc.) taken by NCUA since the credit union's failure that address the observations and reasons for failure iden-</p>

Postmortem Section	Description
	tified in the postmortem.
<b>Appendix A: Examination and Supervision History</b>	A standardized table that summarizes the relevant examination and supervision contacts (by both NCUA and SSA staff), <b>CAMELS</b> <sup>1</sup> (S) ratings, assets, net worth ratio, and comments, if applicable.
<b>Appendix B: Summary of Administrative and Enforcement Actions</b>	A standardized table that summarizes the supervisory actions taken by the NCUA and/or SSA (including RDL, LUA, PWL, cease and desist order, conservatorship, and liquidation) and the date of such action.

Postmortem preparers should also:

- Set the tone with a clear statement of facts and avoid criticizing actions taken
- Objectively identify what went wrong rather than placing blame
- Use examples and facts to support lessons learned and recommendations
- Identify practical actions that could be taken to improve the overall examination and supervision program

## Review

Postmortem drafts must be reviewed before being finalized and released for distribution. The templates section to this chapter includes a postmortem completion checklist to assist preparers.

## Interviewee Review

Preparers should send the postmortem draft to any NCUA staff interviewed during the preparation of the postmortem and allow them to review the content for accuracy. If there are significant changes, the preparer will work with the region where the failed credit union previously operated for collaboration.

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

The preparer will send an updated courtesy copy of the report (no reply necessary) to the region.

## **E&I Review**

Regional preparers will send a draft postmortem to E&I for comment, allowing 30–45 days for review. Preparers will incorporate feedback into the draft report as applicable.

## **Region Review**

E&I preparers will send a draft postmortem to the respective region for comment, allowing 30–45 days for review. Preparers will incorporate feedback into the draft report as applicable. If there are significant changes, the preparer will send an updated courtesy copy of the report (no reply necessary) to the region in which the failed credit union previously operated.

## **OGC Review**

Regional and E&I preparers will send a draft postmortem to OGC for comment, allowing 30–45 days for review. Preparers will incorporate feedback into the draft report as applicable.

Regional preparers can distribute a draft postmortem to E&I and OGC concurrently.

## **SSA Review**

If the subject credit union is a FISCO, the preparer will send the draft postmortem to the relevant SSA for review and comment. NCUA Instruction 13500.11, [Information Sharing with State Supervisory Authorities](#), outlines the requirements for releasing draft and final unredacted postmortem reports to an SSA. The preparer should reference the Instruction and, if necessary, contact OGC and E&I with any questions about the latest requirements for SSAs. Signed information sharing MOUs with the SSAs can be found on NCUA Central.

The RD or E&I Director will request the SSA review the report for factual accuracy and comment on the draft report using the template cover letter available on E&I's NCUA Central Postmortem site. The SSA will be given 30–45 days to prepare and submit comments. The preparer will incorporate the SSA's comments, where appropriate, into the draft.

## Distribute

Once a draft postmortem has been reviewed and updated, the preparing office will distribute the final postmortem. To maximize educational impact, the preparing office will distribute finalized required postmortems to the following recipients:

- NCUA Board
- ED
- OIG
- OGC
- E&I Division Directors, Mid-Level Supervisors, Risk Officers, and Fraud Officers
- All RDs
- Director of **ONES**<sup>1</sup>
- Director of **CURE**<sup>2</sup>
- Chief Economist
- Director of the **OCFP**<sup>3</sup>
- AMAC President
- Director of DTD
- Any office responsible for implementing a recommendation

If a postmortem involves a FISCO, the preparing office will provide the SSA the final postmortem in accordance with NCUA Instruction 13500.11, [Information Sharing with State Supervisory Authorities](#). Signed information sharing MOUs with the SSAs can be found on NCUA Central.

## Optional Postmortems

If a region or E&I voluntarily completes a postmortem outside the parameters required by the NSPM , it will distribute the postmortem in the same manner

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<sup>1</sup>The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

<sup>2</sup>NCUA's Office of Credit Union Resources and Expansion

<sup>3</sup>The NCUA's Office of Consumer Financial Protection

as a required postmortem. This will ensure recommendations are implemented. E&I, in consultation with a preparing region, will determine if a redacted postmortem will be released on an optional postmortem.

## Redact

A preparing office must create a redacted version of a finalized postmortem within 60 days of distribution. Information that could be used to identify the subject credit union, credit union staff, and NCUA staff, are removed from a redacted postmortem. The preparing office will redact the following sections:

- Cover Page
- Purpose, Objectives, and Scope
- Executive Summary
- Background
- Observations and Lessons Learned
- Recommendations
- Corrective Action Taken

To create a redacted postmortem, a preparer will:

- Alter identifying information such as the name of the examiner, credit union, management, other staff, the region, etc.
- Assign a generic electronic file name that does not name the failed credit union, charter, or region (For example, ABC FCU, charter 99999)
- Remove appendices A and B
- Remove all metadata
- OGC will review redacted postmortems prepared by E&I

After a preparing office develops a redacted postmortem, it will send it to E&I for final review and distribution. E&I will clear any changes to a region's redacted postmortem with the region before distributing a PDF of the redacted postmortem (with a cover memo) to NCUA exam staff and posting it on [E&I's NCUA Central Shared Reports site](#).

E&I will distribute all redacted postmortems in PDF format (with a cover memo) to SSAs in accordance with NCUA Instruction 13500.11, [Information](#)

[Sharing with State Supervisory Authorities](#). Signed information sharing MOUs with the SSAs can be found on NCUA Central.

After distributing the redacted postmortem, E&I will update the postmortem log available on E&I's NCUA Central Postmortem site.

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*Last updated on March 25, 2022*

## Implement Recommendations

Annually, **E&I**<sup>1</sup> will draft a summary of the postmortems completed the preceding year. The E&I Director will distribute the summary to the **ED**<sup>2</sup>, the RDs, E&I staff, and all offices responsible for implementation.

The summary will highlight all recommendations, the office(s) responsible for carrying out recommendations, the status of the implementation, and the closure of the recommendation, if known.

## Track Postmortem Completion

Besides maintaining a log of all postmortems, E&I will request information from the regions to complete and verify the accuracy of the summary postmortem report quarterly.

Monitoring and Reporting Postmortem	Frequency
Record failure	Within 30 days of failure
Monitoring timeframes for completion of postmortem	Quarterly
Recommendation follow-up	Annually

E&I will log the postmortem within 30 days of the date of failure and will update the log throughout the postmortem process as the status changes.

E&I will monitor the progress of the postmortem on a quarterly basis to ensure compliance with the timeframes outlined in this chapter. The E&I Director may waive completion of a regional postmortem and the ED may waive completion of an E&I postmortem. The ED may also extend the timeframe for completion of a postmortem. Extensions or waivers will be documented through a memo that justifies the reason for waiver or extension (for example, to prioritize

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Executive Director

resources based on workload or because the expected value of the post-mortem would be low compared to other projects).

*Last updated on March 25, 2022*

## Credit Union Closure/Failure Reporting

**Regions**<sup>1</sup> complete a credit union closure/failure questionnaire for **all** credit union closures and failures. The region who supervised the closing credit union should complete the closure/failure questionnaire. The questionnaire records a region's assessment as to why a credit union closed. The questionnaire should reflect the reason for closure based on objective facts. Staff should refrain from expressing opinions or making assumptions when completing the questionnaire. Regions will e-mail completed forms to [E&I Mail](#) or post them to the [E&I SharePoint Post Office](#) within 60 days of a credit union's closure.

All offices should adjust internal procedures as necessary to report credit union failures and failure dates in accordance with the NSPM

The following table outlines possible classifications for the various types of resolution. Classifications are mutually exclusive; a resolved credit union will only fall under one classification, though multiple possibilities are described in the table.

Resolution	Possible Classification		
	Closure	No-Cost Failure	At-Cost Failure
Voluntary merger - no waiver of membership vote	X	X	
Voluntary merger - NCUA waives membership vote		X	
Supervisory merger or combination (as defined by part 701 (Appendix B, Chapter 2, Section IV.D.2) or Section 702.2 (f)(3), Capital Adequacy, of the NCUA regulations)		X	X
Assisted merger			X
Voluntary liquidation	X	X	

<sup>1</sup>"Regions" includes ONES (unless otherwise specified)

Possible Classification			
Resolution	Closure	No-Cost Failure	At-Cost Failure
Involuntary liquidation (with or without a P&A)		X	X

## Closure Reporting

Credit unions merged or liquidated at no cost to the Share Insurance Fund and not directly involving the NCUA (other than approval of the transaction) are classified as closures. Following are examples of closures:

- Voluntary mergers that do not require the NCUA to verify that a supervisory concern exists, determine that the credit union is in danger of insolvency, or provide a waiver of the membership vote
- Voluntary liquidations that do not require the NCUA to determine that the credit union is in danger of insolvency

To standardize credit union failure reporting and ensure consistency in credit union failure data, the NCUA defines failure and failure date. All offices will use the definitions outlined in this section of the NSPM when reporting credit union failure data.

All offices should adjust internal procedures as necessary to ensure credit union failures and failure dates are reported in accordance with the NSPM. Specifically, the liquidation and merger dates entered in the NCUA's **MIS**<sup>1</sup> program must be consistent with the NSPM.

## Failure Reporting

A failure occurs when a credit union is resolved through either a liquidation (with or without a purchase and assumption) or merger that requires direct agency involvement (other than merely approving the transaction).

Direct agency involvement includes, among other things, 208 assistance, waiver of membership vote, or selection of the continuing credit union. Recommending the merger or liquidation is not considered direct agency involvement.

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<sup>1</sup>Management Information System



Failures are at-cost or no-cost. The NCUA will include all failures when reporting failure data internally and externally. All other credit union closings are categorized as closures.

## At-cost Failure

An at-cost failure involves an initial estimated or actual loss to the **NCUSIF**<sup>1</sup>. When a credit union is resolved through liquidation (with or without a purchase and assumption) or merger and there is an initial estimated or actual loss to the NCUSIF, it is an at-cost failure. Examples of at-cost failures include assisted mergers and involuntary liquidations (with or without a purchase and assumption) that require assistance from the NCUSIF.

A credit union will continue to be reported as an at-cost failure even if subsequent recoveries result in no net loss to the NCUSIF.

## No-cost Failure

A no-cost failure is a failure that does not involve any loss to the NCUSIF. When a credit union is resolved at no cost to the NCUSIF through liquidation (with or without a purchase and assumption) or merger and the NCUA is directly involved (other than merely approving the transaction), it is a no-cost failure. Examples of no-cost failures include:

- A merger or purchase and assumption classified by the NCUA as an emergency merger where the acquired credit union is either insolvent or in danger of insolvency as defined in the Glossary of NCUA's regulations part 701, Appendix B, Chartering and Field of Membership Manual
- A merger or purchase and assumption that includes the NCUA's or the appropriate SSA's identification and selection of the continuing credit union (for example, if the credit union is in conservatorship)
- A merger where the NCUA has waived the membership vote
- A merger or combination that is classified as a "supervisory merger" as defined under either part 701, Appendix B, Chapter 2, section IV.D.2, of the NCUA's regulations and does not require assistance from the NCUSIF
- An involuntary liquidation of a solvent credit union that violates any provisions of its charter, bylaws, or other regulations (Title 1 liquidation). For

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

example, this could occur under PCA or with a state that allows for imminent insolvency of a state-chartered credit union

Typically, any resolution that requires direct NCUA involvement, but does not result in a loss to the NCUSIF, is considered a no-cost failure. A DOR or other enforcement action recommending a credit union merge is not considered direct NCUA involvement. For the resolution to be categorized as a failure, the NCUA must be directly involved in some aspect of the resolution transaction (other than mere approval).

## Failure Date

The failure date of record will depend on the type of resolution.

Resolution	Failure Date	Document Retention
Liquidation (straight liquidation or P&A)	The effective date of liquidation (date the Order of Liquidation is served by the RD, other NCUA representative, or SSA) The effective date will be included in all liquidation orders and documented in the Certificate of Service.	Regions will forward copies of all signed Orders of Liquidation and Certificates of Service to E&I <sup>1</sup> and AMAC <sup>2</sup> mailboxes.
Merger	The effective date contained in the merger agreement. All merger agreements will include an effective date. To ensure accurate reporting, if the effective date is delayed, the region will provide written notification of the new effective date to Credit Union Resources and Expansion and E&I.	Regions will forward copies of all executed merger agreements to the E&I mailbox.

## Fraud Reporting

For more information about fraud, see the [Dishonesty, Fraud, and Insider Dealings](#) section of the NSPM.

Generally, fraud is present if a credit union employee or official knowingly misrepresents the truth or conceals a material fact to induce another to act to

<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Asset Management Assistance Center

their detriment. This includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

There are two main categories of credit union fraud associated with credit union failures:

- **Fraudulent financial reporting**—most cases involve intentional misstatement of amounts on the balance sheet or income statement (for example, capitalizing amounts as fixed assets instead of recording amounts as expense)
- **Misappropriation of assets**—involves theft of an entity's assets. Misappropriation is normally used to refer to theft involving employees and others internal to the organization, and can include embezzlement

Regions will use the above description of fraud when completing a closure/failure questionnaire.

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*Last updated March 25, 2022*

## Postmortem and CU Failure/Closing Reporting Templates

- Closure-Failure Questionnaire
- Postmortem Checklist Process
- Postmortem Interview Questions
- Postmortem Letter to SSAs
- Postmortem Report Template

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*Last updated March 25, 2022*

# Purchase and Assumption of Non-NCUA Insured Institutions

Section 205(b)(1) of the [Federal Credit Union Act](#) authorizes an FCU to merge or consolidate with any non-insured institution (including banks) and to assume liability to pay any member accounts in any non-insured credit union or institution. In § 201(b), the Federal Credit Union Act establishes the required insurability of the acquired non-NCUA insured deposit customers.

NCUA regulation § 741.8, [Purchase of assets and assumption of liabilities](#), requires a FICU to request approval from the RD before purchasing loans or assuming deposits, shares, or liabilities from a non-federally insured credit union or other financial-type institution. FISCUs must also comply with applicable SSA requirements for approval of such a transaction before purchase.

Throughout this section of the NSPM, “non-NCUA insured institution” refers to transactions that involve other financial-type institutions as defined in NCUA regulation § [741.8\(a\)\(2\)](#). This includes depository institutions, mortgage banks, consumer finance companies, insurance companies, loan brokers, and other loan sellers or liability traders. This section of the NSPM does not apply to purchases, mergers, or combinations that involve non-federally insured credit unions per NCUA regulation § [741.8\(a\)\(1\)](#). Those transactions are governed by NCUA regulation § 741.8, [Purchase of assets and assumption of liabilities](#), and by regional procedures.

Job aids and templates for non-NCUA insured institution purchase and assumption or merger transactions are available.

NCUA staff will document the agency’s review and assessment of risk associated with these transactions in its administrative record.

## Regional Office Responsibilities

**Regional office**<sup>1</sup> staff should conduct sufficient due diligence of each non-NCUA-insured institution transaction to assess and communicate the risk associated with the transaction. The [Onsite/Offsite Review Decision Matrix](#) outlines the due diligence essential for each transaction. The regions must clearly document the reason for conducting an onsite or offsite review in the [Bank Purchase and Assumption Merger Regional Summary](#).

