InfoSight Your Online Compliance Resource
Compliance eNEWSLETTER
powered by the Georgia Credit Union Affiliates

Compliance News

Registration for 2019 Compliance Council Now Open!

The dates and locations are as follows:

April 17, 2019 Atlanta Postal Credit Union 400 Tradeport Blvd Atlanta, GA 30354	August 29, 2019 Georgia United Credit Union 6705 Sugarloaf Parkway Duluth, GA 30097

Not a member? Click here for registration form.

Fee: $150.00 annual dues

Membership includes: *Annual / Per Person dues / Includes two (2) annual Compliance Council Meetings, access to previous meeting handouts and the Compliance Council Community*.

For additional questions please contact compliance@gcua.org.

Week Two Supervisory Priority Highlight: Concentrations of Credit

Concentration risk is defined as any single exposure or group of highly correlated exposures that have the potential to produce losses large enough to threaten a credit union's health or ability to maintain its core operations. In other words, every asset, liability, product, service and third-party provider presents a risk of loss to the credit union under varying conditions or events. Excessive credit concentrations are a common cause of financial losses. Credit union officials and management have a fiduciary responsibility to identify, measure, monitor and control concentration risk. Concentration risk must be managed in conjunction with credit, interest rate and liquidity risks because a negative event in any category may have significant consequences on the other areas, as well as strategic and reputation risks.

Any significant grouping of like or similar asset and/or liabilities can result in a "concentration." Concentrations increase in risk proportional to their size. For example, if your credit union has an evenly distributed groups of assets, then it is more likely that your risks are also evenly distributed. The greater the increase any one of those asset groups, the greater risk you assume for that group.

Where Are Concentrations Found?

Georgia Credit Union Affiliates

InfoSight
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Compliance Video

Compliance Connection Video

In this video, League InfoSight CEO Glory LeDu talks about the highlights from the 4th Quarter of 2018 and the 1st Quarter of 2019.

When S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, passed in 2018 there was a lot to understand! Glory LeDu, League InfoSight CEO, provides Part 1 in this short video to break it down for you.

Compliance videos can be found on YouTube at the Compliance Connection channel, where they are generally updated quarterly.

Compliance Calendar

February 2019

February 18th

- Asset classes (e.g. residential real estate loans, member business loans, automobile loans, loan participations or investments).
- Concentrations within a class of assets. Examples include, but are not limited to:
  - Residential Real Estate Loans - collateral type, lien position, geographic area, non-traditional terms (such as interest-only, payment option, or balloon payment), fixed or variable interest rate, low or reduced underwriting documentation, and loan-to-value (LTV).
  - Member Business Loans (MBLs) - types of loans (e.g. real estate, working capital, and credit cards), collateral type, payment feature (such as interest-only, balloon payments), loan term, geographic area, and LTV.
  - Loan Participations - types of loans (e.g. residential real estate, MBL, and automobile) and the sub-classes associated with the types, originating lender, and geographic area.
  - Loans to one borrower or associated group of borrowers (may include several different types of loans - residential real estate, MBLs, consumer loans, etc.).
  - Investments - types of investments (e.g. Treasury securities, certificates of deposit, and mortgage-backed securities), collateral type, interest rates, issuer (public or private), tranche priority, and broker.
- Liabilities (e.g. rate sensitive share deposits or callable borrowings).
- Third-party providers (e.g. CUSOs, indirect loan partners or mortgage brokerage firms).
- Services provided to other parties (e.g. loan underwriting and/or servicing, insurance services and investment consultation).

Largest Exposures of Risk
Concentration in credit portfolios poses the most risk. Trends in credit union balance sheets reflect increased exposure to concentration risk in areas of their credit portfolios, such as:

- Real estate loans (fixed rates)
- Member business loans
- Loan participations
- Construction and Development (C&D) loans
- Investments in Mortgage-Related Securities

How to Identify and Measure your Risk
To measure and identify concentration risk, perform a risk assessment which demonstrates your understanding of the risk of each product or service, quantifies the potential loss exposure, and documents a rational business decision on the acceptable concentration level based on the analysis. To assist with identifying concentration risk, NCUA has suggested credit unions focus on maintaining comprehensive and accurate data, implementing objective and sensitive risk rating tools, and ensuring periodic and timely reporting.

