Audit Link Advisor

Reg. DD...and a Happy New Year to You, Too!

Special Guest Author: Barb Cooper. VP Professional Services

The Truth-in-Savings regulatory changes, found in the update to the NCUA Regulation 707, seemed relatively easy to understand for this first round. NCUA patterned their changes from the Federal Reserve in most respects, but not all.

A tip from Audit Link's Jim Vilker: Credit unions are required to follow those regulations as published by the NCUA and I would caution those who believe they must try and blend the Federal Reserves Regulation with the NCUA's. It almost never works. Keep your compliance eye on our regulatory body only. Blending these two will only lead to analysis for the sake of analysis.

Breaking It Down

There were two well-defined sections to the upcoming changes. The first describes available balance requirements at points where a member may inquire on their accounts or where available balances are displayed, such as ATM terminals and online banking.

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c) Disclosure of account balances. If
a credit union discloses balance
information to a member through an
automated system, the balance may not
include additional amounts that the
credit union may provide to cover an
item when there are insufficient or
unavailable funds in the member's
account, whether under a service
provided in its discretion, a service
subject to part 226 of this title
(Regulation Z), or a service to
transfer funds from another member
account.  The credit union may, at its
option, disclose additional account
balances that include such additional
amounts, if the credit union
prominently states that any such
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balance includes
such additional
amounts and, if
applicable, that
additional
amounts are not
available for
all
transactions.
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The second section describes changes to the format of member periodic statements related to the fees charged for overdraft and NSF fees ONLY.

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(a) Disclosure
of total fees on
periodic
statements.
(1) General. A
credit union
must separately
disclose on each periodic statement,
as applicable:
    (i) The total dollar amount for all
    fees or charges imposed on the
    account for paying checks or other
    items when there are insufficient
    or unavailable funds and the
    account becomes overdrawn; and
    (ii) The total dollar amount for
    all fees or charges imposed on the
    account for returning items unpaid.
(2) Totals required. The disclosures
required by paragraph (a)(1) of this
section must be provided for the
statement period and for the calendar
year-to-date.
(3) Format requirements. The aggregate
fee disclosures required by paragraph
(a) of this section must be disclosed
in close proximity to fees identified
under § 707.6(a)(3), using a format
substantially similar to Sample Form B
–10 in appendix B.
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Our special guest author...

Barb Cooper VP, Professional Services

Jim Vilker is taking a short break over the holidays so Barb offered to contribute some of her thoughts on the hot topic of day: the amendments to Reg. DD. Barb would love to talk with you!

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Let's take this on one section at a time and try to clear the fog a bit.

Clearing the Fog: Account Balance Disclosures

CU*Answers has already sent an announcement concerning the amendments to Regulation DD on 12/11/09. You can be assured that **It's Me 247** and CU*TALK supported by our CU*Network Partners are already in compliance. Balances displayed on these systems are based on available balances only.

Now, let's talk about ATM switches. The provisions of Regulation DD require that balances provided to cardholders through automated systems (including ATMs) exclude any additional funds available through overdraft protection programs. Or, if the balances provided do include amounts through overdraft protection programs, they must be disclosed as such. Because there is no assurance that all ATM terminals provide this disclosure, you want to understand what balances are submitted to your ATM vendor and how they are using those balances. This will require a conversation with your vendor and an understanding of how your interface works (online versus batch, PBF formats, etc.)

When you have completed your checklists of how balances are displayed at ATM machines (whether through an online platform or through a batch processing positive balance file or PBF), the next step is to make sure your statement disclosures are set up.

Clearing the Fog: Fee Disclosures On Periodic Statements

CU*BASE has supported the NSF and Non-Return Fee disclosure on periodic statements since 2006. Until now, they were only required based on the way credit unions marketed their Overdraft Privilege offerings. Beginning January 1, 2010, it will be required for all credit unions who offer overdraft programs.