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<sup>1</sup>“Regional offices” includes ONES (unless otherwise specified)

Regional office staff will:

- Process FICU applications in accordance with the requirements outlined in this NSPM section
  - The [Division of Supervision Bank Purchase and Assumption Transaction Checklist](#) will assist regional office staff in organizing and processing the application.
- Review and acknowledge receipt of a FICU's application package using the [Acknowledgment Letter and Agreement for Insurance Review Reimbursement](#) template.
  - List any pertinent information still needed to continue processing the application.
  - Attach the [Board Certification of Bank Transaction Related Costs](#) form.
- Coordinate with other offices or agencies, as applicable, on the anticipated timeframe necessary to process the respective regulatory approvals or denials for the requested transaction
  - Banks will file an application with the **FDIC**<sup>1</sup> in accordance with Section 18(c) of the Federal Deposit Insurance Act ([12 U.S.C. 1828\(c\)](#)), popularly known as the "Bank Merger Act"), and the FICU will concurrently file a purchase and assumption application with the NCUA; the FDIC will provide an approval or denial on the Bank Merger Act application.
    - For a federally chartered bank, the **OCC**<sup>2</sup> may provide a non-objection to the transaction.
    - For a state-chartered bank, the state banking agency or Federal Reserve Bank, as applicable, may also approve, deny, or non-object to the transaction.
    - For a FISCU, the respective SSA will also approve or deny the transaction.
- Review the application package and use the [Onsite/Offsite Review Decision Matrix](#) to determine whether an onsite or offsite review is

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<sup>1</sup>Federal Deposit Insurance Corporation

<sup>2</sup>Office of the Comptroller of the Currency

required

- If the review type is discretionary, obtain the field supervisor's recommendation for an onsite or offsite review.
  - Once the review type is determined, send a [Bank Purchase and Assumption Field Assignment Memo](#) to the field requesting its evaluation and recommendation to approve or deny the application.
  - Situations may also exist where the region may choose to defer the application: the region may modify the [Acknowledgment Letter and Agreement for Insurance Review Reimbursement](#) to fit these specific situations.
- For an FCU, use the [CURE Field of Membership Assessment Request](#) to prepare a memo requesting a field of membership assessment to compare the non-NCUA insured institution's deposit customer base with the credit union's existing field of membership
    - The memo should explicitly state how the FCU intends to qualify bank customers for membership and detail the verification steps it will take to determine if they qualify.
    - **Regions**<sup>1</sup> must allow **CURE**<sup>2</sup> 15 business days to review and process a field of membership request.
    - CURE will also provide general guidance on the field of membership.
    - For a FISCO, the respective SSA will determine the membership compatibility of the two institutions. Regional office staff should confirm compatibility with the SSA before processing the transaction.
  - As applicable, contact **OGC**<sup>3</sup> to obtain general legal guidance on issues that involve complex ownership structures such as holding company or mutual holding company ownership
  - Coordinate with the FDIC case manager and other bank and/or state agencies to execute an [Information Sharing Memorandum of Understanding](#) and send the fully executed MOU to the respective agencies using [Memorandum of Understanding Cover Letter – FDIC](#) and/or

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<sup>1</sup>"Regions" includes ONES (unless otherwise specified)

<sup>2</sup>NCUA's Office of Credit Union Resources and Expansion

<sup>3</sup>The NCUA's Office of General Counsel

### Memorandum of Understanding Cover Letter – State

- The OCC is typically not party to the Information Sharing MOU because the OCC has a regulation that stipulates it will share information with other agencies based on need in their official duties, OCC regulation § 4.37(c), [Disclosure to government agencies](#).
- Request the two most recent Reports of Examination from the primary regulatory agencies
  - Primary federal regulator or Federal Reserve Bank: use [Request Most Recent Exam Reports From Bank Primary Federal Regulator](#).
  - FDIC and/or the Primary State Regulator: use [Memorandum of Understanding Cover Letter - FDIC](#) or [Memorandum of Understanding Cover Letter - State](#) in conjunction with executing the Information Sharing MOU.
  - In instances where the transaction is a single- or multiple-branch purchase, the primary regulator may not provide the two most recent exam reports to the NCUA. See [Exam Staff Responsibilities](#) for guidance on how to document a review in this situation.
- Consult with other financial institution regulators and obtain their final written approval, denial, objection, or non-objection of the transaction
- Recommend approval or denial of the requested purchase and assumption or merger transaction using the [Regional Summary template](#)

## **Process Approval or Denial**

Regional offices must review and process the field's approval or denial recommendation within 30 calendar days of receipt of the field's completed due diligence review.

- Prepare a concurrence package using [Concurrence Package – Table of Contents](#) for RD approval or denial of the transaction or recommendation of approval to other offices as outlined in the [NCUA Delegations of Authority](#)
- Obtain necessary concurrences in accordance with the [NCUA Delegations of Authority](#)

- [Concurrence Package – Table of Contents](#) includes the required documentation for a package that requires **E&I**<sup>1</sup> concurrence and NCUA Board approval of the purchase and assumption or merger of a non-NCUA insured institution. Regions will:
  - Use the [E&I Concurrence Memo – Bank Purchase and Assumption](#) template to request E&I concurrence.
  - Allow 15 business days for E&I to review and concur.
  - Provide OGC a courtesy copy of each concurrence request.
- Regions should notify OED for transactions that require NCUA Board approval using [OED Request – Memo to OED Regarding Purchase and Assumption](#) and summarize the proposed transaction using the [OED Request Regional Director Notification – Board Briefing Summary](#).
- Regions must follow the Board Secretary-issued [instructions and due dates](#) for transactions that require NCUA Board approval. [Concurrence Package – Table of Contents](#) outlines the information to include in a request for NCUA Board approval.
- RDs must submit a notice to the NCUA Board describing each transaction intended for approval within the RD's delegated authority.
  - Regions will use the [Notice to the Board - Region's Approval of Purchase and Assumption Merger](#) and [OED Request Regional Director Notification – Board Briefing Summary](#) templates, which outline the required information to include in a notice.
- If approved, draft approval correspondence for RD signature using the [Final P & A Approval Letter and Insurance Review Fee Statement](#) template and send to the FICU
  - Send a courtesy copy to EIMail@ncua.gov (E&I Mail) on all approval and denial letters that involve a FICU's purchase and assumption or merger of a non-NCUA insured institution to facilitate tracking of approvals and denials of transactions.

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<sup>1</sup>Office of Examination and Insurance



- Attach pertinent certification of completion document to the approval correspondence ([Certification of Completion Bank Merger<sup>1</sup>](#) or [Certification of Completion Bank Purchase and Assumption](#))
- If denied, draft denial correspondence for RD signature using the [Final P&A Denial Letter and Insurance Review Fee Statement](#) template and send to the FICU
- Request, receive, and monitor the FICU's payment of fees for application processing and any examiner onsite or offsite review time necessary to evaluate the prudence of the transaction
  - Use the [Final P & A Approval Letter and Insurance Review Fee Statement](#) or the [Final P&A Denial Letter and Insurance Review Fee Statement](#) to invoice the FICU for the examiners' time.
  - Include a copy of the FICU's signed Insurance Review Reimbursement form to document the FICU's prior agreement to pay these fees.
- Obtain completed certification documents and send a completion letter to the FICU using [Completion Letter Bank Purchase and Assumption](#) or [Completion Letter Bank Merger](#)
- Confirm the purchasing FICU has made final payment to the NCUA OCFO

## Reporting

- Provide E&I a copy of the [Bank Purchase and Assumption/Merger Transaction Log](#) by June 30 and December 31 of each year
  - List all non-NCUA insured P&A and merger transaction applications and their respective disposition (approved, denied, withdrawn).

## Exam Staff Responsibilities

- Review the purchase and assumption or merger application package and work with **DOS**<sup>2</sup> to determine the level of due diligence (onsite or offsite) necessary to evaluate the safety and soundness of the transaction; determine the staffing resources and expertise necessary to conduct the

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<sup>1</sup>A few state statutes allow for these bank-to-credit union transactions to be processed as mergers and consolidations of assets and liabilities.

<sup>2</sup>Division of Supervision

#### review

- Each region should coordinate the staffing and resources needed for the review of these transactions.
- Regions may choose to coordinate the staffing similar to regional team exams.
- Review the FICU and non-NCUA insured institution's two most recent examination reports for existing safety and soundness concerns
  - In instances where a transaction is a single- or multiple-branch purchase, the primary regulator may not provide the two most recent exam reports to NCUA. When this occurs, the examiner should document what was reviewed to assess the safety and soundness of the transaction and the condition of the acquired assets and liabilities.
- Request items needed from the non-NCUA-insured institution to conduct due diligence over the transaction using the [Insurance Review Notification and Items Requested List](#)
  - Tailor the items needed to the operations of the non-NCUA insured institution and include any additional items on the items requested list as needed to expand the review to include risks relevant to the individual non-NCUA insured institution.
- Evaluate the FICU's ability to integrate the purchased institution into its operations, the economic impact to the FICU's performance, and the continued safety and soundness of the FICU after consolidation
- Assess FICU management's competence and ability to manage the combined entity

## Recommend Approval/Denial

- Draft a [Bank Purchase and Assumption Merger Regional Summary](#) that outlines the field's review, analysis, and recommendation to approve or deny the transaction
  - Recommendations for approval must include any conditions necessary to approve the transaction.
  - The field will not issue an exam report to a credit union. The field will use the [Regional Summary](#) as the internal document that

summarizes the results of the review and supports the recommendation for approval or denial.

- Regional Summaries should include, but are not limited to:
  - Analysis of impermissible activities, loans, deposits, investments, and off-balance-sheet items
  - Discussion of the FICU management's competence and ability to manage the combined entity
  - Chart that reflects the combined entity's material concentrations
  - Analysis of both regulatory compliance and safety and soundness
  - Analysis of any new products and services the FICU will acquire in the transaction and the FICU's plans to adequately service the new products or dispose of them
  - Discussion of the fair valuation analysis, goodwill, core deposit intangible, purchase price, and method the FICU will use to fund the transaction
  - For FCUs, a detailed description how the FCU intends to qualify acquired customers for membership and the verification process used to determine if they qualify for membership
- Provide the Regional Summary, supporting work papers, and Total Contact Hours from the **MERIT**<sup>1</sup> Exam Form to the field supervisor for review and approval or denial
  - The Field **Supervisor**<sup>2</sup> will provide the Regional Summary and supporting work papers to the Regional Office.
- Close a 4.5 MERIT file associated with the review of the transaction

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*Last updated October 26, 2022*

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

## E&I Responsibilities

- Review the region's request for concurrence within 15 business days of receipt of a complete concurrence package. Evaluate whether the transaction poses undue risk to the **NCUSIF**<sup>1</sup>
- Provide the region with the E&I Director's concurrence or non-concurrence using [E&I Concurrence Non-concurrence Memo](#) for the transaction
  - Include [Division of Risk Management Review Comments](#).
- Track non-NCUA-insured institution transactions and analyze trends
- Provide **PRA**<sup>2</sup> and **FOIA**<sup>3</sup> information when requested by OGC
- Provide periodic purchase premium information to the regions
- Review and aggregate regional approval and denial information bi-annually

## OGC Responsibilities

- Review proposed transactions upon request by an RD
- Assist regions, NCUA offices, and the NCUA Board regarding proposed transactions

## CURE Responsibilities

- Review the region's request for a Field of Membership Assessment of the FCU and the non-NCUA insured institution within 15 business days of receipt of the request
- Review the process by which the non-NCUA insured institution's customers will become FCU members to comply with the [Federal Credit Union Bylaws](#) and other regulations
- Provide guidance to both the region and the purchasing FCU regarding actions necessary to comply with applicable regulations

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*Last updated May 3, 2024*

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<sup>1</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>2</sup>Public Records Act

<sup>3</sup>Freedom of Information Act

# Purchase and Assumption of Non-NCUA Insured Institutions Templates and Job Aids

- Division of Supervision Bank Purchase and Assumption Transaction Checklist (Job Aid)
- Onsite/Offsite Review Decision Matrix (Job Aid)
- Acknowledgment Letter and Agreement for Insurance Review Reimbursement
- Board Certification of Bank Transaction Related Costs
- **CURE**<sup>1</sup> Field of Membership Assessment Request
- Memorandum of Understanding Cover Letter – **FDIC**<sup>2</sup>
- Memorandum of Understanding Cover Letter – State
- Information Sharing Memorandum of Understanding
- Request Most Recent Exam Reports From Bank Primary Federal Regulator
- Bank Purchase and Assumption Field Assignment Memo
- Insurance Review Notification and Items Requested List
- Bank Purchase and Assumption Merger Regional Summary
- **E&I**<sup>3</sup> Concurrence Memo – Bank Purchase and Assumption
- Concurrence Package – Table of Contents
- OED Request – Memo to OED Regarding Purchase and Assumption
- OED Request Regional Director Notification – Board Briefing Summary
- Notice to the Board - Region's Approval of Purchase and Assumption Merger
- Final P & A Approval Letter and Insurance Review Fee Statement
- Final P & A Denial Letter and Insurance Review Fee Statement

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<sup>1</sup>NCUA's Office of Credit Union Resources and Expansion

<sup>2</sup>Federal Deposit Insurance Corporation

<sup>3</sup>Office of Examination and Insurance

- Certification of Completion Bank Purchase and Assumption
- Certification of Completion Bank Merger
- Completion Letter Bank Purchase and Assumption
- Completion Letter Bank Merger
- E&I Concurrence Non-concurrence Memo
- Division of Risk Management Review Comments
- Bank Purchase and Assumption/Merger Transaction Log

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*Last updated January 4, 2021*

## Quality Assurance Roles and Responsibilities

### Examiner Responsibilities

- [REDACTED]
- [REDACTED] <sup>1</sup>
- [REDACTED]
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<sup>1</sup> [REDACTED]

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## Supervisor Responsibilities

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<sup>1</sup> [REDACTED]  
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A horizontal bar chart with 15 bars, all black, representing percentages. The x-axis is labeled 'Percentage' and ranges from 0 to 100. The y-axis is labeled 'Percentage of respondents who believe that the U.S. should take action to address climate change' and ranges from 0 to 100. The bars represent the following percentages: 95, 94, 93, 92, 91, 90, 89, 88, 87, 86, 85, 84, 83, 82, 81.

Percentage of respondents who believe that the U.S. should take action to address climate change
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## Division of Supervision Responsibilities

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## Regional Director Responsibilities

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## E&I Responsibilities

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*Last updated November 21, 2024*

## Quality Assurance Templates

- Specialist feedback form

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*Last updated March 5, 2019*

1	[REDACTED]
2	[REDACTED]
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4	[REDACTED]

# Regulatory Waivers and other Regulatory Actions

The NCUA applies federal statutes, regulations, and directives to achieve strategic goals and ensure uniformity in application of supervision standards. Regulatory waivers afford flexibility in instances where specific criteria are satisfied. The NCUA processes waiver requests in accordance with regulatory requirements and internal directives.

This section of the NSPM establishes national policy NCUA staff follow when completing work assignments and examination and supervision of regulatory related waivers and other regulatory related actions; it is not inclusive of all types of waivers. **E&I**<sup>1</sup> will update the NSPM when the NCUA Board adopts a new regulation or revises an existing regulation. Examiners should contact their supervisor for assistance outside the scope of this section of the NSPM.

