



DCU BULLETIN

Division of Credit Unions

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Strategic Initiatives and Exam Focus for 2020

This Bulletin lists the Division of Credit Unions (Division) strategic initiatives and its examination focus for 2020.

Strategic Initiatives for 2020

The Division's four main strategic initiatives and objectives for 2020 are:

- 1. Successfully Implement the Restructure of the Division** – In 2019, Division management evaluated the Division's organization structure. The Division Director decided to change the organizational structure to make the examination unit more team oriented and to expand our IT security exams. There will be four examination teams. One team will be devoted to performing specialty exams, while the other three teams will perform safety and soundness exams. The safety and soundness teams will have four examiners and one supervisor. The teams will primarily work together; however, team members may occasionally work on another team's assigned credit union exams. The specialty exam team will perform mainly IT security and compliance exams. The organization changes became effective January 1, 2020.
- 2. Perform More Offsite Exam Work** – Division examiners will have increased flexibility to do more examination work remotely in 2020. The benefits of increased remote work are:
 - Reducing the onsite examination impact at credit unions;
 - Creating a better work life balance for examiners by reducing travel;
 - Increasing examiner productivity by reducing travel time; and
 - Reducing travel costs.

We are exploring an "opt in" to make sure remote work also meets the credit union's needs.

- 3. Successfully Implement Using the New NCUA MERIT Exam Software Program** – MERIT (Modern Examination and Risk Identification Tool) will replace AIRES (Automated Integrated Regulatory Exam System). Division examiners have been

extensively involved in testing MERIT, and Division management and examiners are looking forward to using MERIT on all credit union exams starting in mid-September 2020. MERIT will be a significant upgrade from AIRES. It is a highly integrated exam software program with enhanced analysis and evaluation tools.

4. **Reconfigure How IT Security Exams are Performed** – In 2020, the Division will evaluate how to enhance and reconfigure its IT security exam program. Specifically, the Division will evaluate whether to use the InTREx (Information Technology Risk Examination) software program as the platform for its IT security exams. The Division believes using InTREx would create efficiencies and add more robustness to its IT security exams. The FDIC and the DFI Division of Banks currently use the InTREx program. NCUA will pilot test using the InTREx program in 2020.

Exam Focus for 2020

The Division's examination focus for 2020 is similar to its 2019 exam focus. The following changes were made for 2020:

- Business Continuity/Disaster Recovery Testing was added; and
- Internal Controls & Fraud Prevention and Interest Rate Risk were removed.

The Division's 2020 exam focus areas are:

1. Cybersecurity

Cybersecurity risks represent a significant concern for all financial institutions. The Division will continue to perform onsite IT security exams during most safety and soundness exams. During 2020, IT examiners will:

- Continue to encourage credit unions to complete the FFIEC Cybersecurity self-assessment tool, the NCUA Automated Cybersecurity Assessment Tool (ACET), or use a similar type of tool to help the credit union assess its cybersecurity preparedness;
- Review the cybersecurity self-assessment work completed by each credit union; and
- Provide guidance to help address potential cybersecurity vulnerability gaps.

It is important that credit union management, including the board of directors, continue to evaluate all cybersecurity risk management practices.

2. Consumer Protection Law Compliance

The Division's compliance examination objectives are to ensure credit unions comply with the consumer protection laws, and to assist credit unions in identifying compliance problem areas and taking appropriate corrective actions. Examiners will focus on the following compliance areas during exams:

- Member Consumer Complaint Processing - Credit unions should have clearly defined procedures for processing member complaints, including complaints pertaining to third party service providers, such as loan servicers. The board of

directors and senior management should receive periodic reports showing the following:

- ✓ The volume and types of complaints received;
 - ✓ The channels in which complaints are received (e.g. social media, email, in person);
 - ✓ The reimbursements paid for potential violations of consumer protection laws; and
 - ✓ Any identified trends.
- Bank Secrecy Act – Credit unions should timely file Suspicious Activity Reports (SARs) when credit unions have knowledge that members are victims of, or are complicit in, fraud schemes, including elder financial exploitation. See the December 4, 2019 FinCEN [press release](#). Additionally, credit unions must ensure adequate processes are in place to monitor and review accounts identified as high-risk accounts.
 - Regulation E (Electronic Funds Transfer Act) – Credit unions must ensure that card disputes (errors and fraud) are processed in accordance with the Regulation E requirements and in accordance with the credit union’s policies and procedures. Additionally timely, good faith investigations must be performed.
 - Regulation CC - Credit unions should update their procedures and core system settings to be in compliance with 12 CFR 229.11. The changes will be effective on July 1, 2020. Specifically, the Reg CC amendments increase the next-day funds availability amount to \$225, change the new account large deposit amounts to \$5,525, and make other changes.
 - Equal Credit Opportunity Act – Credit unions must ensure adverse action notices are timely issued and denial reasons are accurate. Additionally, credit unions should ensure their procedures for incomplete loan applications are in accordance with the Regulation B requirements.

3. Liquidity

Liquidity remains on the 2020 exam focus list because many credit unions continue to operate at low liquidity levels, as evidenced by their cash plus short-term investments to total assets ratio. Because of this, examiners will continue to expand their liquidity analysis on credit unions with low cash plus short-term investment ratios to ensure they have well run liquidity management programs and adequate contingent funding sources to satisfactorily address liquidity fluctuations when they may arise. It is also important that credit unions comply with the liquidity and funding plan requirements listed in [12 CFR 741.12](#).

4. Business Continuity/Disaster Recovery Testing

Division IT security examiners will more closely examine credit unions’ Business Continuity Plans (BCP) and Disaster Recovery programs with particular emphasis on the testing done to ensure the credit union can restore all vital programs, systems, and operations in the event of a substantive disaster. IT security examiners will also focus on vendor management as it relates to business continuity and disaster recovery testing, because credit unions are highly dependent on vendors for much of their operational functionality.

Conclusion

2020 is an important year strategically for the Division. The four main strategic initiatives listed in this bulletin will make the Division more effective and efficient.

Your credit union's exam focus may vary from these areas because examiners risk focus examinations to better address a credit union's safety and soundness and regulatory concerns.

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