

# REGULATORY UPDATE: WHAT'S AHEAD IN 2015

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# AGENDA

- 2014 - 15 Significant Letters to Credit Unions
- 2014 Significant Regulatory Changes
- Rules Promulgated by the CFPB
- FFIEC Guidance
- 2014 PCA Risk Based Capital
- Cost of Compliance Contest

# 2014 LETTERS TO CREDIT UNIONS NCUA

Number	Subject	Date	Status
<a href="#"><u>14-CU-06</u></a>	Taxi Medallion Lending	April 2014	Active
<a href="#"><u>14-CU-05</u></a>	Liquidity Requirements Take Effect March 31	March 2014	Active
<a href="#"><u>14-CU-04</u></a>	Derivatives Applications Open March 3	February 2014	Active
<a href="#"><u>14-CU-03</u></a>	Civil Money Penalties to be Assessed for Late Call Report and Profile Submissions in 2014	January 2014	Active
<a href="#"><u>14-CU-02</u></a>	Supervisory Focus for 2014	January 2014	Active
<a href="#"><u>14-CU-01</u></a>	<a href="#"><u>Supervisory Guidance on Qualified and non-Qualified Mortgages</u></a>	January 2014	Active

# 2014 LETTERS TO CREDIT UNIONS NCUA

Number	Subject	Date	Status
<a href="#"><u>14-CU-10</u></a>	<a href="#"><u>Identifying and Mitigating Risks of Money Services Businesses</u></a>	December 2014	Active
<a href="#"><u>14-CU-09</u></a>	Projected 2015 Share Insurance Fund Premium Range	December 2014	Active
<a href="#"><u>14-CU-08</u></a>	<a href="#"><u>Home Equity Lines of Credit Nearing Their End-of-Draw Period</u></a>	July 2014	Active
<a href="#"><u>14-CU-07</u></a>	Contractual Agreements with Credit Union Service Organizations (CUSOs)	June 2014	Active

# 2015 LETTERS TO CREDIT UNIONS NCUA

Number	Subject	Date	Status
<a href="#"><u>15-CU-02</u></a>	Private Student Loans with Graduated Repayment Terms at Loan Origination	January 2015	Active
<a href="#"><u>15-CU-01</u></a>	Supervisory Priorities for 2015	January 2015	Active

# REGULATIONS PROMULGATED 2014 CFPB

## 2015

- **January 20**
- Amendments to the 2013 Integrated Mortgage Disclosures Rule under the Real Estate Settlement Procedures Act (Regulation X) and the Truth In Lending Act (Regulation Z) and the 2013 Loan Originator Rule under the Truth in Lending Act (Regulation Z)

## 2014

- **December 30**
- Appraisals for Higher-Priced Mortgage Loans Exemption Threshold Adjustment-Final Rule
- **December 29**
- Truth in Lending Act (Regulation Z) Adjustment to Asset-Size Exemption Threshold
- Home Mortgage Disclosure (Regulation C) Adjustment to Asset-Size Exemption Threshold
- **October 22**
- Amendments to the 2013 Mortgage Rules under the Truth in Lending Act (Regulation Z)
- **October 20**
- Amendment to the Annual Privacy Notice Requirement Under the Gramm-Leach-Bliley Act (Regulation P)

# REGULATIONS PROMULGATED 2014 CFPB

- **September 12**
- Defining Larger Participants of the International Money Transfer Market
- **September 9**
- Consumer Leasing (Regulation M) – Threshold Adjustments
- Truth in Lending (Regulation Z) – Threshold Adjustments
- **August 22**
- Electronic Fund Transfers (Regulation E)
- **July 9**
- Application of Regulation Z’s Ability-to-Repay Rule to Certain Situations Involving Successors-in-Interest
- **June 19**
- Rules of Practice for Issuance of Temporary Cease-and-Desist Orders
- **February 10**
- Equal Access to Justice Act Implementation Rule

# FFIEC UPDATES

Press Release

December 2, 2014

*For Immediate Release*

## **Financial Regulators Release 2014 Bank Secrecy Act/Anti-Money Laundering Examination Manual**

The Federal Financial Institutions Examination Council (FFIEC) today released the revised Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual. The revisions clarify supervisory expectations and incorporate regulatory changes since the manual's 2010 update. The revisions incorporate feedback from the banking industry and examination staff.

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and State Liaison Committee revised the manual in collaboration with the Financial Crimes Enforcement Network (FinCEN), the administrator of the BSA, and the Office of Foreign Assets Control (OFAC). FinCEN and OFAC collaborated on the revisions made to the sections that address compliance with the regulations and sanctions programs that FinCEN and OFAC administer and enforce.

Revisions were made throughout the manual. The sections of the manual with more significant updates are identified in the table of contents.