- [Occupancy Waiver](#)
- [Earnings Retention Waiver](#)
- [Loan Participation Waiver](#)
- [Subordinated Debt](#)
- [FHLB Advance Process](#)

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*Last updated April 29, 2022*

## Roles and Responsibilities

### E&I

**E&I**<sup>2</sup> is responsible for monitoring periodic risk reports to review trends and issues related to regulatory waivers and other regulatory related actions. E&I also has oversight of this manual and ensures standards are clear and followed by staff through its quality assurance program. E&I will evaluate compliance with this section during routine monitoring of cases, quality assurance reviews, and review of information submitted on required reports. During peri-

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>Office of Examination and Insurance

odic updates of the NSPM, E&I will solicit comments from other offices to ensure standards remain current and effective.

## Regional Office

Regional offices are responsible for having systems and controls in place to ensure standards of this section are met. When reviewing work related to the standards of this section, regional processes must ensure quality work and accurate administrative records are maintained for regulatory related actions. **DOS**<sup>1</sup> is responsible for monitoring risk institutionally and on a regional basis.

## Supervisor

Supervisors are responsible for reviewing and ensuring staff performs quality work which follows the standards of this section of the NSPM. Supervisors are responsible for reviewing and approving work for completeness and accuracy before submission to the regional office. **Supervisor**<sup>2</sup> approval becomes part of the credit union's administrative record. Supervisors are responsible for monitoring risk institutionally and on a group basis.

## Exam Staff

Examiners are responsible for evaluating credit unions' regulatory compliance and identifying potential safety and soundness issues when processing work assignments, completing supervision work, and performing examinations. Examiners will use the national standards established in this section of the NSPM to ensure quality and consistent work. The standards in this section also ensure consistent administrative record documentation. Examiners will create an administrative record for recommendations made and actions taken in meeting standards set forth in this section.

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*Last updated July 29, 2015*

## Processing a Waiver Request

In general, the following procedures will be used to process a waiver request from a FCU. Please refer to each specific waiver type outlined in this section of the NSPM for unique processing steps.

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<sup>1</sup>Division of Supervision

<sup>2</sup>Throughout the NSPM, the term "supervisor" includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).



## **1. Initial Review (DOS)**

After the regional office receives the credit union's application, **DOS**<sup>1</sup> will perform a cursory review to determine whether the credit union request is complete.

If considered incomplete:

- Prepare an incomplete/denial letter and send it to the credit union by the region's preferred expedited mail delivery
- Ensure the letter lists the additional information the credit union must submit if they would like the request to be considered. DOS will copy the examiner and supervisor on the letter.

If considered complete:

- Prepare an acknowledgment letter and send it to the credit union by the region's preferred expedited mail delivery service
- Prepare and send a work assignment to the field that includes the credit union's request, application package, supporting documentation, and request a recommendation for approval or denial

## **Review Credit Union and Application (Exam Staff)**

Examiners and their supervisor will evaluate the credit union's net worth, **CAMELS**<sup>2</sup> and risk ratings, and financial strength, and provide a recommendation whether to grant the request. The scope and depth of the examiner's review will be scaled according to the materiality of the waiver request.

The examiner, with supervisor approval, will determine if an onsite contact is necessary.

After review, examiners will determine if the waiver package is complete, and take the following actions, based on their determination.

If considered incomplete:

- Draft the appropriate incomplete/denial letter (refer to [templates provided](#)), or

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<sup>1</sup>Division of Supervision

<sup>2</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

- Informally contact the credit union to obtain the missing information

If considered complete:

- Complete a Regional Summary to include an approval or denial recommendation
- Draft a letter for approval, partial approval, deferral, or denial
- Email the approval, partial approval, deferral, or denial letter, Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

If recommending denial, examiners will not discourage any credit union from applying for reconsideration or filing an appeal, if applicable.

### ***Process Application (DOS)***

Upon receipt of the field's recommendation, DOS will review and analyze the recommendation for appropriate support and justification. Upon concurrence, DOS will submit the recommendation and proposed response letter to the Regional Director for approval and signature. DOS will mail the signed letter to the credit union using the region's preferred expedited mail delivery service and copy both the examiner and supervisor.

If DOS and/or the Regional Director do not agree with the field's recommendation, the supervisor will be notified of the reasons. The field will be given the opportunity to further support or revise their recommendation in the Regional Summary and draft revised correspondence, if necessary. DOS finalizes the response letter for the Regional Director's signature. Once signed, DOS will mail it to the credit union using the region's preferred expedited mail delivery service and copy both the examiner and supervisor.

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*Last updated July 29, 2015*

## **Processing a Waiver Request from a FISCU**

Unless otherwise specified by regulation, a FISCU must submit the waiver request to its SSA. If the SSA approves the request, the SSA will forward the request to the Regional Director. A waiver is not effective until approved by the Regional Director. If the SSA denies a request, the Regional Director will also deny it.

NCUA regulation § 741.204, [Maximum public unit and nonmember accounts, and low-income designation](#), applies to FISCUs and incorporates the § 701.32, [Payment on shares by public units and nonmembers](#), requirements.

*Last updated July 29, 2015*

## Waiver Timeframes

The region will respond within the timeframe specified in the applicable regulation or, where not specified, within 45 days from the date a completed request is received in the regional office.

Reference	Description	Timeframe	Automatic Approval
<a href="#">§ 701.14 c(2)(i)</a> , Waiver of Prior Notice - Change in Official or Senior Executive	Parties may petition the appropriate Regional Director for a waiver of the prior notice required. Waiver may be granted if it is found that delay could harm the credit union or the public interest.	None	No
<a href="#">§ 701.21(h)</a> , Third-party servicing of indirect vehicle loans	(1) A federally-insured credit union must not acquire any vehicle loan, or any interest in a vehicle loan, serviced by a third-party servicer if the aggregate amount of vehicle loans and interests in vehicle loans serviced by that third-party servicer and its affiliates would exceed: (i) 50 percent of the	None	No

Reference	Description	Timeframe	Automatic Approval
	<p>credit union's net worth during the initial thirty months of that third-party servicing relationship; or (ii) 100 percent of the credit union's net worth after the initial thirty months of that third-party servicing relationship. (2)</p> <p>Regional directors may grant a waiver of the limits in paragraph (h)(1) of this section to permit greater limits upon written application by a credit union.</p>		
<a href="#">§ 701.36</a> , Occupancy waiver	<p>The NCUA may waive the requirement for a credit union to partially occupy premises within six years after the date of acquisition. Partially occupy means occupation and use, on a full-time basis, of at least fifty percent of each premises by the FCU, or the FCU and a CUSO in which the FCU has a controlling interest. To seek a</p>	<p>Response within 45 days</p>	<p>No</p>

Reference	Description	Timeframe	Automatic Approval
	waiver, a FCU must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director's decision will be based on safety and soundness considerations.		
<a href="#">§ 701.36</a> , Abandoned premises waiver	The NCUA may waive the requirement for a credit union to dispose of abandoned property within five years of abandonment. To seek a waiver, a FCU must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director's decision will be based on safety and soundness considerations.	RD response within 45 days	No
<a href="#">§ 701.22(c)</a> , Loan participation waiver	The NCUA may approve a waiver from internal policy requirements concerning loan participation purchases. To seek a waiver, the credit union must submit a	RD response within 45 calendar days	No

Reference	Description	Timeframe	Automatic Approval
	written request to its Regional Director. Waivers from federally insured state-chartered credit unions required concurrence of the appropriate SSA.		

*Last updated December 4, 2019*

## Periodic Review and Revocation of Waivers

Examiners will review outstanding regulatory waivers at every examination. **Regions**<sup>1</sup> will review outstanding regulatory waivers every three years.<sup>2</sup> This requirement applies to any waiver that involves authority for ongoing activity (as opposed to a waiver for a single action).

The Regional Director may revoke a credit union's waiver, in whole or in part, for substantive, documented safety and soundness reasons. When revoking a waiver, the Regional Director must give written notice to the credit union stating the reasons for the revocation. The notice should also discuss where applicable the treatment and/or grandfathering of activities conducted while the waiver was in force. The revocation is effective upon the credit union's receipt of the letter from the Regional Director.

Examiners should first discuss revocation with their supervisor. Examiners will submit a revocation package to their supervisor consisting of a memo, a draft letter, and any other documentation necessary to justify the revocation. The supervisor will send the revocation package to the region's **DOS**<sup>3</sup> mailbox. The memo will include a discussion of:

- Background of the credit union and the problems
- Substantive safety and soundness justification

<sup>1</sup>"Regions" includes ONES (unless otherwise specified)

<sup>2</sup>The three year timeframe review began July 1, 2012.

<sup>3</sup>Division of Supervision

- Net worth and solvency considerations
- Outstanding administrative and/or documented corrective action

DOS will review the recommendation. If in agreement, DOS will prepare a concurrence summary to the Regional Director along with the field memo and draft letter. Upon signature, the revocation letter will be sent via expedited mail with a copy to the examiner and supervisor, and SSA if applicable.

A credit union has 60 days from the date of revocation to appeal the action to the NCUA's Supervisory Review Committee (SRC). If the SRC upholds the revocation, the credit union has 60 days from the date of the SRC's decision to appeal the action to the NCUA Board.

For more information about the Supervisory Review Committee, see IRPS 11-1, [Supervisory Review Committee](#) (as amended by IRPS 12-1).

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*Last updated July 29, 2015*

## Waiver Monitoring

**DOS**<sup>1</sup> and **E&I**<sup>2</sup> are responsible for monitoring the consistency, soundness and appropriateness of regulatory waivers. E&I is responsible for evaluating consistency with policies and evaluating the overall trends in risk.

### 1. DOS Reporting Responsibilities

- DOS will maintain supporting documentation for each approval/denial in the corresponding charter files.
- **Regions**<sup>3</sup> will maintain reports that will track all regulatory waivers.<sup>4</sup>
- Regions will submit a list of the waivers granted, revoked, and outstanding to E&I on a semiannual basis.<sup>5</sup> At a minimum, listings will include:
  - Charter
  - Name

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<sup>1</sup>Division of Supervision

<sup>2</sup>Office of Examination and Insurance

<sup>3</sup>"Regions" includes ONES (unless otherwise specified)

<sup>4</sup>Until a national database/tool is developed, regions will continue to use reporting systems currently in place. Regions should ensure their current systems capture the required information.

<sup>5</sup>E&I is developing a platform to capture this information.

- Assets
  - **CAMELS**<sup>1</sup> rating (composite and component ratings)
  - Type of action
  - Action date
  - Resolution date (where applicable)
  - Status, expiration date (where applicable)
  - Comments
- Regions will provide a posting of all outstanding regulatory waivers on SharePoint and implement a process to review regulatory waivers every three years.

### ***E&I Reporting Responsibilities***

- Review regional activity on a semiannual basis as a means of tracking regional and national trends for consistency and policy development
- Issue an annual national summary of the regional reports analyzing national trends
- Periodically request a sampling of actions taken under this section of the NSPM for quality control purposes as part of our ongoing quality assurance process

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*Last updated July 29, 2015*

## **Earnings Retention Waiver**

NCUA regulation §§ 702.106, [Prompt corrective action for adequately capitalized credit unions](#), and 702.203, [Prompt corrective action for adequately capitalized new credit unions](#), address earnings retention requirements for credit unions subject to PCA.

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*Last updated October 26, 2022*

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<sup>1</sup>CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk



## Earnings Retention

Beginning the effective date of classification as “adequately capitalized” or lower (less than 7 percent net worth), credit unions must increase the dollar amount of their net worth quarterly by at least 0.1 percent of total assets. The 0.1 percent may be calculated from current quarter earnings or from average earnings over the current and three preceding quarters. This earnings retention requirement is in place until the credit union becomes “well capitalized.” New credit unions must also increase their net worth quarterly, but by the amount reflected in their approved initial or RBP. Without such a plan, a new credit union must increase their net worth quarterly pursuant to NCUA regulation § 702.106, [Prompt corrective action for adequately capitalized credit unions](#).

There is always a quarter lag between when a credit union becomes less than well capitalized and when it must meet the earnings retention requirements. For example: XYZ Credit Union's net worth category declined to “adequately capitalized” as of March 31, and is not required to meet the earnings requirement that quarter because the effective date of its net worth classification is not until April 30. However, starting the quarter-ending June 30, the credit union must:

- Increase its net worth quarterly;
- Request a reduction in its earnings retention requirement if it projects it will not meet them each quarter; and
- Request approval to pay dividends and interest refunds if their payment will cause the credit union's capital classification to fall below “adequately capitalized.”

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*Last updated October 26, 2022*

## Reduction of the Earnings Retention Requirement

If it cannot meet the earnings requirement, a credit union must submit a written request to the region seeking approval to reduce the amount of earnings retention no later than 14 days before the quarter-end. Examiners should recognize and work with any credit unions that must meet the quarterly requirements.

At a minimum, requests for approval from the credit union must explain how the reduction in the earnings requirement is necessary to avoid a significant redemption of shares and further the purposes of [PCA](#). “Furthering the

purposes of PCA” can be documented by briefly explaining why the credit union could not meet the quarterly earnings requirement and how management plans to resolve the earnings problem and increase net worth to meet PCA’s capitalization requirements in future periods. Requests for approval that lack this basic information will not be processed.

Exam staff must document and determine a lesser amount a) is necessary to avoid a significant redemption of shares and b) would further the purpose of PCA (as noted in NCUA regulation § 702.106, [Prompt corrective action for adequately capitalized credit unions](#)).

The Regional Director may also approve the reduction in earnings retention during the review and approval process for a NWRP. If the credit union projects earnings will not meet the earnings retention requirements during any quarter the plan covers, they may request approval for the quarter(s) when they submit their plan to the regional office.

When the plan is approved, the reduction in earnings retention is also approved. However, if a credit union originally projected their earnings will be sufficient in its plan and then subsequently fails to meet the requirements, the appropriate request for approval must be submitted within the timeframe noted above.

In the case of a state-chartered credit union, the supervisor will request concurrence through phone or e-mail from the appropriate SSA. The SSA will also be copied on the Regional Director’s letter to officials approving or denying the request. Exam staff will note whether the SSA concurs with approval or denial for FISCUs in the Regional Summary.

## Regional Office Review

**DOS**<sup>1</sup> will determine the proper level of controls for monitoring earnings retention waivers. Monitoring may occur through reviewing risk reports. The regions may have procedures in place to identify credit unions not meeting the regulation, or in the case of credit unions operating under NWRPs, their approved NWRP.

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*Last updated October 26, 2022*

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<sup>1</sup>Division of Supervision

## FHLB Advance Process

The **FHFA**<sup>1</sup> regulations currently require FHLBanks to conduct a credit underwriting review which may limit or deny a member credit union's application for an advance. In addition, the FHLBanks also consider a FICU's tangible capital when considering a new—or renewing an existing—advance to a member credit union. The regulation currently prohibits making new advances and limits the renewal of existing advances to members with negative tangible capital unless the member's federal banking agency or insurer submits a written request to the **FHLBank**<sup>2</sup>. For the purposes of this review procedure, the term advance includes standby letters of credit and any other financial agreements evaluated under the credit underwriting and risk assessment by the FHLBanks.

See [FHFA rule 12 C.F.R. §1266.4](#)

Given the urgency of the credit union's liquidity needs, these procedures should be completed as soon as practicable after receiving a request from a credit union.