To measure and monitor concentration risk, evaluate the systems used to store and analyze data. For more complex products, establishing comprehensive data warehousing will allow management to track changes in the quality of their

Presidents Day

Click here for upcoming compliance dates.

Compliance Training

January 29, 2019
Real Estate Loan Collection Rules for Lenders & Mortgage Servicers
3:00 pm - 4:30 pm ET

January 30, 2019
Credit Analysis & Underwriting Series: Analyzing Financial Statements for the Credit Analyst
3:00 pm - 4:30 pm ET

January 31, 2019
Teller Training Series: Frontline Fraud Prevention: Stopping Fraud at the Teller Line

February 5, 2019
Right of Setoff on Deposit Accounts & Loans: Legal Issues
3:00 pm - 4:30 pm ET

February 6, 2019
C-Suite Series: CAMELS Rating for Executives
3:00 pm - 4:30 pm ET

February 7, 2019
ACH Specialist Series: ACH Tax Refund Exceptions, Posting & Liabilities
3:00 pm - 4:30 pm ET

February 12, 2019
Teller Training Series: Risks & Precautions for Endorsements & Other Negotiable Instruments
3:00 pm - 4:30 pm ET

February 13, 2019
Board Reporting Series: Board Secretary Procedural & Compliance Responsibilities
3:00 pm - 4:30 pm ET

February 14, 2019
Prepaid Cards: Your Credit Union's Responsibilities Under the

various lines of business over time. Without an all-inclusive process to maintain and analyze data, the board of directors and senior management will not have the tools necessary to make strategic and operational decisions in a safe and sound manner.

Implementing sound risk management practices is the key to managing concentration risk. The ultimate responsibility for setting the concentration risk level rests with the board of directors. Subsequently, senior management is responsible for maintaining concentration risk within the parameters established by the board. According to NCUA, the board of directors must establish a policy that addresses its philosophy on concentration risk, sets limits commensurate with net worth levels, and provides the rationale as to how the limits fit into the overall strategic plan of the credit union. The parameters set by the board should be specific to each portfolio and should include limits on loan types, share types, third-party relationship exposure, etc.

How to Maintain Comprehensive and Accurate Data
Management must emphasize the importance of maintaining comprehensive and accurate data for each risk area. This includes a quality control function to ensure that data entry and changes are accurate and timely.

The credit union should have a data processing system capable of warehousing data on various lines of business, commensurate with its size and complexity, to properly identify and measure concentration risk.

If you do not have the data processing capability, management should contract with a third party to provide data warehousing and reporting. When using a third-party vendor, expect a review of initial and ongoing due diligence processes.

How to Develop Your Risk Rating System
Developing an effective, accurate, and timely risk rating system is an important tool for managing concentration risk in the loan portfolio. Your risk ratings should be objective, sensitive to changes in borrower and/or loan characteristics and validated via an independent review function. With loan participations, you should assess the loan utilizing your own internal rating system. If there is not an internal rating system, management should not rely on the originating institution's system without completing timely, thorough and ongoing due diligence of that system.

Frequency and Methods of Reporting
Management reporting must be periodic and timely and in a format that clearly indicates changes in concentration risk and is commensurate with the size, complexity and risk exposure of the credit union. The reports should not only measure concentration risk against board approved parameters, but should also measure how the risks change over time. The frequency of reporting should be commensurate with the type and size of the concentration; for example, larger portfolios should have at least quarterly reporting.

