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Update to Offsite Examination and Supervision Approach

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

Date
May 2020
Letter No
20-CU-17
20-CU-17 / May 2020
Update to Offsite Examination and Supervision Approach
To
Federally Insured Credit Unions
Subject
Examination Program
Status
Active
To
Federally Insured Credit Unions
Subj
Examination Program

Dear Boards of Directors and Chief Executive Officers:

The NCUA is monitoring the impact of the COVID-19 pandemic, and will continue to update its examination and supervision approach to help ensure the safety of personnel and the safety and soundness of the credit union system.

In March 2020, the NCUA provided information on our examination and supervisory priorities during the COVID-19 pandemic in Letter to Credit Unions 20-CU-05, [Offsite Examination and Supervision Approach](#). While our priorities remain the same as outlined in that guidance letter, the agency has updated its approach for conducting examinations offsite. This letter provides information on changes to the NCUA's examination and supervision approach, effective June 1, 2020.

The key components of our updated approach include continuing offsite work and a return to issuing examination reports.

Conducting Work Offsite

The NCUA's offsite policy for all employees and contracted support staff will remain in effect until further notice.¹ Generally, NCUA staff will not schedule onsite examination work until further notice. However, the NCUA may conduct onsite work at a credit union if necessary to address serious or time-sensitive matters.

Since the implementation of our offsite policy, we have been conducting examination work offsite when credit unions are able to provide documentation. The response and cooperation from credit unions has been positive. While we understand that not all credit unions are able to accommodate offsite work, we appreciate those that have facilitated offsite examinations and supported NCUA's efforts to ensure a safe and sound credit union system.

Since March 16, 2020, examiners have conducted offsite examination work at over 100 credit unions, with a median asset size of \$56 million. At most of these credit unions, NCUA staff were able to perform substantial examination procedures and complete the examination. While the NCUA can conduct the majority of examination work offsite, there remain a few areas that are difficult to complete offsite. Credit union staff and examiners have also noted that completing an examination offsite may take longer than an onsite examination.

Examiners will continue to work with credit unions to conduct examination work offsite if the credit union is able to accommodate offsite reviews. Examiners will also be mindful of the impact information requests may have on a credit union experiencing operational and staffing challenges associated with the COVID-19 pandemic. Generally, credit unions will not be required to provide information to conduct offsite work.² The more information a credit union can provide for offsite reviews, the more likely the NCUA will not have to return to the credit union until the next examination cycle. Regional offices will continue to coordinate with the state supervisory authorities on examination and supervision efforts for federally insured, state-chartered credit unions.

Issuing Examination Reports

The NCUA will issue examination reports for examinations completed offsite. However, the NCUA understands that credit unions need to focus on providing uninterrupted service to their members. Any corrective actions issued to a credit union will consider the impact of the COVID-19 pandemic on the credit union's operations and financial condition, and will be prioritized appropriately.

Consistent with long-standing practices, examiners will consider the extraordinary circumstances credit unions are facing when reviewing a credit union's financial and operational condition and assigning CAMEL and risk ratings. An examination report may acknowledge that the full effects of the COVID-19 pandemic on a credit union's financial condition and operations remain unknown.

NCUA examiners will not criticize a credit union's efforts to provide prudent relief for members when such efforts are conducted in a reasonable manner with proper controls and management oversight. However, examiners will consider whether such efforts elevate, or reduce, a credit union's risk exposure. If a credit union has taken on additional risk, even if done prudently, this may be reflected in the credit union's applicable CAMEL and risk ratings.³

Examiners will continue to be flexible and reasonable when working with credit unions that have outstanding corrective action items (including Document of Resolution items, Letters of Understanding and Agreement, and Preliminary Warning Letters). To ensure our approach to addressing COVID-19 related matters remains consistent, the NCUA has instituted an enhanced internal review process for all examination reports. A credit union should work with its examiner and supervisory examiner if it requires flexibility in meeting deadlines or has concerns about its examination report.

The NCUA will continue to reevaluate our offsite posture through the duration of the COVID-19 pandemic and as national, state, and local guidance is updated. We will notify credit unions of changes to procedures or examination expectations as our examination and supervision approach continues to evolve. If you have

questions or would like more information about the NCUA's offsite examination and supervision approach, please contact your NCUA regional office.

Sincerely,

/s/

Rodney E. Hood
Chairman

¹ The NCUA mandated a strict offsite policy for all employees and contracted support staff as of March 16, 2020.

² For credit unions with poor financial trends or weak operations that threaten the viability of the credit union, the NCUA may require the credit union to provide information to conduct necessary examination work offsite. In these instances, the information requested will be limited to only what is necessary to adequately assess and mitigate the risk to the Share Insurance Fund.

³ The CAMEL rating system is an internal rating system used for evaluating the soundness of credit unions on a uniform basis and the degree of risk to the Share Insurance Fund. See Letter to Credit Unions, 07-CU-12, [CAMEL Rating System](#).

Last modified on
05/28/20

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