## Tangible Capital

The FHFA regulation, [12 C.F.R §1266.1](#), defines tangible capital as capital, calculated according to **GAAP**<sup>3</sup>, less "intangible assets." Essentially, the FHFA calculation of tangible capital represents the Equity Section of the 5300 Call Report, less intangible assets. The chart below compares the components of tangible capital to net worth per NCUA regulation § 702.2, [Definitions](#).

*Accounts contributing to the calculation of tangible capital and the comparison to net worth*

Item:	Call Report Account	Tangible Capital	Net Worth
Undivided Earnings	940	X	X
Other Reserves	658	X	X
Appropriation for Non-conforming Investments	668	X	X

<sup>1</sup>Federal Housing Finance Agency

<sup>2</sup>Federal Home Loan Bank

<sup>3</sup>Generally Accepted Accounting Principles

Item:	Call Report Account	Tangible Capital	Net Worth
Equity Acquired in Merger	658A*	X	X
Noncontrolling interest in Consolidated Subs	996	X	
Accumulated Unrealized Net Gain (Losses) on CF Hedges	945A	X	
Accumulated Unrealized Losses for OTTI on HTM <sup>1</sup> Securities (activity expires in 2023)	945C	X	
Accumulated Unrealized Gain (Losses) on AFS <sup>2</sup> Securities	EQ0009	X	
Other Comprehensive Income Not Included Above	945B	X	
Subordinated Debt included in Net Worth	925A		X
Net Income	602	X	X
<b>Less: Intangible Assets</b>			
Goodwill	009D2	X	
Mortgage Servicing Assets	779	X	
Other Intangible Assets	AS0032	X	

\*Schedule G requirements for mergers

Last updated May 3, 2024

<sup>1</sup>Held to Maturity

<sup>2</sup>Available for Sale

## Limitations on Access to Advances

The **FHFA**<sup>1</sup> rule [12 C.F.R. §1266.4](#) regulates the credit underwriting and requirements for new and renewals of advances.

### ***Credit Underwriting***

An **FHLBank**<sup>2</sup> may make advances and renewals only if it decides it may safely do so to the member credit union. This includes advances and renewals made under [12 C.F.R. §1266.4](#). In its discretion, an FHLBank may limit or deny a member credit union's application for an advance if — in the FHLBank's judgment — such credit union:

- Is engaging or has engaged in any unsafe or unsound banking practices;
- Has inadequate capital;
- Is sustaining operating losses;
- Has financial or managerial deficiencies, as determined by the FHLBank, that bear upon the member credit union's creditworthiness; or
- Has any other deficits, as determined by the FHLBank.

### ***New advances to member credit unions without positive tangible capital***

An FHLBank will not make a new advance to a member credit union without positive tangible capital unless the NCUA asks the bank in writing to make such an advance. The FHLBank will promptly provide the FHFA with a copy of any such request.

An FHLBank will use the most recently available 5300 Call Report to determine whether a member credit union has positive tangible capital.

### ***Renewals of advances to members without positive tangible capital***

An FHLBank may renew outstanding advances to a member credit union without positive tangible capital for successive terms of up to 30 days each.

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<sup>1</sup>Federal Housing Finance Agency

<sup>2</sup>Federal Home Loan Bank

But if the NCUA asks an FHLBank in writing to not renew such advances, the FHLBank will honor that request.

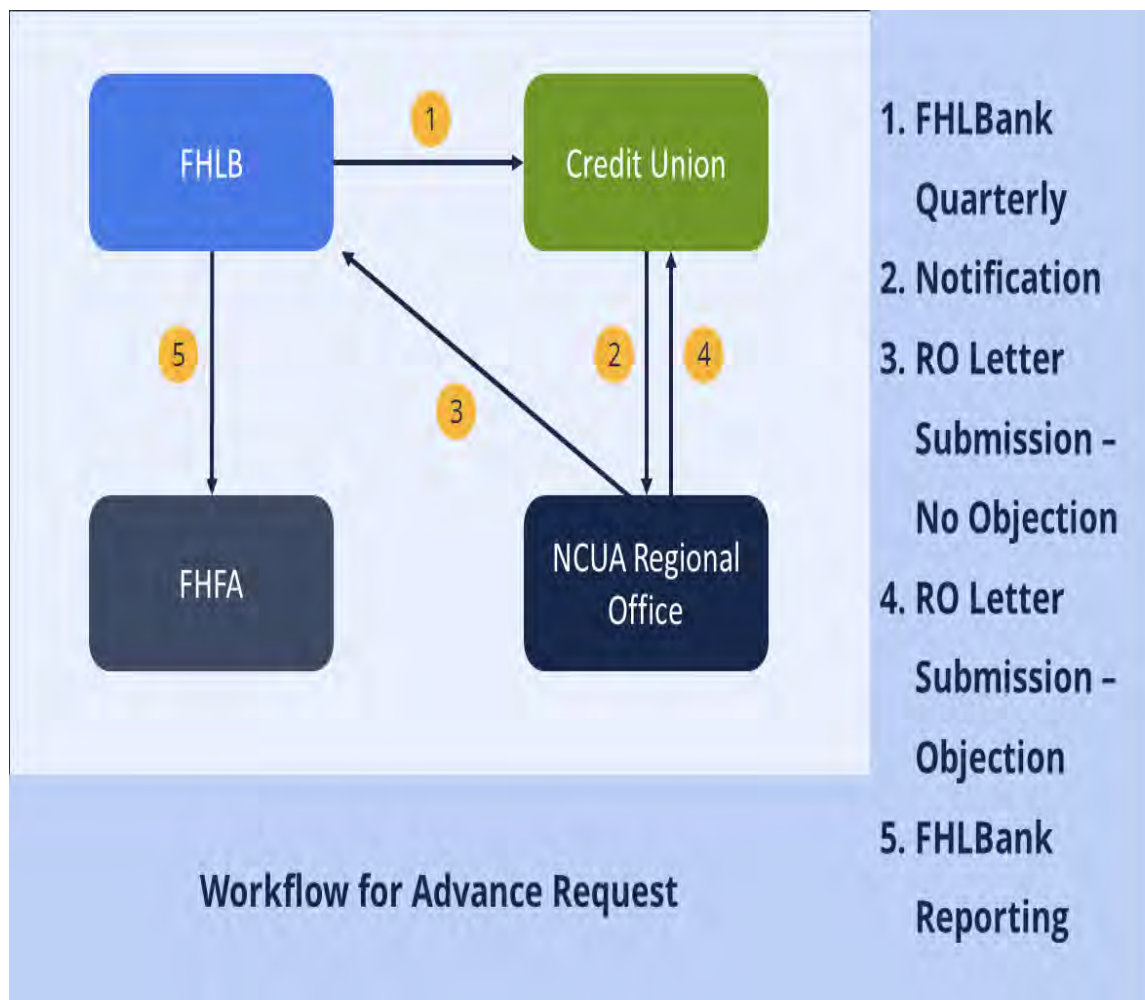
An FHLBank may renew outstanding advances to a member credit union without positive tangible capital for a term greater than 30 days at the NCUA's written request.

*Last updated May 3, 2024*

## NCUA Process

Based on the **FHFA**<sup>1</sup>'s limitations rule, the process flow and review steps below will be used to consider an advance request from a credit union.

### Workflow for Advance Request



<sup>1</sup>Federal Housing Finance Agency

## Notes to Workflow:

1. **FHLBank<sup>1</sup> Quarterly:** FHLBanks conduct a quarterly credit analysis for all their members. A negative tangible capital balance automatically flags the member credit union for added review but does not necessarily impact the credit underwriting score. If, after the FHLBank gives the member credit union their overall credit underwriting score and notifies them they have a negative tangible capital balance, the credit union is told they must ask the NCUA to submit a no-objection letter to the FHLBank to request an advance.

2. **Notification:** The credit union will request the RO to submit a no-objection letter to the FHLBank for the proposed advance(s). The RO should collect the necessary information from the credit union and consult with the SSA, where appropriate (see the [Regional Office Review](#) section for more details).

The RO should only act on an advance request if the credit union has already requested an advance of the FHLBank or the credit union is expected with a high degree of probability to submit an advance request to the FHLBank within the next 90 days. The effective period of no-objection letters for expected advances will be the shorter of 90 days from the date of the letter, or the date of the actual advance(s), or the credit union's Tangible Capital returning to a positive balance.

FHLBank advance requests will not be accepted in consideration of general liquidity risk management planning that are not highly probable in the next 90 days.

3. **RO Letter Submission – No-Objection:** The RO will send a no-objection letter to the FHLBank (per FHFA rule [§1266.4\(b\) and \(c\)](#)) related to the advance request (see the [templates](#) for a sample letter) with a copy to **E&I**<sup>2</sup> (email@ncua.gov), the requesting credit union, and SSA, as appropriate.

4. **RO Letter Submission – Objection:** The RO will send a letter to the requesting credit union and inform them that a no-objection letter will not be given to the FHLBank (see [templates](#) for a sample letter) copying E&I, the FHLBank, and SSA, as appropriate. The objection letter should outline the basis for the decision. The RO's decision to not issue a no-objection letter is likely a "material supervisory determination" under [§ 746.103 Material supervisory determinations](#), and the objection letter must contain information on the appeals process.

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<sup>1</sup>Federal Home Loan Bank

<sup>2</sup>Office of Examination and Insurance

5. **FHLBank Reporting:** As per FHFA rule [§1266.4\(b\)](#), the FHLBank will notify the FHFA of the written request.

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*Last updated May 3, 2024*

## Regional Office Review

The review process has been designed by OEI, in consultation with **OGC**<sup>1</sup>, to be consistent with Regional Director delegated authority to examine and supervise FCUs and to perform insurance reviews and supervision of FISCUs in the assigned Region or Office (SUP 1A).

RO staff will consider the following as a guideline and may expand the review procedures on a case-by-case basis. The RO should also work with the respective **FHLBank**<sup>2</sup> as each of the respective FHLBanks may have different procedures for proceeding with advance activity when tangible capital is negative. For the purposes of this review procedure, the term advance includes standby letters of credit and any other financial agreements evaluated under the credit underwriting and risk assessment by the FHLBanks.

For more information on how to process these requests, please refer to the [Procedures and Requirements>Processing a Waiver Request](#) section of this chapter.

- Advance Information – Upon receiving a notification from the FHLBank, a credit union should provide the NCUA the following information:
  - Name of the FHLBank the advance is being requested from.
  - Date of the advance notification request received from the credit union.
  - Whether the credit union has been notified of their credit underwriting score from the FHLBank and if are there any concerns or other information from the FHLBank related to their credit underwriting decision score and their ability to make the advance. See [Limitations on Access to Advances](#) for more information on credit underwriting.
  - Whether this is a new advance or a renewal of an existing advance.

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<sup>1</sup>The NCUA's Office of General Counsel

<sup>2</sup>Federal Home Loan Bank



- The proposed advance(s) to be requested of the FHLBank within the next 90 days that are highly probable including:
  - amounts
  - start and maturity dates, and
  - other advance terms as necessary.
- The business case for the advance(s).
- A liquidity focused financial statement forecast in support of the advance(s) that are highly probable over the next 90 days.
- Other funding options considered and the costs and benefits of using an FHLBank advance.
- Any other information the RO requires.
- Tangible Capital – An estimate of the tangible capital balance:
  - What is the tangible capital amount (using most recent Call Report)?
  - What is the primary driver for the negative tangible capital amount?
- Other Review Items – Further considerations. Information the RO can obtain through current supervision tools:
  - Are there existing advances? (Amounts and terms)
  - What will be the cumulative FHLBank advance total with this request?
  - Are there any significant changes to the credit union's liquidity risk profile since the last exam? The use of Call Report-based data should be considered.
  - Are there any pending supervisory concerns for the credit union?
  - Does the advance cause any material safety and soundness concerns for the credit union or elevate risk to the Share Insurance Fund?
  - What other borrowing sources has the credit union used and how has this trended over the last four quarters?

- What is the **AFS**<sup>1</sup> position, unrealized losses, and sensitivity to Net Worth if sales of the AFS should be an option? While not part of the tangible capital calculation, what is the risk of the **HTM**<sup>2</sup> portfolio being converted to AFS and the impact to the tangible capital calculation? See schedule B of the Call Report for details on AFS and HTM cost and fair values.
- What other liquidity stress trends is the credit union experiencing (share migration, earnings losses, or previous borrowings)?
- If the RO needs further information from the credit union, then it may request the following to complete the analysis:
  - Projected material changes to the credit or liquidity risk profile over the next 12 months.
  - The credit union's most recent cash flow base and stress test results. Cash flow projections are important when evaluating a credit union's forward looking liquidity requirements.
  - The credit union's remaining credit capacity and liquidity resource options. Adding remaining and other contingent liquidity sources will help establish how the advance will impact total liquidity capacity.
  - The estimated cost of borrowing. A review of the cost of borrowings will give the RO an idea of the impact to the net interest margin. Even if a credit union lacks outstanding borrowings, the added borrowings may impact the net interest margin and further decrease tangible capital. A credit union may be able to provide pro forma financials showing the borrowings will not materially affect the net interest margin.
- Completion of RO assessment
  - The RO and **exam staff**<sup>3</sup> will document the results of the review in the [Regional Summary](#) and decide whether to issue a No-Objection or Objection letter.

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<sup>1</sup>Available for Sale

<sup>2</sup>Held to Maturity

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- If the RO plans to issue an Objection Letter, or rescind a previous No-Objection letter, it should consider whether other liquidity options may be more appropriate – for example, Corporate Credit Unions, the [Bank Term Funding Program](#), [Discount Window](#), Central Liquidity Facility, or 208 assistance

### ***Rescission of Previous No-Objection Letter***

An RO will use the appropriate [template letter](#) to inform both the FHLBank and the credit union to rescind a previously issued No-Objection letter. This action's result will be based on similar concerns cited in the use of an Objection letter.

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*Last updated May 3, 2024*

## **FHLB Advance Process Templates**

- [No-Objection Letter to the FHLBank](#)
- [Objection Letter to the Requesting Credit Union](#)
- [Rescission of No Objection Letter to the FHLBank](#)
- [Rescission of No Objection Letter to the Requesting Credit Union](#)
- [Regional Summary of FHLB Member Advance Request](#)

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*Last updated May 3, 2024*

## **Loan Participation Waiver**

NCUA regulation § [701.22\(b\)\(5\)](#) establishes single originator and single borrower concentration limits for federally insured credit unions. Section 701.22 (c) permits federally insured credit unions to request a waiver of these limitations from the appropriate RD.

In addition to the information provided in this manual, examiners will reference Supervisory Letter 13-04, [Supervision Guidance on Loan Participation Waivers](#), when reviewing waiver requests under § [701.22\(c\)](#). The supervisory letter was also issued under Letter to Credit Unions 13-CU-07, [Loan Participation Waivers](#).

## Exam Staff Responsibilities

Examiners and their supervisors are responsible for evaluating the risk posed by the loan participation waiver request. During the evaluation, the examiner should review all pertinent documents and information to determine if an onsite contact is necessary.

If this is a new program or the examiner does not have historical information to draw upon, strong consideration to go onsite to evaluate the participation program and the credit union's current business strategy should be given. If the waiver is complex, the examiner and/or supervisor should consider seeking assistance from an **RLS**<sup>1</sup> who may be able to offer additional support for concurrence or denial.