How Should Concentration Risk Be Managed?
Concentration risk has a substantial influence on credit, strategic, reputation, interest rate and liquidity risks, as all are closely related. All of these risks impact net worth and must be supported by a net worth level commensurate with the risk in the balance sheet. The board of directors and senior management need to manage all these risk areas simultaneously.

One common flaw when managing risks is to tie each risk independently to net worth, without monitoring the aggregate exposure of different risks to net worth. The result may be excessive reliance on the level of net worth to manage each individual risk. Effective risk management practices would not only include tying the limits of each product or service to net worth, but also consolidating the risks in products and services and measuring the totality of the risks against net worth.

Ultimately, the success or failure of your program is determined by how well it is managed. The process of review for concentration risk is ongoing and requires far-reaching knowledge of all operations and the ability to look beneath the surface to determine areas that are less noticeable.

Third Party Oversight
When working with third parties, due diligence is essential to ensure the risks are properly identified and managed. Examples of third-party services include purchase of participations in loans and underwriting, processing and safekeeping member loans, as well as purchasing or safekeeping investments. Remember, due diligence is an ongoing process. It encompasses the original review at the outset of product or service implementation and should be updated periodically to monitor changes in the vendor's ability to deliver products or services which meet the credit union's expectations.

How to Monitor and Control Concentration Risk
After risk management systems and policies are created, it is essential that monitoring and oversight become routine functions at the senior management level. Ultimately, the board of directors is responsible for oversight and monitoring at a strategic level. Regular formal reporting to the board and senior management on compliance with the concentration and risk limits they establish is expected. Management is also expected to implement appropriate internal controls, including segregation of duties, to ensure accurate reporting on concentration risk.

Compliance and Oversight Expectations
Senior management needs to implement procedures and controls to effectively adhere to and monitor compliance with established policies and strategies. Both the board and management must periodically review information that identifies and measures the level and nature of concentration risk and implement corrective action, should the risk from any one area exceed the board approved tolerance level. Those with large and complex loan or investment programs should establish a specific risk management committee as a sound business practice. The composition of the committee will depend on the size and complexity of the credit union but should be limited to a small number of senior executives and one or more board members. The agenda of this committee should be limited to risk management issues; specifically, concentration risk, credit risk, interest rate risk, liquidity risk and financial performance.

Scenario and Sensitivity Analysis
Routinely perform portfolio-level scenario and sensitivity tests to quantify the impact of changing economic conditions on asset quality, earnings and net worth. In general, scenario analysis uses the model to predict a possible future outcome given an event or a series of events, while sensitivity analysis tests a model's parameters without relating those changes to an underlying event or real-world outcome. The outcome of sensitivity analysis is to determine which assumptions have the most impact on the model's results.

Consider how common risk characteristics associated with changing market conditions impact certain susceptible areas of the portfolio. Examples of common risk characteristics can be by loan type, investment type, collateral type, geographic area, individual or associational groups of borrowers, business lines, etc.

What Can My CU Do, If We Identify Elevated Concentration Risk?
Once concentration risk has been determined, it must be measured or quantified. The first step is to determine how much of your portfolio is dependent on this single concentration. Is it 20 percent, 40 percent or even 60 percent? How volatile is this concentration? You may consider placing more weight on an area that has historically demonstrated higher losses than other areas. This information comes from your internal information system, which means that the value is only as good as the detail and accuracy of your system.

The board of directors and management should have triggers and action plans in writing for any material risk area. If the credit union's monitoring activities identify concerns with a concentration, the board of directors must respond accordingly. Once risk is discovered, management should take corrective action to mitigate that risk. Consider the following:

- Expand the review of the risk environment for the particular sector(s);
- Perform elevated scenario and sensitivity analyses;
- Expand the review of performance of existing borrowers;
- Review growth and limitations for new business lines; and/or
- Review risk mitigation options and timeframes for reduction of risk, if necessary.

For a more in-depth review of concentration risk, click here. To view sample policies please click the links below.