The manual is available on the FFIEC BSA/AML InfoBase at: [http://www.ffiiec.gov/bsa\\_aml\\_infobase/default.htm](http://www.ffiiec.gov/bsa_aml_infobase/default.htm). Banking organizations and credit unions should direct questions about the manual to their primary federal or state regulator.



# FFIEC (NAFCU BREAKDOWN)

- **Suspicious Activity Reporting (SAR)** – Incorporated new SAR E-Filing requirements; guidance on the extension of SAR filing for continuing activity; clarification of prohibitions on disclosing a SAR; and guidance on sharing SARs with affiliates.
- **Currency Transaction Reporting (CTR)** – Revised to incorporate new CTR E-Filing requirements and new guidance issued by FinCEN since 2010 related to currency transaction aggregation for businesses and exemptions.
- **Foreign Correspondent Account Recordkeeping** – Included regulations relating to the Comprehensive Iran Sanctions, Accountability, and Divestment Act.
- **Foreign Bank and Financial Accounts (FBAR)** – Incorporated new FBAR filing requirements.
- **International Transportation of Currency or Monetary Instruments Reporting (CMIR)** – Clarified monitoring and reporting obligations under the BSA for international transportation of currency or monetary instruments.
- **Correspondent Accounts (Foreign)** – Included additional guidance in the section on risk mitigation.
- **Bulk Shipments of Currency** – Revised to incorporate FinCEN’s CMIR guidance for common carriers of currency, including armored car services (August 1, 2014), and clarify monitoring and reporting obligations under the BSA.
- **Automated Clearing House Transactions (ACH)** – Incorporated National Automated Clearing House Association (NACHA)-The Electronic Payments Association modifications related to international ACH transactions and further defined third-party service providers.

# FFIEC ON CYBERSECURITY NOVEMBER 2014

## **FFIEC Releases Cybersecurity Assessment Observations, Recommends Participation in Financial Services Information Sharing and Analysis Center**

The Federal Financial Institutions Examination Council (FFIEC), on behalf of its members, today released observations from the recent cybersecurity assessment and recommended regulated financial institutions participate in the Financial Services Information Sharing and Analysis Center (FS-ISAC).

During the summer of 2014, FFIEC members piloted a cybersecurity assessment at more than 500 community institutions to evaluate the institutions' preparedness to mitigate cybersecurity risks. The assessment supplemented regularly scheduled exams and built upon key supervisory expectations contained within existing FFIEC information technology handbooks and other regulatory guidance. The "FFIEC Cybersecurity Assessment General Observations," released today, provides themes from the assessment and suggests questions that chief executive officers and boards of directors may consider when assessing their institutions' cybersecurity preparedness.

The FFIEC also recommended that financial institutions of all sizes participate in the FS-ISAC as part of their process to identify, respond to, and mitigate cybersecurity threats and vulnerabilities. The FS-ISAC is a non-profit, information-sharing forum established by financial services industry participants to facilitate the public and private sectors' sharing of physical and cybersecurity threat and vulnerability information. Rapidly evolving cybersecurity risks reinforce the need for all institutions and their critical technology service providers to have appropriate methods for obtaining, monitoring, sharing, and responding to threat and vulnerability information. Financial institution management is expected to monitor and maintain sufficient awareness of cybersecurity threats and vulnerability information so that they may evaluate risk and respond accordingly.

- **Related Links:**
- [FFIEC Cybersecurity Assessment General Observations \(PDF\)](#)
- [Cybersecurity Threat and Vulnerability Monitoring and Sharing Statement \(PDF\)](#)

# FFIEC MORE ON CYBER SECURITY JUNE 2014

## FFIEC Statements and Alerts Regarding Threats and Vulnerabilities

- November 3, 2014 - Press Release: [FFIEC Releases Cybersecurity Assessment Observations, Recommends Participation in Financial Services Information Sharing and Analysis Center](#)
- September 26, 2014 - Press Release: [State and Federal Regulators: Financial Institutions Should Move Quickly to Address Shellshock Vulnerability](#)
- June 24, 2014 - Press Release: [FFIEC Launches Cybersecurity Web Page and Commences Cybersecurity Assessment](#)
- May 7, 2014 - Press Release: [FFIEC Promotes Cybersecurity Preparedness for Community Financial Institutions](#)
- April 10, 2014 - Press Release: [Financial Regulators Expect Firms to Address OpenSSL "Heartbleed" Vulnerability](#)
- April 2, 2014 - Press Release: [Financial Regulators Release Statements on Cyber-Attacks on Automated Teller Machine and Card Authorization Systems and Distributed Denial of Service Attacks](#)
- October 7, 2013 – [Press Release: Financial Regulators Release Statement on End of Microsoft Support for Windows XP Operating System](#)
- October 2, 2013 – [Press Release: FFIEC Supports National Cybersecurity Awareness Month](#)