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*Last updated July 29, 2015*

## Occupancy Waiver

Excess space is only acceptable when a FCU bases a purchase on future needs as outlined in NCUA regulation § 701.36, [Federal credit union occupancy and disposal of acquired and abandoned premises](#).

### Acquired Premises for Future Expansion

For premises acquired for the purpose of future expansion, an FCU must partially occupy any within a reasonable period, but no later than 6 years after the date of acquiring the premises.

Partially occupy means occupation and use, on a full-time basis, of at least fifty percent of each premises by the FCU, or the FCU and a CUSO in which the FCU has a controlling interest. An FCU must submit a written request for a waiver from the partial occupancy provision or to exceed the 6 year time-frame.

### Abandoned Property

After premises have been abandoned for four years, an FCU must publicly advertise the property for sale. The FCU must complete the sale within 5 years of abandonment, unless the NCUA waives this requirement.

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<sup>1</sup>Regional Lending Specialist

To seek a waiver of the either the partial occupancy requirement or disposal of abandoned property, an FCU must submit a written request to its regional office that fully explains why the FCU needs such a waiver. The RD will base his or her decision on the reasonableness of achieving compliance with the occupancy provisions.

Requests which represent an effort to circumvent the occupancy provisions will be denied. The RD will provide the FCU a written response, either approving or denying the waiver request, within 45 days of the completed request.

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*Last updated March 24, 2017*

## Subordinated Debt

Subordinated Debt is a borrowing transaction that meets the requirements of the NCUA regulations part 702, Subpart D - [Subordinated Debt, Grandfathered Secondary Capital, and Regulatory Capital](#) and is subordinated to all other claims against a credit union.

Subordinated Debt may count as regulatory capital for eligible credit unions to achieve or maintain a prudent level of capitalization more quickly than may be possible through building retained earnings. Subordinated Debt can also enable eligible credit unions to expand lending and other services to underserved communities, and can serve as a basis for a credit union to grow and achieve better economies of scale.

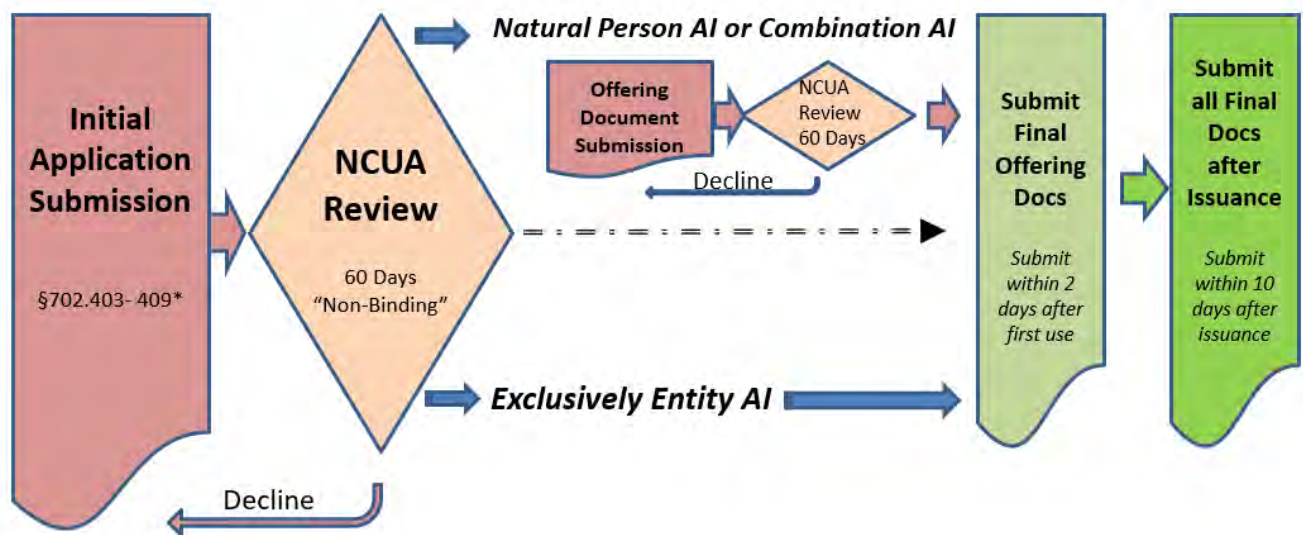
The final Subordinated Debt rule addresses both Grandfathered Secondary Capital (issued before December 31, 2021 unless part of the ECIP program) and Subordinated Debt issued under the new rules starting in 2022. Previous NCUA regulations for Secondary Capital have been reorganized from § 701.34 to § 702.414

There were several new and revised NCUA regulations that were effective on January 1, 2022, related to Subordinated Debt. The more significant items are as follows:

1. Section 701.25, [Loans to Credit Unions](#), a new rule on requirements of a credit union in making loans and investments to other credit unions. This requirement is applicable to FISCUs via § 741.227, [Loans to Credit Unions](#);

2. Section 701.38 [Borrowed funds](#) , [Borrowed funds from natural persons](#); § 741.226, [Subordinated Debt](#);
3. Part 702, Subpart D - [Subordinated Debt, Grandfathered Secondary Capital, and Regulatory Capital](#), allow federally insured low-income designated credit unions, complex credit unions as defined in § 702.103 [Applicability of risk-based capital measures](#), or new credit unions to issue Subordinated Debt treated as regulatory capital (Subordinated Debt) to accredited investors, subject to certain conditions (see [Required Information](#)).

There are several requirements and approvals before a credit union can issue Subordinated Debt. Foremost, but not limited to, is that Subordinated Debt may only be offered to accredited investors, as defined by the SEC<sup>1</sup> in § 230.501, [Definitions and terms used in Regulation D](#). The regulation also requires all eligible credit unions to receive written preapproval from the NCUA before issuing Subordinated Debt. The flowchart below illustrates the application and approval process.



\* FISCUs need concurrence from SSA

<sup>1</sup>Securities and Exchange Commission

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Last updated on April 29, 2022

## Subordinated Debt Plans

To be eligible to issue Subordinated debt, a credit union must meet the criteria established in § 702.403, [Eligibility](#). Before issuing any Subordinated Debt, an eligible credit union must first submit an initial application to the Regional Office that complies with § 702.408, [Preapproval to issue Subordinated Debt](#). A FISCU must submit the information required under § 702.408, [Preapproval to issue Subordinated Debt](#), to both the Regional Office and its SSA, as per § 702.409, [Preapproval for federally insured, state-chartered credit unions to issue Subordinated Debt](#).

## Required Information

Each Subordinated Debt application must meet the regulatory requirements outlined in § 702.408(b), [Initial application to issue Subordinated Debt](#).

## Approval Timeframe

Within 60 calendar days (which may be extended by the Regional Office) after the date of receipt of a complete application, the Regional Office will provide the credit union with a written determination on its application. An application for approval to issue Subordinated Debt is not automatically approved if the Regional Office does not respond within the 60 calendar days. If there is a full or partial denial, or conditional approval, the written decision will state the reasons for the denial or conditional approval.

## DOS Initial Responsibilities

Within five calendar days of the regional office receiving an application, **DOS**<sup>1</sup> will review to determine whether the Subordinated Debt application meets the minimum regulatory requirements.

For FISCUs, DOS should contact the applying FISCU's SSA to verify they have also received the application and to determine if the state permits FISCUs to issue Subordinated Debt.

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<sup>1</sup>Division of Supervision

If an application does not address the required elements of § 702.408(b), [Initial application to issue Subordinated Debt](#), or the proposed Subordinated Debt does not meet regulatory requirements, DOS will:

- Contact the credit union to obtain the missing information, or prepare an incomplete or denial letter and send it to the credit union.
  - Use the [Respond to Incomplete Proposed Subordinated Debt Application](#) to let the credit union know the application is incomplete and being deferred. Be sure the letter lists the required information the credit union must submit for the region to reconsider the application
  - Use the [Deny Subordinated Debt Application](#) template if the RD opts to deny the plan. Be sure the letter lists the deficiencies in the Subordinated Debt application.

DOS will copy the credit union **CEO**<sup>1</sup>, examiner, supervisory examiner, and SSA, if applicable, on the above letters.

If an application addresses the required elements of § 702.408(b), [Initial application to issue Subordinated Debt](#), and the proposed Subordinated Debt application meets regulatory requirements, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union (for a FISCU, DOS will copy the SSA on the letter)
- Prepare and send a work assignment to the field that includes the credit union's request, the application, supporting documentation, and requests a recommendation for approval or denial

## ***Exam Staff Review Responsibilities***

Examiners, their supervisor, and, when appropriate, Regional Capital Markets Specialists, will evaluate a credit union's application. In evaluating the application, **exam staff**<sup>2</sup> will:

- Complete applicable tabs of the [Subordinated Debt Questionnaire](#)
  - Exam staff may not ask credit union officials or employees to complete the questionnaire, which is strictly for NCUA exam staff use as

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<sup>1</sup>Chief Executive Officer

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



a guide when reviewing Subordinated Debt applications

- If needed, contact the credit union to conduct an interview with management (exam staff may use the [Subordinated Debt Questionnaire](#) as a conversation guide)
- Complete a [Regional Summary](#) to include an approval or denial recommendation
- Draft a letter to approve or deny the proposed application using the appropriate template
  - A letter informing the credit union of denial must identify required documentation under § 702.408(b), [Initial application to issue Subordinated Debt](#), that is missing or insufficient
  - The denial letter must address any related unsafe and unsound condition(s), including why the condition is considered unsafe and unsound
  - Denial letters should not instruct a credit union to resubmit the application
  - Incomplete application letters will list items the credit union needs to submit for the Regional Director to reconsider their request
- Email the [approval](#), [denial](#), or [incomplete application letter](#), the Regional Summary, and any supporting documentation to their supervisor

The field supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

## ***DOS Processing and Review Responsibilities***

Upon receiving an examiner's recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the RD disagree with the recommendation, the reasons for the different conclusion will be discussed with the field supervisor. The field will have an opportunity to further support or revise their recommendation.

**Regions**<sup>1</sup> may consult with **E&I**<sup>2</sup> during the review process.

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<sup>1</sup>"Regions" includes ONES (unless otherwise specified)

<sup>2</sup>Office of Examination and Insurance

RDs have the authority to approve Subordinated Debt and should use the [Approve Subordinated Debt Application](#) or the [Approve Subordinated Debt Application with Contingency](#) template in developing the approval letter. E&I is available for consultation on the rule requirements.

DOS finalizes the response letter for the RD's signature:

- **Federal Credit Unions**—DOS sends the response letter directly to the credit union
- **Federally Insured State Chartered Credit Unions**—DOS sends the response letter directly to the SSA and credit union

## ***Regional Director Responsibilities***

RDs will only approve subordinated debt applications if:

- All information required under § 702.408(b), [Initial application to issue Subordinated Debt](#), was included in the application or provided as support
- The proposed Subordinated Debt, and all other actions outlined in the application (for example, lending and borrowing), comply with applicable regulatory requirements
- The acceptance and use of the Subordinated Debt does not create an unsafe and unsound condition
- For FISCUs, the SSA has provided concurrence for the application, per NCUA regulation § 702.409, [Preapproval for federally insured, state-chartered credit unions to issue Subordinated Debt](#), for the RD to approve the application

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*Last updated on April 29, 2022*

## **Subordinated Debt Offering Documents**

Offering Documents are documents used to offer and sell Subordinated Debt Notes. After the issuing credit union receives written approval of its initial application, it prepares an Offering Document for each issuance of Subordinated Debt Notes. Before an issuing credit union can offer Subordinated

Debt Notes to a Natural Person Accredited Investor, the NCUA must approve the related Offering Document (regions may consult with **E&I**<sup>1</sup> and **OGC**<sup>2</sup>).

A credit union may only offer, issue and sell Subordinated Debt to Accredited Investors. Before the offer of any Subordinated Debt Note, the credit union must receive a signed, unambiguous certification from any potential investor (see NCUA regulation § 702.406(c), [Accredited Investors](#), for details)

The issuing credit union must provide each investor the Offering Document before issuing or selling Subordinated Debt Notes. All Offering Documents must be filed with the NCUA within two business days after their respective first use.

### ***Subordinated Debt and Subordinated Debt Note Requirements***

At a minimum, the Subordinated Debt or Subordinated Debt Note issued by an eligible credit union must meet various regulatory requirements in NCUA regulation § 702.404, [Requirements of the Subordinated Debt and Subordinated Debt Note](#). This regulation addresses the following requirements:

- § 702.404(a) minimum requirements
- § 702.404(b) restrictions
- § 702.404(c) negative covenants
- § 702.404(d) default covenants
- § 702.404(e) minimum denominations of issuances to Natural Person Accredited Investors

For Subordinated Debt Note disclosure requirements, please review NCUA regulation § 702.405, [Disclosures](#).

### ***Required Information for all Offerings***

NCUA regulation § 702.408(e)(1), [Requirements for all Offering Documents](#), contains the information required in an Offering Document.

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<sup>1</sup>Office of Examination and Insurance

<sup>2</sup>The NCUA's Office of General Counsel

## Approval Timeframe for Natural Person Accredited Investor Offering Documents

The Regional Office will notify the credit union in writing of its decision within 60 calendar days of receipt of the filing. The Regional Director may extend the timeframe, if needed. The written determination will include any requests for additional information, clarifications, or amendments, or a statement that the Offering Document is “approved for use.”

An Issuing Credit Union that is offering Subordinated Debt exclusively to Entity Accredited Investors is not required to have its Offering Document approved for use by the NCUA before using it to offer and sell Subordinated Debt Notes. The Issuing Credit Union, however, must submit a copy of each of its Offering Documents to the NCUA within two business days after their respective first use. The approval letter to issue Subordinated Debt will remind the credit union to provide the appropriate supervision office final offering documents no later than 10 business days of a Subordinated Debt Note issuance and sale.

### ***DOS Initial Responsibilities***

**DOS**<sup>1</sup> will perform a preliminary review within five calendar days of the regional office receiving the Natural Person Accredited Investor Offering Document. This review determines whether the request meets the minimum requirements of NCUA regulation §§ 702.408(e) and (f), [Requirements for all Offering Documents](#). DOS will complete the applicable tab in the [Subordinated Debt Questionnaire](#) to determine whether the Offering Document is complete.

If the Offering Document is considered incomplete, DOS will:

- Contact the credit union to obtain the missing information, or
- Prepare an incomplete or denial letter and send it to the credit union and copy the examiner, supervisory examiner
  - Use the [Respond to Incomplete Natural Person Accredited Investor Offering Document](#) template if the RD opts to defer the request
  - Ensure the letter lists the required information the credit union must submit for the region to reconsider the document

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<sup>1</sup>Division of Supervision

- Use the [Offering Document not “Approved for Use”](#) template if the RD opts to not approve the document and indicate in the letter why the document is not approved

If the Offering Document is considered complete, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union (for FISCUs, DOS will copy the SSA on the letter)
- Email OGC and E&I to obtain assistance, as applicable
- Notify Exam Staff of the receipt of Offering Documents and forward them a copy

## ***DOS Processing and Review Responsibilities***

Upon review, DOS will recommend whether the Operating Document should be “approved for use” based on appropriate support and justification.

DOS must notify Exam Staff of the proposed decision before finalizing the response letter for the RD’s signature. Any **exam staff**<sup>1</sup> objections must be discussed with the regional director and DOS staff. For FCUs, DOS will send the signed letter to the credit union and copy both the examiner and supervisor.