Concentration Risk Policy 1
Concentration Risk Policy 2

Inclement Weather Closing Reminder

We are a little over a month into the winter season. Georgia has not experienced the activity thus far, like we encountered in 2018. However, it is important that your credit union stay aware of weather conditions. State credit unions are reminded to notify the Georgia Department of Banking and Finance (DB&F) if closing the credit union due to inclement weather or an emergency.

Financial institutions have the discretion to close business operations in the event of a natural disaster or other emergency, including situations where an emergency may be imminent. Financial institution offices directly affected by severe weather conditions may close under the conditions set forth in O.C.G.A. § 7-1-111 and Department Rule 80-5-2-.02. All financial institutions are reminded that current regulations provide for management to exercise its own discretion, with notification to the Department, in closing any institution for one business day (renewal for successive days) upon its determination that the safety of customers, employees or assets would be in jeopardy due to civil disorder, fire, acts of God or similar circumstances which render the institution unable to conduct business in a safe and sound manner.

Office closings due to emergency situations should be communicated to the Department as soon as transmission is feasible by telephone, email or fax. Financial institutions should make every effort to reopen as quickly as possible to address the banking needs of their members.

It's Tax Refund Fraud Season! Don't Forget to File Your SARs.

As of May 2018, the IRS reported a steady decline in recent years in the reports of tax-related identity theft; however, they warn that this practice is still widespread and remains a serious issue. To continue this downward shift, credit union staff should remain vigilant during day-to-day interaction with their members.

Options for tax refund distribution include direct deposit, paper checks and prepaid access cards. Since these are generally run through financial institutions, credit unions play a critical role in the battle against tax refund fraud.

The following Tax Refund Fraud red flags were provided by FinCEN and the IRS:

- Multiple direct deposit refund payments going into one member's account;
- Individuals attempting to negotiate double-endorsed tax refund checks with questionable identification;
- One individual accompanying multiple parties to the credit union to negotiate tax refund checks;
- The same signature/endorsement used on multiple checks, with multiple names;
- An account opened on behalf of individuals who are not present, with the opener being named as having signatory authority and the subsequent activity limited to direct deposits of tax refunds. This activity often occurs when exploiting returns for the elderly, minors, prisoners, the disabled or the recently deceased;
- A single individual opening multiple prepaid card accounts in different names, using valid TINs for each of the supplied names and having cards mailed to the same address;
- A personal account where most of the transactions are ACH tax refunds. Even if this is not tax fraud, your member may be using a personal account as a business account;

- A business account processing third-party tax refunds in a manner inconsistent with their stated business model, i.e.: volume of refund checks in contrast to other deposits; refund checks from out of state; multiple refund checks for the same amount or close to the same amount;
- For MSB accounts, a sudden increase in volume involving tax refund checks issued to individuals from across the country.

If, after sufficient investigation, the credit union determines that a suspicious activity report (SAR) should be filed, FinCEN requests that the term "tax refund fraud" be included in the narrative section.

Keep in mind that federal banking agencies and FinCEN, respectively, can bring civil money penalty actions for violations of BSA. Review the entire table of penalty adjustments here.

Your CU Should Know

CFPB Increases Maximum Cost for Consumer Credit Report in 2019
The Consumer Financial Protection Bureau announced an increase to the maximum fee a consumer reporting agency may charge for providing a credit report to a consumer. The annual adjustment, made under the Fair Credit Reporting Act, raises the cap to $12.50 for calendar year 2019.

Review the CFPB's notice

CFPB Requests MLA Supervision Authority
Bureau Director Kraninger has announced that the CFPB has submitted a legislative proposal to Congress to grant the Bureau clear non-exclusive authority to supervise for compliance with the Military Lending Act (MLA).

Waters Outlines Agenda for House Financial Services Committee
The U.S. House Committee on Financial Services has released the text of a speech by its chairwoman, Representative Maxine Waters, at the Center for American Progress, during which she outlined her agenda for the Committee. Among other things, Waters noted that the evolution of fintech, housing reform and encouraging diversity and inclusion in financial services would be concerns for the committee. She also focused on the futures of Fannie Mae and Freddie Mac, and long-term reauthorization and reform of the National Flood Insurance Program.