## Other Resources

- [Financial Services Information Sharing and Analysis Center](#)
- [FBI Infragard](#)
- [National Credit Union Administration's Cyber Security Resources Page](#)
- [U.S. Computer Emergency Readiness Team](#)
- [U.S. Secret Service Electronic Crimes Task Force \(ECTF\)](#)

# IRR RISK MITIGATION

- First Shot Across the Bow in Early 2012
  - [12 CFR Part 741](#) Interest Rate Risk Policy and Program
    - 741 is the regulation regarding the ongoing insurance of member accounts
- Second Shot Across the Bow in May 2012
  - [12-CU-05](#) Interest Rate Risk Policy and Program Requirements
    - Outlines the examiner checklist
    - Describes how examiners will use the checklist
- Third Shot Across the Bow in August 2012
  - [12-CU-11](#) Interest Rate Risk Policy and Program Frequently Asked Questions
    - Answers the question of “why is this a requirement of my insurance from NCUA perspective”
    - Reiterates responsibilities of Board, Committee’s, and Management
- Fourth
  - [13-CU-01](#) Supervisory Focus for 2013
    - Clearly states that the main focus of the year will be evaluation of interest rate risk and other risks associated with the running of a financial institution

# IRR RISK MITIGATION

- Fifth but not final.....
  - IRR is mentioned in the RBC rule as well

**“Accordingly, the Board is now proposing to exclude consideration of IRR from the risk-based capital ratio measure, but in the future intends to consider alternative approaches for taking into account the IRR at credit unions”.**
- NCUA has added a web page to educate and understand the nuances of what they are expecting every credit union to know and do including:
  - Economic update videos
  - Regulations
  - Letters to credit unions

<http://www.ncua.gov/Resources/Pages/interest-rate-risk-resources.aspx>

***Now let's did into some recent examination discussions***

# LAST WORDS ON INVESTMENT RISK

- This sounds like a lot of work – and it is.
- However, credit union management should not underestimate the NCUA's fear of rising interest rates and the potential impact these increases might have on credit union earnings (and, ultimately, on the Share Insurance Fund).
- Remember, the **NCUA under 741 even has the right to remove your share insurance** if the NCUA has evidence that the federally insured credit union is inadequately managing interest rate risk.
- Your best defense against examiners will be the knowledge you have of your investment portfolio and how it operates, and your written and implemented contingency plans in the event of a rising interest rate environment.

# PROMPT CORRECTIVE ACTION AND RISK BASED NET WORTH

<http://www.ncua.gov/about/Documents/Agenda%20Items/AG20150115Item4b.pdf>

# RISK BASED NET WORTH

The NCUA proposed its revised Risk Based Net Worth Calculations for federally insured credit unions on January 27<sup>th</sup> and it is currently out for comment until April 27<sup>th</sup>.

If this Rule passes, the net effect will be **to increase** the number of credit unions who are subject to **PROMPT CORRECTIVE ACTION** because these financial institutions will **no longer be WELL CAPITALIZED**

*Even if you are well capitalized now, this Rule will serve to restrict your ability to engage in business, and also beware if you have a couple of bad years in a row!*



# “THEY LISTENED TO OUR CONCERNS” REALLY?

- The proposal is almost 450 pages with hundreds addressing comments from prior proposal
- Changes made to the original included
  - Increase asset size the rule applies to from \$50m to \$100m
  - Lowered the well capitalized threshold from 10.5% to 10%
  - Increased time to implementation from 18 months to Jan 1, 2019
  - Included ALLL in the capital with no cap
  - Changed weights on CUSO's, MBL's, Investments, real estate loans and others
  - REMOVED IRR

***And there in lies the tell tale sign of more regulation and supervision revolving around IRR***

# NCUA'S TACTIC TO MAKE RBC2 LAW

- Lull us to sleep and focus on the minutia of the regulation
- However, this regulation cannot pass based upon:
  - The weights are based upon theory and proven problems similar requirements placed on the banking industry
  - It will homogenize our charters and does not consider our individual cooperative principals
  - It is the first time that NCUA board was split on a vote
  - There remains serious legal issues relative to NCUA's right to pass such a law

***Raise your Voice!***

<http://auditlink.cuanswers.com/rbc/>

# COST OF COMPLIANCE CONTEST SO WHO WANTS \$2,500

*“To change the game on compliance costs we must track them to attack them. What if we all got together and decided how to show compliance costs in a P&L statement? What if we paid CUs to help us with the concept and development of accounting methods, changes to income statements, budgets, and reports to move to a new level on compliance cost innovation?”*

- Randy Karnes at 2013 CEO Strategies

<http://auditlink.cuanswers.com/>

Please see your folder for the announcement and contest rules

QUESTIONS??