There are two steps to print the fee disclosure on your member statements:

1. **Choose Which Activity is Tracked**
   Modify your NSF Configuration (MNCNFA

#9, then #1) to indicate which origin codes will be counted in the fee totals.

2. **Change Statement Print Configuration**
   Contact a Client Service Representative and request the statement print flag be turned on (we need your request in writing). *Self Processors can activate this flag using the Member Statement Config. feature via OPER #10, then #5.*

So will there be a box around the fees? The regulation does not say we must; it simply states the disclosure should be "substantially similar" to the one proposed. The regulation does not even speak to the intent of the box or gridlines. Is the intent to draw attention to the data? Is the intent to make it clear from a member's reading perspective?

Our first inclination is to forget the box altogether and trust we have all invested in displaying the data according to the intent of the regulation. However, this is not the final say, as you will see in the separate "Boxes, boxes..." sidebar in this issue of the *Advisor*.

Remember there are multiple ways a member can view a statement, including a printed format as well as e-Statements. In some cases credit unions may be printing their own statements or using third party statement providers who are not familiar with the upcoming changes. There is also the additional complexity of the new statement flat file format versus the "old" print format that is still used by many third-party print vendors.

Changing print formats might seem simple but it is definitely not. Any change we make to the way a statement appears must be made individually to each and every one of the output formats and delivery channels and viewing applications. So we are reviewing our options and will declare our direction in separate communications during the month of January.

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Boxes, boxes...who has the boxes?

Based on inquiries from several credit unions after a recent CUNA press release, we are currently analyzing the process of modifying all of the different statement formats that would be affected by a change such as putting border lines around the existing fee disclosure table. Remember that as with any change to statements, some credit unions may incur custom programming fees to a third-party vendor in order to also incorporate a similar change.

- Current e-Statements through CoWWW *(until the transition to CU*SPY through eDOC is complete),* which are presented via multiple formats:

  - XML format
  - PDF format
  - HTML/text format

- Printed statements via the existing print file format *(still used by many third-party print vendors as well as self processors who still print their own statements)*

- Printed statements via the new flat file format *(used by Sage Direct)*

- New e-Statements through eDOC *(which will also include multiple formats similar to current e-Statements through CoWWW)*

- CU*CD *(archived e-Statements on CD-ROM)*

As you can see, it is impractical to make a blanket statement that "statements" will be changed—each of these delivery channels and formats must be evaluated separately and a decision made as to which formats will change and which will not. We are contacting all of the involved vendors now, including CoWWW, eDOC, and Sage Direct, to determine options.

The end result might even be a call for an early end to support for the old print file format, forcing all credit unions and their print vendors to move to the flat file processing with all the resulting coordination, timelines, and change fees.

Stay tuned for more updates after the first of the year!

Audit Link Driver…

Jim Vilker

Since joining the credit union industry in 1985, Jim Vilker has held a variety of positions related to compliance and auditing. He launched his career spending five years as an examiner where he gained knowledge and depth of insight into regulations required of credit unions. Jim studied a broad scope of business and operational procedures leading to a deep understanding of best practices pertinent to credit union audit activities.

Over the next eight years Jim was actively involved in the business as Executive Vice President of a credit union. A major component of his responsibilities were auditing and compliance. The software product of choice, serving as the compliance and auditing tool, was the forerunner of the current CU*BASE.

Since joining CU*Answers in 1998, Jim has been the CUSO's resident expert and "go to" person for advice on regulatory compliance and audit functions. His capacity for staying abreast of changes in the regulatory environment are unmatched. His working experience with clients and CU*BASE tools uniquely qualifies him to write and instruct in the monitoring of regulated activities.

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AUDIT LINK STATEMENT OF PURPOSE

Xtend Audit Link takes on the burden of monitoring audited member and staff activities while assisting clients in meeting the current compliance requirements placed on them by regulators and auditors, including BSA, Reg D, OFAC, FIDM, Reg C, employee accounts, and on overall policy review.

Xtend