Fed App Teaches U.S. Currency Security Featuress
Money Adventure, an interactive smartphone and tablet application designed to teach elementary school students about the security and design features of Federal Reserve notes, has been launched by the Federal Reserve Board. The application complements other material available through the Board's Currency Education Program. *Money Adventure* is available for download on iPhones and iPads. An Android version is scheduled for launch later in the year.

Merger Q & As
Q: If an individual is a member of both credit unions prior to a merger, will the amount of available share insurance need to be recalculated in their account at the surviving credit union?

A: The issue of share insurance is only an issue if the member is close to the $250,000 share insurance limit at the time of the merger or acquisition. However, NCUA provides a general rule that separate share insurance coverage for these accounts would continue to apply for the six months immediately following the merger. Refer to regulation 12 CFR 745.2(f) for additional details.

Members will have a six-month grace period following a merger to restructure their accounts before share insurance coverage ceases for the previous account if balance is $250,000 or greater. For share certificate accounts, this grace period is extended to the first maturity date after the six-month grace period.

Q: When acquiring mortgage loans during a merger, does the newly established credit union have to report the denied loans of the former credit union for that calendar year?

A: This answer depends upon whether the surviving credit union is subject to HMDA reporting under Regulation C, and whether the credit unions were separately subject to HMDA reporting prior to the merger. In order to determine whether the surviving credit union meets the reporting thresholds of section 1003.2(g)(1)(iv) and is subject to HMDA reporting, the official commentary to Regulation C appears to indicate that the assets and lending activity for both institutions would be combined.

Additional information can be found here.

Q: Following a recent merger, we are in the process of converting "old" credit cards from the former credit union to cards in our existing portfolio. If we encourage the cardholders to voluntarily apply for the new card, is the APR related to the existing balance on the "old" credit card "protected" under Regulation Z?

A: Regulation Z provides a general prohibition on increasing credit card rates unless the increase fits one of the exceptions from that section - for example, the increase is in connection with a timely change in terms notice that meets the requirements of section 1026.9. Paragraph 55(c) also prohibits the application of an increased APR to transactions that occurred prior to the increase, creating a "protected balance" in such situations. Reg Z later seems to indicate that these protections continue to apply in the case of an acquisition or balance transfer at the same credit union, and states:

(d) Continuing application. This section continues to apply to a balance on a credit card account under an open-end (not home-secured) consumer credit plan after:
(1) The account is closed or acquired by another creditor; or
(2) The balance is transferred from a credit card account under an open-end (not home-secured) consumer credit plan issued by a creditor to another credit account issued by the same creditor or its affiliate or subsidiary (unless the account to which the balance is transferred is subject to §1026.40).

If your credit union acquires credit card accounts in a merger or acquisition, or if the balance is transferred from one account to another account "by the same creditor or its affiliate or subsidiary," the protections that are tied to the underlying balance continue to apply.

Pending Regulatory Comment Calls

For more information regarding these proposals, please follow the links below:

Issues	Comment Period Deadline	Agency	CUNA Staff Contact
FHLB Housing Goals Amendment	Jan. 31, 2019	FHFA	Mitria Wilson
Availability of Funds and Collection of Checks (Reg CC)	Feb. 8, 2019	BCFP	Alexander Monterrubio
Policy on No-Action Letters and the BCFP Product Sandbox	Feb. 11, 2019	BCFP	Alexander Monterrubio
Validation and Approval of Credit Score Models	Mar. 21, 2019	BCFP	Mitria Wilson

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The CUNA Advocacy Update keeps you on top of the most important changes in Washington for credit unions - and what CUNA is doing to monitor, analyze, and influence government agencies and federal law. You can view the current report and past reports from the archive.

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