For FISCUs, DOS will consult with the applicable SSA before issuing a decision to “approve for use” a FISCU’s Offering Document. The SSA will be courtesy copied on the decision letter to the FISCU.

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*Last updated on April 29, 2022*

## **Subordinated Debt Prepayments**

An Issuing Credit Union may include an option that allows the Issuing Credit Union to prepay the Subordinated Debt in whole or in part before maturity in the terms of its Subordinated Debt. The Issuing Credit Union must submit a written request to prepay subordinated debt to the RD for approval. Under NCUA regulation § 702.411(c) [Federally insured, state-chartered credit union prepayment applications](#), a FISCU must receive written approval from its SSA before it submits an application to the Region. The Region will then approve or deny the request.

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<sup>1</sup>“exam staff” includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

## **Required Information**

NCUA regulation § 702.411(d), [Prior written approval to prepay Subordinated Debt](#), contains the minimum application requirements to prepay subordinated debt. The request to redeem Subordinated Debt may be approved in whole or in part.

## **Approval Timeframe**

The Regional Director, as applicable, will issue a written decision within 45 calendar days after receiving a complete application. The regional office may extend this timeframe. In the case of a full or partial denial, including a conditional approval, the written decision will state the reasons for the denial or conditional approval.

## **DOS Initial Responsibilities**

**DOS**<sup>1</sup> will perform a preliminary review within five calendar days of the regional office receiving the Subordinated Debt Prepayment application. This review determines whether the request meets the minimum requirements of § 702.411(d), [Prior written approval to prepay Subordinated Debt](#).

If the Subordinated Debt Prepayment application is considered incomplete, DOS will:

- For FCUs, contact the credit union to obtain the missing information, or
  - Prepare an incomplete or denial letter and send it to the credit union and copy the examiner, supervisory examiner
- For FISCU applications, consult with the SSA before sending the incomplete or denial letter since the FISCU should have received the SSA's approval before submitting its application to the NCUA
  - Use the [Respond to Incomplete Proposed Subordinated Debt Prepayment](#) template if the RD opts to defer the request
  - Ensure the letter lists the required information the credit union must submit for the region to reconsider the plan

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<sup>1</sup>Division of Supervision

- Use the [Deny Subordinated Debt Prepayment](#) template if the RD opts to deny the plan and include reasons for denial in the letter

If the Subordinated Debt Prepayment application is considered complete, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union (for FISCUs, DOS will copy the SSA on the letter)
- Prepare and send a work assignment to the field that includes the credit union's request, the Subordinated Debt Prepayment application, supporting documentation, and request for a recommendation for approval or denial

### ***Exam Staff Review Responsibilities***

If assigned, the examiner will evaluate the credit union's Subordinated Debt Prepayment request. After evaluating the Subordinated Debt Prepayment request, the examiner will:

- Complete the applicable tab of the [Subordinated Debt Questionnaire](#)
- Complete a [Regional Summary](#) to include an approval or denial recommendation
- Draft a letter to approve (or partially approve) or deny the request using the appropriate template
- [Approve Request to Prepay Subordinated Debt](#)
- [Deny Request to Prepay Subordinated Debt](#)
- Email the letter, the Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

### ***DOS Processing and Review Responsibilities***

Upon receipt of the field's recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the RD disagree with the field recommendation, the reasons for the different conclusion will be discussed with the field supervisor. The field will have an opportunity to further support or revise their recommendation.

DOS finalizes the response letter for the RD's signature. For FCUs, DOS will send the signed letter to the credit union and copy both the examiner and supervisor.

For FISCUs, DOS will send a letter with the RD's decision to both the SSA and the credit union.

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*Last updated on April 29, 2022*

## **Grandfathered Secondary Capital Redemptions**

The board of directors of a LICU may submit a written request to redeem, or pay back, grandfathered secondary capital that is no longer recognized as Net Worth to the RD for approval.

NCUA regulation § 702.414(c), [Regulations governing Grandfathered Secondary Capital](#), outlines the minimum requirements to redeem grandfathered secondary capital.

The request to redeem discounted secondary capital may be approved in whole or in part.

### ***Required Information***

The DSCR request must be submitted in writing, specify the increment(s) to be redeemed and the schedule for redeeming any part of the eligible increment, and must demonstrate the LICU can meet the minimum requirements of NCUA regulation § 702.414(c)(1), [Request to redeem secondary capital](#).

Credit unions may only redeem grandfathered secondary capital that is not recognized as net worth under NCUA regulation § 702.414(c)(3) [Schedule for redeeming secondary capital](#), and in accordance with the remaining maturity schedule.

### ***Approval Timeframe***

If a LICU is not notified of approval or denial within 45 days of NCUA receiving its request for approval to redeem, it may proceed to redeem grandfathered secondary capital as proposed.



## ***DOS Initial Responsibilities***

**DOS**<sup>1</sup> will perform a preliminary review within five business days of the regional office receiving the DSCR request to determine whether the request meets the minimum requirements of NCUA regulation § 702.414(c)(1), [Request to redeem secondary capital](#).

If the DSCR request is considered incomplete, DOS will:

- Contact the credit union to obtain the missing information, or
- Prepare an incomplete or denial letter and send it to the credit union and copy the examiner, supervisory examiner, and SSA (if applicable) on the letter
  - Use the [Respond to Incomplete Proposed Grandfathered Secondary Capital Redemption](#) template if the RD opts to defer the request
  - Verify the letter contains the required information the credit union must submit for the region to reconsider the plan
  - Use the [Deny Grandfathered Secondary Capital Redemption](#) template if the RD opts to deny the plan and indicate in the letter why the request is denied

If the GSCR request is considered complete, DOS will:

- Prepare and send an [acknowledgment letter](#) to the credit union
  - For FISCUs, DOS will copy the SSA on the letter
- Prepare and send a work assignment to the field that includes the credit union's request, supporting documentation, and a request for a recommendation for approval or denial

## ***Exam Staff Review Responsibilities***

If assigned, the examiner will evaluate the credit union's DSCR request. After evaluating the GSCR request, the examiner will:

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<sup>1</sup>Division of Supervision

- Complete the applicable tab of the Subordinated Debt Questionnaire
- Complete a [Regional Summary](#) to include an approval or denial recommendation
- Draft a letter to approve, partially approve, or deny the request using the appropriate template
- [Approve Request to Redeem Grandfathered secondary capital](#)
- [Deny Request to Redeem Grandfathered secondary capital](#)
- Email the letter, the Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region's DOS mailbox.

### ***DOS Processing and Review Responsibilities***

When DOS receives the field's recommendation, it will review and analyze the support and justification documentation. If DOS and/or the RD disagrees with the field recommendation, the reasons for the different conclusion will be discussed with the field supervisor. The field will be able to further support or revise their recommendation.

DOS finalizes the response letter for the RD's signature. For FCUs, DOS will send the signed letter to the credit union and copy both the examiner and supervisor.

For FISCUs, DOS will consult with the credit union's SSA in issuing the region's decision on its request.

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*Last updated on April 29, 2022*

## **Regulatory Waivers and other Regulatory Actions Templates**

- [Occupancy Waiver Templates](#)
- [Request for Decrease in Earnings Retention Requirements Waiver](#)
- [Secondary Capital Plan](#)
- [Loan Participation Waiver](#)

## Occupancy Waiver Templates

- Respond to Incomplete Request for Occupancy Waiver
- Acknowledge Request for Occupancy Waiver
- Regional Summary of Occupancy Waiver Request
- Approve Request for Occupancy Waiver
- Deny Request for Occupancy Waiver

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*Last updated January 27, 2016*

## Request for Decrease in Earnings Retention Requirements Templates

- Respond to Incomplete Request to Reduce Earnings Retention Requirement
- Regional Summary of Decrease in Earnings Retention Requirement
- Approve Request to Reduce Earnings Retention Requirement
- Deny Request to Reduce Earnings Retention Requirement

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*Last updated October 26, 2022*

## Subordinated Debt Application Templates

- Respond to Incomplete Proposed Subordinated Debt Application
- Acknowledge Submission of Subordinated Debt Application
- Regional Summary of Subordinated Debt Application
- Approve Subordinated Debt Application with Contingency
- Approve Subordinated Debt Application
- Deny Subordinated Debt Application
- Subordinated Debt Questionnaire

## ***Natural Person Accredited Investor Offering Documents Templates***

- Respond to Incomplete Proposed Subordinated Debt Application
- Acknowledge Submission of Subordinated Debt Application
- Regional Summary of Subordinated Debt Application
- Approve Subordinated Debt Application with Contingency
- Approve Subordinated Debt Application
- Deny Subordinated Debt Application
- Subordinated Debt Questionnaire

## ***Subordinated Debt Prepayment Request Templates***

- Response to Incomplete Proposed Subordinated Debt Prepayment Application
- Acknowledge Request to Prepay Subordinated Debt
- Regional Summary of Request to Prepay Subordinated Debt
- Approve Request to Prepay Subordinated Debt
- Deny Request to Prepay Subordinated Debt

## ***Grandfathered Secondary Capital Redemption Request Templates***

- Response to Incomplete Proposed Grandfathered Secondary Capital Redemption Application
- Acknowledge Request to Redeem Grandfathered Secondary Capital
- Regional Summary of Request to Redeem Grandfathered Secondary Capital
- Approve Request to Redeem Grandfathered Secondary Capital
- Deny Request to Redeem Grandfathered Secondary Capital

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*Last updated April 29, 2022*

## Loan Participation Waiver

- Respond to Incomplete Request for Loan Participation Limit Waiver
- Acknowledge Request for Loan Participation Limit Waiver
- Regional Summary of Loan Participation Limit Waiver
- Approve Request for Loan Participation Limit Waiver
- Deny Request for Loan Participation Limit Waiver

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*Last updated July 29, 2015*

# Small Credit Union and Minority Depository Institution Support Program Framework

## Overview and Objective

The objective of the Small Credit Union and **MDI**<sup>1</sup> Support Program is to provide additional hours and resources for **exam staff**<sup>2</sup> to support small credit unions and MDIs in a meaningful way, while still maintaining necessary guard rails. Supporting and preserving small credit unions and MDIs is fundamental to the NCUA's efforts to promote greater financial inclusion by expanding access to affordable, federally insured financial services. The framework also ensures objectives are met through regular reporting and monitoring. For this program, small credit unions are defined as those having less than \$100 million in assets as of the prior calendar year end. MDI support is not limited by asset size.

MDI preservation is also a priority of [Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989](#).

In this framework, we will detail the process and methodology for selecting recipients of additional assistance as part of the support program for these institutions, list the types of assistance appropriate for the program, and formalize related documentation requirements and reporting processes.

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*Last updated October 26, 2022*

## Types of Assistance

Program-appropriate activities include providing credit union personnel with assistance or guidance on areas such as:

## Finding Resources

- Discussing NCUA and third-party resources available to small credit unions and MDIs, and how to obtain assistance from these entities;

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<sup>1</sup>Minority Depository Institution

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- Applying for grants and loans provided by the NCUA-administered Community Development Revolving Loan Fund;
- Pairing with mentors, which may include helping to find a mentor, doing meet and greet, and facilitating mentor-mentee discussions; and
- Reviewing NCUA training materials, including those available through **CURE**<sup>1</sup>.

The NCUA's Learning Management Services for Credit Unions is administered by CURE. Currently, over 40 courses are available for credit union officials covering a range of topics. Please click on [this link](#) to be taken to the landing page. The contract only provides enough licenses for credit union officials to access the program material. Examiners will have access to detailed course descriptions on CURE's SharePoint site in the future, but in the interim CURE's course descriptions are provided in the Considerations for Providing Support job aid.

## Strategic Issues

- Developing strategic business plans and budgets;
- Creating succession plans and related processes;
- Evaluating earnings and the relationship to loan and deposit rate structures;
- Analyzing operating expenses for reasonableness and budget impact;
- Providing information on field of membership expansion and other growth opportunities;
- Evaluating technology needs and potential solutions;
- Providing guidance and considerations related to expanding product and service offerings; and
- Developing marketing plans and related materials.

## Examination and Compliance Issues

- Addressing concerns noted at the most recent examination or contact;

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<sup>1</sup>NCUA's Office of Credit Union Resources and Expansion

- Reviewing Call Report changes and preparation, including help with the mapping from the old to new account codes, processes for gathering the new data, etc.;
- Providing offsite examination and supervision materials, including helping them collect/gather the materials and explaining how to use **MERIT**<sup>1</sup> or the portal to upload them;
- Providing clarifications and information regarding regulatory or compliance requirements;
- Providing information on how to manage credit risk and reporting;
- Developing Net Worth Restoration Plans; and
- Helping in other areas as deemed appropriate for the individual credit union.

Additional considerations for providing support can be found in the [Considerations for Providing Support](#) job aid.

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*Last updated October 26, 2022*

## Providing Assistance

When providing credit unions with support, **exam staff**<sup>2</sup> may not prepare bank account reconcilements, draft policies, or perform tasks that are more akin to credit union management. For example, exam staff may provide templates or demonstrate how to complete a reconciliation, but under no circumstance should they complete the reconciliation for credit union management. Assistance should focus on answering questions, providing additional guidance and direction, directing management to resources available to them, and supporting management in their efforts to address operational issues.

Support Program contacts are intended to provide support for small or **MDI**<sup>3</sup> credit unions that may be outside the scope or intent of the agency's examination program. Through these contacts, the NCUA hopes to provide support and improve outcomes for these credit unions resulting in fewer failures and

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<sup>1</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Minority Depository Institution



mergers and expanded access to safe, fair and affordable financial services to persons of modest means. The templates to this section contain an [example email script](#) to introduce the program to credit union management and help ensure the assistance meets their needs.

Although this assistance is not part of the exam program, examiners should act upon any material safety and soundness, or compliance concerns discovered. If such concerns are discovered, the examiner should consult with their supervisor to determine how best to address the concerns as part of the examination and supervision program.

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*Last updated October 26, 2022*

## Selecting Recipients

Each region is responsible for identifying specific credit unions that will receive assistance under the small credit union and **MDI**<sup>1</sup> support program, and budget for those hours accordingly.

### Division of Supervision (DOS) Responsibilities:

- Annually, each region will provide **exam staff**<sup>2</sup> a memo requesting they identify credit unions in their respective groups and districts that would benefit from this program.
  - Current NCUA priorities and areas of emphasis, such as succession planning, net worth restoration planning, mentoring, and field-of-membership expansions will be noted as priority considerations for support.
  - The memo will require supervisors to provide a list of recommended credit unions to their respective ARD, using the [Support Program Budget and Tracking Workbook](#).

### Exam Staff Responsibilities:

- After consulting with their staff, supervisors will provide a list of credit unions to their respective ARD using the [Support Program Budget and Tracking Workbook](#), identifying both the estimated hours and the anticipated review areas for each credit union.

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<sup>1</sup>Minority Depository Institution

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

- If a FISCU needs support, the supervisor should coordinate with the state supervisory authority before recommending the FISCU to the ARD to confirm the state has no concern with NCUA providing assistance.

