



# EXAMINATIONS & ENFORCEMENT: TIPS ON NAVIGATING YOUR RELATIONSHIP WITH YOUR REGULATOR

December 13, 2023 | Tim Oppelt & Jen Williams

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- If you have any questions, or require further information on these materials, please do not hesitate to call our office at: (818) 241-0103.



# Roadmap

- Exam & Enforcement Concepts Refresher
- Current Events in Exams
  - SVB Aftermath
- Managing Exams



# EXAM & ENFORCEMENT CONCEPTS



# Exam Process

- Scheduling
- Pre-work
- Exam
- Writing
- Exit
- Joint Conference



# Exam Team

- NCUA

- Regional Director
- Associate Regional Director
- Supervisory Examiner
- Examiner in Charge
- Specialists

- CA DFPI

- Commissioner
- Deputy Commissioner
  - Purvi Patel
- Chief Examiner
  - Joni Kimbrell
- Portfolio Managers
- Supervisory Examiner
- Examiner in Charge
- Specialists



# Exam Report Contents

- Overview
- Findings
- Supplementary Facts
- Document of Resolution (DOR)

# Enforcement Levels

- Informal:
  - Supplementary Fact
  - Finding
  - DOR – “Management’s Plan”
  - LUA – Contract
  - PWL “Preliminary Warning Letter”
- Formal:
  - Cease & Desist Order
  - Civil Money Penalty
  - Removal / Prohibition
  - Conservatorship



# Conditions

- “Special Actions”
  - Formal Designation vs Resource Allocation
- Contrast “Troubled Condition”
  - CAMELS 4
  - Golden Parachutes
  - Oversight on changes to management / officials
- Prompt Corrective Action (PCA)
  - Where 7% comes from
  - Real impacts under 6% net worth ratio

# CURRENT EVENTS



# Silicon Valley Bank Aftermath

- Source of Failure:
  - Unique business model
  - Growth model
  - ALM mis-match
    - “Held to Maturity” vs “Available for Sale”
- Exam Impacts
  - Uninsured deposits
  - ALM



# Old IRR

## NEV Supervisory Test – Risk Thresholds

Risk Level	Post-shock NEV	NEV Sensitivity (%)
Low	Above 7%	Below 40%
Moderate	4% up to 7%	40% to 65%
High	2% up to 4%	65% to 85%
Extreme	Below 2%	Above 85%

Note: NCUA has made use of a NEV metric in the current Examiner’s Guide since 2000 in Chapter 13

- Automatic DOR for Extreme



# New IRR

- No More “Extreme” or Automatic DOR
  - But if you’re extreme, expect a DOR
  - If high uninsured deposits...



# Supervisory Priorities

## 2023

- IRR (interest rate risk)
- Liquidity
- Fraud Prevention
- Cybersecurity
- Consumer Financial Protection
- And
  - CECL
  - Succession Planning

## 2024 PREDICTIONS?

- IRR, Credit, & Liquidity Risk
  - 30% long term assets
  - \_\_% short term & cash
- Cybersecurity
  - Ransomware
  - Class action environment
- Third Party Vendor Management
- Consumer Compliance
  - Unfair, Deceptive Practices
- Fraud
- Climate Risk?



# MANAGING EXAMS



# General Preparation

- Regularly Review Last Exam Findings
- Consistently update Management and Board
- Risk Reviews
- Annual Updates
- Ongoing communication





# Mental Preparation

- Mindset
- Knowledge
- Confidence



# Risk Review

- NEV Supervisory Test
- De-Risking Plans
- Liquidity Management
- Opportunities
- Current Economic Environment



# During the Exam

- Point Person
- Onsite or Remote
- Daily Briefings
- Communication



# Draft Findings

- NCUA Examiner latitude
- Escalation?
- Wordsmithing
- Elements outside credit union control



# Findings

- Communication amongst Management
- Set reasonable timelines
- Agree, or not

# Report Delivery

- Prior Discussion between Board and Management

# CAMELS

- What it means to your credit union?
- Board and Management Expectations
- Set reasonable goals



# Ongoing Maintenance & Preparation

- Finding Management
- Consistently update Management and Board
- Regularly Review Risks
- The “Onion”
- Internal Resources
- External Resources
- Ongoing Communication





# CONTACT US



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