## ARD Responsibilities:

- ARDs will work with supervisors to finalize the list of credit unions participating in the support program and budget the hours accordingly.
  - When allocating hours, ARDs must consider the credit union's overall risk profile, the areas with which the credit union needs assistance, and current priorities for support. For example, one credit union may be allocated eight hours to review strategic planning and training resources, while another credit union may be allocated 40 hours to assist in a more substantive or technical areas, such as accounting and compliance training.
  - Each region should consider retaining a small pool of hours to be allocated during the year as new needs arise or changes occur at the credit unions where this support is being offered.
- Provide the [Support Program Budget and Tracking Workbook](#) listing the identified credit unions, whether they are an MDI per the credit union's CUOnline profile, budgeted hours, and areas of review monthly to the region's **DOS**<sup>1</sup> (DOS Mail) to support reporting and monitoring of the program.

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*Last updated October 26, 2022*

## Documentation, Reporting, and Monitoring

Assistance can be provided as a standalone contact or in conjunction with an existing exam or supervision contact. The assistance will be documented in the [Support Program Completion Form](#), which captures information on the credit union receiving assistance, the types of assistance provided, whether the credit union is an **MDI**<sup>2</sup>, and the time spent. There is no **MERIT**<sup>3</sup> contact required. Each region's **DOS**<sup>4</sup> will be responsible for reviewing and aggregating the form data and ensuring the hours are accurately captured and recorded for reporting and monitoring purposes.

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<sup>1</sup>Division of Supervision

<sup>2</sup>Minority Depository Institution

<sup>3</sup>Modern Examination and Risk Identification Tool, the examination platform

<sup>4</sup>Division of Supervision

## Exam Staff Responsibilities

- Examiners will charge the time spent providing Support Program assistance to **WCC**<sup>1</sup> 2 –Credit Union Consulting.
- Examiners will complete and forward the [Support Program Completion Form](#) to their supervisor, who will review and forward it to DOS Mail for reporting and monitoring purposes.

## DOS Responsibilities

- When a Support Program Completion Form is received, DOS will ensure it is complete, that it accurately represents the type of credit union assistance provided for reporting purposes, and that the assistance provided appropriately aligns with the program objectives. If corrections or follow-up are necessary, DOS staff will coordinate updates with the supervisor.
- DOS will enter the Support Program Completion Form data into the [Support Program Budget and Tracking Workbook](#).
- Quarterly, DOS staff will seek feedback from **exam staff**<sup>2</sup> on potential program improvements or training needs. DOS will review and include recommendations for enhancement in the annual summary report discussed below.
- At least quarterly, DOS will prepare reporting for regional management and supervisors to help ensure the region is on track to meet the annual support program hours goals allocated to MDIs and non-MDIs combined as outlined in the NCUA's [Annual Performance Plan](#). Reporting will compare the hours documented on the Support Program Completion Forms to the Support Program recipients previously provided by the ARDs for that year. The Support Program Budget and Tracking Workbook provides the functionality to track the percentage of hours used year-to-date as compared to budgeted hours and total program hours.
- Each region will provide an annual summary report to **E&I**<sup>3</sup>, with a copy to **CURE**<sup>4</sup>, by February 15 of the following year, and will include the completed Support Program Budget and Tracking Workbook.

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<sup>1</sup>Work Classification Code

<sup>2</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>3</sup>Office of Examination and Insurance

<sup>4</sup>NCUA's Office of Credit Union Resources and Expansion

## E&I Responsibilities

- E&I will monitor national trends and program completion through the annual reporting provided by the regions.

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*Last updated October 30, 2023*

## Small Credit Union and Minority Depository Institution Support Program Framework Templates

- [Email Script to Credit Unions and List of Assistance](#)
- [Considerations for Providing Support](#)
- [Support Program Budget and Tracking Workbook](#)
- [Support Program Completion Form](#)

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*Last updated October 26, 2022*

# Unauthorized Access to Member Information

[Part 748, Appendix B](#), of the NCUA's regulations requires a credit union to notify the appropriate NCUA Regional Director as soon as possible when it becomes aware of an incident involving unauthorized access to, or use of, sensitive member information. The rule and guidance accompanying the rule call for credit unions to conduct a risk-based evaluation of security breaches, but do not require notice to the NCUA in every instance. NCUA Legal Opinion Letter 06-0332, [Re: Components of Security Response Program](#), clarifies that credit unions are not required to notify the NCUA if an incident of unauthorized access to member information involves little or no likelihood of harm to the member. FISCUs must also notify the applicable SSA in the event of an incident.

The NCUA reviews notifications received from credit unions to ensure the agency has direct knowledge of any potential issues, and can follow-up (onsite or offsite) on matters appropriately. The procedures in the NSPM provide a framework for assessing the effectiveness of a credit union's response plan and ensuring supervision plans are commensurate with the risk.

**Member information**<sup>1</sup> is defined in [Appendix A of part 748](#), and means any record containing nonpublic personal information about a member, whether in paper, electronic, or other form, maintained by or on behalf of a credit union.

*Sensitive member information* means a member's name, address, or telephone number, in conjunction with the member's social security number, driver's license number, account number, credit or debit card number, or a personal identification number or password that would permit access to the member's account. Sensitive member information also includes any combination of components of member information that would allow someone to log onto or access the member's account, such as user name and password or password and account number.

This section of the NSPM includes the following information:

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<sup>1</sup>Any record containing nonpublic personal information about a member, whether in paper, electronic, or other form, maintained by or on behalf of a credit union. Defined in Appendix A of part 748 of NCUA regulations.

- [Roles and responsibilities](#)
- [Process notifications](#)
- [Assess response plan effectiveness](#)
- [Ensure supervision plans are commensurate with risk](#)

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*Last updated September 15, 2017*

## Roles and Responsibilities

### Exam Staff

- Review notifications forwarded by **DOS**<sup>1</sup>
- Discuss the incident, the credit union's corrective actions, and other relevant factors with the assigned supervisor to [assess the appropriateness of supervision plans](#)
- Coordinate mutually agreeable supervision plans with DOS and the ARDP (or ARDO, for Special Actions cases) if warranted
- Execute supervision plans
- If a 60 day follow-up is warranted, document the results of the review in the [Regional Summary](#), draft the [closing letter](#), and forward to DOS within 60 days of the original notification date
- For FISCUs, collaborate with the SSA in the assessment of the incident and any changes to supervision plans as warranted

Coordination with the SSA will vary, as it depends on the working arrangement with each SSA. For example, some SSAs may review all incidents jointly with the NCUA, while others may defer to the NCUA's review. After consulting with the SSA, the NCUA may defer follow-up to the SSA, and adjust supervision plans to review the results of the SSA's contact. However, there may be instances when the SSA has agreed to review an incident, but the NCUA has determined that the complexity of the situation warrants the participation of an NCUA specialist. Overall, the SE is responsible for initial coordination with the SSA on supervision plans.

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<sup>1</sup>Division of Supervision

## Regional Division of Supervision

- Review notifications and record them in the appropriate regional tracking system
  - Forward any FISCU notification to the applicable SSA as soon as possible, if the SSA has not already been notified by the credit union
- Forward notifications to the assigned **exam staff**<sup>1</sup> as soon as possible, generally within five business days
- Recommend changes to supervision plans as warranted
- Coordinate with the assigned supervisor to arrive at an agreed upon approach
  - See [Ensure Supervision Plans are Commensurate with Risk](#) for guidance.
  - DOS may use the optional [IT Incident Checklist](#) to coordinate supervision plans with the field.
- Draft an [acknowledgement letter](#) to the credit union no later than 30 days from receipt of a notification
  - Letter should coincide with the agreed-upon supervision plans
  - DOS will copy assigned exam staff should when the letter is distributed
- If a 60 day follow-up is warranted (for example, if the scope of a breach is unknown, systems remain compromised, members have not been notified, or appropriate corrective actions have not been taken or planned), DOS will:
  - Draft a [work assignment](#) to the field
  - Review the field's completed [Regional Summary](#) and document a final recommendation in the approval portion of the document
  - Process the [closing letter](#) to the credit union no later than 14 days

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

from receipt of the Regional Summary, and copy assigned exam staff when the correspondence is distributed

- Post copies of all original notifications, Regional Summaries, and response letters to the [E&I SharePoint Post Office](#) as documents are finalized

## E&I

- Maintain a log of reported instances of unauthorized access to sensitive member information

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*Last updated September 15, 2017*

## Process Notifications

In practice, the timing and content of notifications of unauthorized access to member information will vary. Some may be provided when a credit union begins its investigation, while others may be provided after a credit union has completed its investigation and has taken corrective actions.

In general, credit unions will send a notification directly to the regional office. However, if **exam staff**<sup>1</sup> are notified of an incident not otherwise reported by a credit union, they should immediately notify their supervisor and determine whether the notification warrants being forwarded to the regional office. Any notifications of unauthorized access to member information received pursuant to NCUA regulation part 748, [Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts and Bank Secrecy Act Compliance](#), should be forwarded to **DOS**<sup>2</sup> for processing.

If the NCUA determines that a credit union has not reported an incident (for example, if the field becomes aware of a media article regarding a breach), the [acknowledgment letter](#) sent to the credit union will include commentary on reviewing the credit union's information security program and [Gramm-Leach-Bliley Act](#) compliance at the next examination.

Once a notification is received, DOS is responsible for coordinating with exam staff to [assess the effectiveness of a credit union's response plan](#) and for [ensuring supervision plans are commensurate with risk](#).

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*Last updated September 15, 2017*

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>Division of Supervision



## Assess Response Plan Effectiveness

When assessing a credit union's response plan and any recommended changes to supervision plans, staff should consider the inherent risk of the compromised information, as well as any corrective actions the credit union has taken.

A notification received at the start of a credit union's investigation may not contain much information other than the credit union's discovery of a breach that could negatively impact members. If a notification indicates there is risk of potential harm to a member, but provides little additional information, **exam staff**<sup>1</sup> should recommend altering supervision plans to promptly follow-up on the issue.

If a notification is received after the credit union has concluded its investigation and implemented corrective actions, a more comprehensive assessment of the credit union's response plan may be possible, and may result in fewer changes to supervision plans.

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*Last updated September 15, 2017*

## Ensure Supervision Plans are Commensurate with Risk

Supervision plans must be commensurate with risk, and will vary based on the circumstances surrounding an incident. The materiality of unauthorized access to member information is based on the risk to members rather than the risk to the **NCUSIF**<sup>2</sup>. The urgency and scope of the field's follow-up will coincide with the risk of potential harm to the members affected by a compromise.

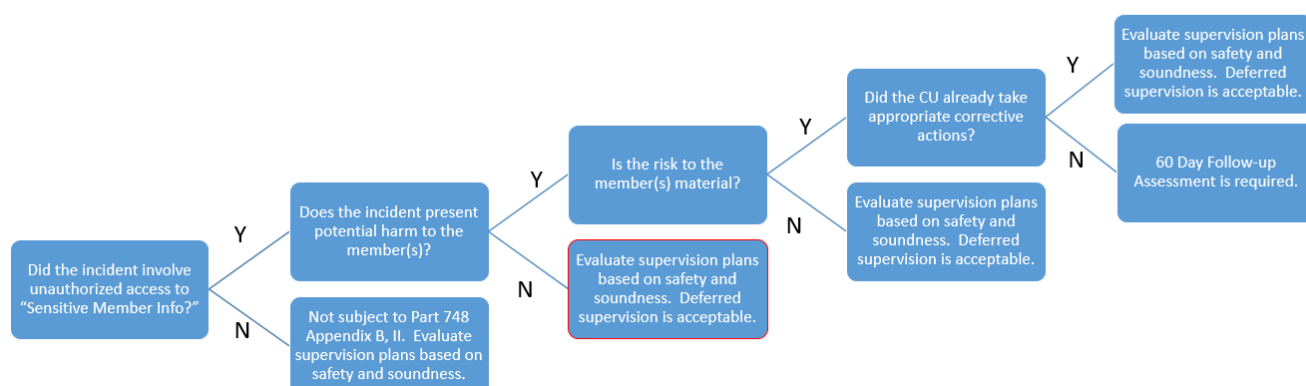
To help determine if supervision are commensurate with risk, **exam staff**<sup>3</sup> should refer to the following decision tree:

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<sup>1</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

<sup>2</sup>The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

<sup>3</sup>"exam staff" includes district examiners, problem case officers, national credit union examiners, and specialized examiners.



If a notification indicates there has been unauthorized access to sensitive member information and appropriate corrective actions have not been executed or planned, exam staff must alter supervision plans to conduct a follow-up assessment within 60 days and report the results of the review to the regional office.

When evaluating supervision plans based on safety and soundness, if the risk to a credit union is deemed material, more immediate supervision must be scheduled. This is the case even if a credit union has outlined plans to respond to the incident. If the risk is not material from a safety and soundness perspective, follow-up may be deferred to a later date such as the next scheduled examination or supervision contact (onsite or offsite).

**DOS**<sup>1</sup> will recommend changes to supervision plans based on the information provided in a notification. DOS should consult with specialists, such as RISOs, for assistance on complex matters as needed.

Exam staff will further assess the effectiveness of the credit union's response plan in relation to the risk of potential harm to the members, and DOS's recommended supervision plans. Exam staff should also utilize specialist assistance on complex matters as needed, following regional procedures accordingly.

Ultimately, DOS and exam staff should come to an agreement on what constitutes appropriate supervision plans after a notification is received. In the event that DOS and exam staff do not agree on supervision plans, DOS will escalate the matter to the ARDP (or ARDO for Special Actions cases), who will evaluate the appropriateness and timeliness of supervision plans. Each region will also establish monitoring procedures for completion of 60 day follow-up

<sup>1</sup>Division of Supervision

reviews and any timeframe extensions granted by the ARDP on an exception basis.

Given the nature of the incident, the member notification, and the corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact.

**Example:** A notification indicates there was an incident involving unauthorized access to sensitive member information, and the credit union is in the preliminary stages of a forensic audit to identify the extent of the breach. It is unclear how many members may have been affected.

Supervision plans should be adjusted to actively monitor the situation, and ensure the credit union takes appropriate corrective actions including notifications to affected members. Field follow-up should be completed within 60 days, and the results reported to the regional office.

**Example:** A notification indicates an ATM skimmer compromised the plastic cards used at an ATM over the weekend. The credit union has made any members who reported fraudulent transactions whole, notified all affected members of the incident, and plans to close and reissue the affected cards. Until then, enhanced transaction monitoring is already in place.

Given the nature of the incident, the member notification, and the corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact. However, review of the credit union's controls over ATM security, including routine physical inspections, may also be recommended for consideration either via offsite contact or at the next scheduled exam or contact.

**Example:** A notification indicates an employee accidentally emailed an auto insurance policy with sensitive member information to the wrong email address. The notification also describes the corrective actions taken including formal notification to the members, additional training for credit union personnel, and providing the affected members with an identity theft protection product.

Given the nature of the incident, the member notification, and the corrective actions taken, no changes to supervision plans appear warranted.

**Example:** A notification indicates the credit union's card processor informed them that cards used at a national retailer may have been compromised. The credit union's notification also references national media coverage of the retailer's public announcement on the matter. The credit union notified all members of the incident via their website, and plans to close and reissue the

affected cards. Until then, enhanced transaction monitoring is already in place. Given the nature of the incident, the member notification, and the corrective actions planned, field follow-up may be deferred until the next scheduled exam or contact.

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*Last updated September 15, 2017*

## **Unauthorized Access to Member Information Templates**

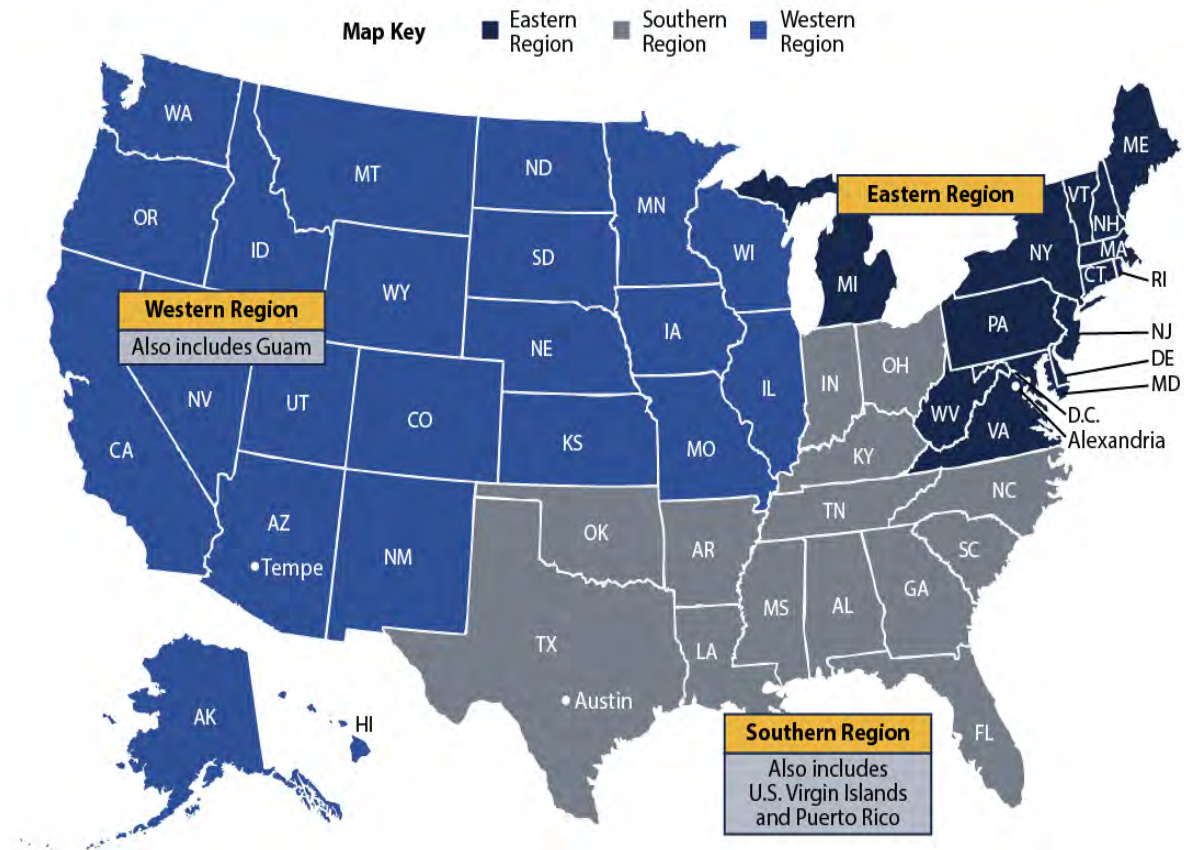
- Acknowledge Notification of Unauthorized Access to Member Data
- Regional Summary for Unauthorized Access to Member Data
- Respond to Notification of Unauthorized Access to Member Data (sample)
- IT Incident Checklist (sample)
- Acknowledge Letter for Deferred Follow-up (sample)
- Acknowledge Letter for 60 Day Follow-up (sample)
- Work Assignment Memo for 60 Day Follow-up (sample)
- Closing Letter (sample)

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*Last updated September 15, 2017*

# Regional Office Map

NCUA Regional Structure as of January 2023



*Last updated February 2, 2023*

# Glossary

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## A

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### **A example**

Example definition

### **Administrative record**

The administrative record is the total collection of information needed for decision-making purposes. It must present a complete, factual, and fully documented history of a credit union's problems. It should also clearly document the efforts taken (or not taken) by both the credit union officials and the NCUA to resolve those problems. Examiners will ensure the administrative record documents their concerns about a credit union. Examiners must compile the administrative record through AIREs workpapers, examination/supervision contact reports or other written communications to credit union officials.

### **AFS**

Available for Sale

### **ALCO**

Asset/Liability Committee

### **ALM**

Asset/Liability Management

### **AMAC**

Asset Management Assistance Center

### **AML**

Anti-money laundering

### **ARDO(s)**

Associate Regional Director of Operations; Associate Regional Directors of Operations

### **ARDP(s)**

Associate Regional Director of Programs; Associate REgional Directors of Programs

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**AUSP**

Agreed Upon Supervision Plan

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**B**

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**BAM(s)**

Board Action Memorandum; Board Action Memoranda

**BSA**

Bank Secrecy Act

**BSA-S**

Significant BSA violation

**Business day**

Throughout the NSPM, a “business day” is defined as any day in which normal business is conducted. Business days generally exclude weekends and federal holidays.

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**C**

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**C&D**

Cease and desist

**CAMELS**

CAMELS is a rating system to evaluate the soundness of credit unions. The letters stand for: Capital Adequacy Asset Quality Management Earnings Liquidity Sensitivity to Market Risk

**CBA**

Collective Bargaining Agreement between NCUA and the National Treasury Employees Union.

**CCPO**

Division of Consumer Compliance Policy and Outreach in the NCUA's Office of Consumer Financial Protection

**CCULR**

Complex Credit Union Leverage Ratio

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**CCV(s)**

Consumer Compliance Violations

**CDD**

Customer due diligence

**CEO**

Chief Executive Officer

**CFE**

Certified Fraud Examiner

**CFO**

Chief Financial Officer

**CFPB**

Consumer Financial Protection Bureau

**CFR**

Code of Federal Regulations

**CFT**

Countering the financing of terrorism

**CICURS**

Cyber Incidents for Credit Unions Reporting System

**CINR**

Cyber Incident Notification Requirements for Federally Insured Credit Unions

**CIP**

Customer identification program

**CMIR(s)**

Report(s) of International Transportation of Currency or Monetary Instruments

**CMP(s)**

Civil money penalty; civil money penalties



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**CMS**

National Capital Markets Specialist(s)

**COO**

Chief Operations Officer

**CRP**

Capital Restoration Plan

**CTR(s)**

Currency Transaction Report(s)

**CU(s)**

Credit union(s)

**CURE**

NCUA's Office of Credit Union Resources and Expansion

**CUSO(s)**

Credit union service organization(s)

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**D****D example**

Example definition

**DCM**

Division of Capital Markets

**DDOS**

Director of the Division of Supervision. Regions may interchangeably use the deputy DOS director in the DOS director role at their discretion.

**DE(s)**

District Examiner(s)

**DOEP**

Designation of Exempt Person

**DOI**

Division of Insurance

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**DOJ**

U.S. Department of Justice

**DOR(s)**

Document(s) of Resolution

**DOS**

Division of Supervision

**DSA**

Division of Special Actions, discretionary supervisory actions, or Director of Special Actions

**DSCR(s)**

Documented Secondary CAMELS Review(s)

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**E****E&I**

Office of Examination and Insurance

**EBA**

Excess Balance Account

**ED**

Executive Director

**EDS(s)**

Economic Development Specialist(s)

**EEO**

Equal Employment Opportunity

**EIC(s)**

Examiner(s)-in-charge

**ESG**

Exam Steering Group

**ETW(s)**

Earnings Transfer Waiver(s)

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**exam staff**

“exam staff” includes district examiners, problem case officers, national credit union examiners, and specialized examiners.

**Examiner(s)**

Throughout the NSPM, the term “examiner” includes district and principal examiners, problem case officers, national field examiners and specialized examiners.

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**F****FBAR(s)**

Report(s) of Foreign Bank and Financial Accounts

**FCU(s)**

Federal credit union(s)

**FCUA**

Federal Credit Union Act

**FDIC**

Federal Deposit Insurance Corporation

**FFIEC**

Federal Financial Institutions Examination Council

**FHA/VA**

Federal Housing Administration / Veterans Administration

**FHFA**

Federal Housing Finance Agency

**FHLBank**

Federal Home Loan Bank

**FICU(s)**

Federally insured credit union(s)

**Field office**

"Field office" is synonymous with “regional office,” and includes the Office of National Examinations and Supervision (ONES).

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**Field supervisor**

“Field supervisor” includes supervisory examiners, national field supervisors, and directors of special actions.

**FinCEN**

Financial Crimes Enforcement Network. FinCEN is a bureau of the U.S. Department of the Treasury, and the primary administrator of the BSA. FinCEN’s mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

**FISCU(s)**

Federally insured, state-chartered credit union(s)

**FOIA**

Freedom of Information Act

**FOM**

Field of Membership

**FPR(s)**

Financial Performance Report(s)

**FRB**

Federal Reserve Bank

**FTC**

Federal Trade Commission

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**G****GAAP**

Generally Accepted Accounting Principles

**GAAS**

Generally accepted auditing standards

**GAO**

U.S. Government Accountability Office

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**GLBA**

Gramm-Leach-Bliley Act

**GLOC**

guaranteed line of credit

**GTO; GTOs**

Geographic Targeting Order(s)

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**H****HRP**

High-risk pipeline

**HTM**

Held to Maturity

**HUD**

U.S. Department of Housing and Urban Development

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**I****IAP(s)**

Investment action plan(s)

**IDP(s)**

Individual Development Plan(s)

**IRPS(s)**

Interpretive Ruling(s) and Policy Statements are issued by the NCUA's Office of General Counsel.

**IRR**

Interest rate risk

**IRS**

Internal Revenue Service

**ISM**

Issues Management in MERIT

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**ISO(s)**

Information System Officer(s)

**ISP**

Information Security Program

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**L****L example**

Example definition

**LCRE**

Loan Concentration Risk Evaluation

**LCRO**

Loan Concentration Risk Outlier

**LICU(s)**

Low-income credit union(s)

**LTV**

Loan-to-value

**LUA(s)**

Letter(s) of understanding and agreement

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**M****MARS**

Management Automated Resource System

**MBL(s)**

Member Business Loan(s)

**MDI**

Minority Depository Institution

**Member information**

Any record containing nonpublic personal information about a member, whether in paper, electronic, or other form, maintained by or on behalf

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of a credit union. Defined in Appendix A of part 748 of NCUA regulations.

**MERIT**

Modern Examination and Risk Identification Tool, the examination platform

**MIS**

Management Information System

**ML/TF**

Money laundering and terrorist financing

**MLR**

Material Loss Review

**MOU(s)**

Memorandum of Understanding; Memorandum of Understandings

**N**

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**NBSAO(s)**

National Bank Secrecy Act Officer(s)

**NCUSIF**

The National Credit Union Share Insurance Fund is also referred to as the share insurance fund.

**NEC**

National Examination Committee

**New credit union**

For PCA purposes, a new credit union is one which has been in operation for less than 10 years and has total assets of not more than \$10 million.

**NFICU(s)**

Non-federally insured credit union(s)

**NFS**

National Field Supervisor

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**NISO(s)**

National Information Systems Officer(s)

**NLA**

No longer applicable

**NLS**

National Lending Specialist(s)

**NPCU**

Natural person credit union

**NPSO(s)**

National Payment Systems Officer(s)

**NSA**

National Supervision Analyst

**NSCUP**

National Small Credit Union Program

**NWR**

Net worth ratio

**NWRP(s)**

Net Worth Restoration Plan(s)

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**O**

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**OCA**

Other corrective action

**OCC**

Office of the Comptroller of the Currency

**OCFP**

The NCUA's Office of Consumer Financial Protection

**OCIO**

The NCUA's Office of the Chief Information Officer



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**OEAC**

The NCUA's Office of External Affairs and Communications

**OGC**

The NCUA's Office of General Counsel

**OIG**

The NCUA's Office of the Inspector General

**ONES**

The NCUA's Office of National Examinations and Supervision. The term "Regional Director" includes the ONES Director and "associate Regional Director" includes the ONES Deputy Director.

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**P****PASS**

Payment Analysis and Screening System

**PCA(s)**

Prompt Corrective Action(s)

**PCO(s)**

Problem Case Officer(s)

**PE(s)**

Principal Examiner(s)

**PII**

Personally identifiable information

**PRA**

Public Records Act

**PSR**

Pre-release secondary review

**PUED**

prior undivided earnings deficit

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**PWL(s)**

Preliminary Warning Letter(s)

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**Q**

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**QA**

Quality assurance; the continuous process of verifying whether supervisory and oversight activities meet the NCUA's established requirements

**QCR forms**

Tools designed to identify risks to the NCUSIF, evaluate whether an individual examination or supervision contact report meets national standards, and provide a written assessment of that report.

**QCR(s)**

Quality control review(s); actions taken on items or activities to verify adherence to specified requirements. The QCR element is generally included as a segment of QA.

**QMR+**

Quarterly Management Report Plus

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**R**

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**RADAR**

Risk Assessment and Data Analytics Rating

**RATE**

Risk Analysis and Trending Evaluation

**RATE form**

Risk Analysis Trending and Evaluation form, a tool used to document quarterly risk reviews of natural person credit unions.

**RBC**

Risk-Based Capital

**RBNW**

Risk-based net worth

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**RBP(s)**

Revised Business Plan(s)

**RBSO(s)**

Regional Bank Secrecy Act Officer(s)

**RCCS**

Regional Consumer Compliance Specialist(s)

**RCMS**

Regional Capital Markets Specialist(s)

**RD(s)**

Regional Director(s). This also includes the ONES Director unless otherwise specified.

**RDL(s)**

Regional Director letter(s)

**Regional office**

"Regional offices" includes ONES (unless otherwise specified)

**Regions**

"Regions" includes ONES (unless otherwise specified)

**REPS**

Regional Electronic Payments Specialist(s)

**RIC**

Recordkeeping/internal control

**RISO**

Regional Information Systems Officer

**RLS**

Regional Lending Specialist

**RO(s)**

NCUA regional office(s)

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**S**

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**SAR(s)**

Suspicious Activity Report(s)

**SATEX**

An Excel workbook consisting of a series of linked spreadsheets. The name is an acronym for "Special Actions Trends Expanded." SATEX spreadsheets are used to capture data from a credit union's monthly financial statements and provide a tool for monitoring and analyzing financial trends. Only the data necessary to track a credit union's performance and problem areas should be entered in SATEX.

**SC**

Supervisory Committee

**SCR**

Secondary Capital Redemption

**SCUEP**

Small Credit Union Examination Program

**SCUP**

Small Credit Union Program

**SE(s)**

Supervisory examiner(s). Replace "SE" with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

**SEC**

Securities and Exchange Commission

**Share insurance fund**

National Credit Union Share Insurance Fund

**SIA**

Special Insuring Agreement

**SME(s)**

Subject Matter Examiner(s)

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**SSA(s)**

State Supervisory Authority/Authorities

**SSR form**

State supervisory review form, a tool designed to document district examiner review of examination reports submitted by examiners employed by SSAs.

**Supervisor**

Throughout the NSPM, the term “supervisor” includes supervisory examiners, national field supervisors and directors of special actions. This term typically refers to DSAs, SEs, and national field supervisors. The abbreviation "SE" appears on many templates provided in the NSPM. Replace “SE” with the appropriate term if you have another kind of supervisor (for example, DSA, etc.).

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**U****USA PATRIOT Act**

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism

**USC**

United States Code

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**W****WCC**

Work Classification Code