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DEPARTMENT of
FINANCIAL INSTITUTIONS





Examiner Recommendations

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KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS, 2021

What are “Recommendations” in an Examination Context?

- ▶ Recommendations allow examiners to categorize issues identified during the examination by severity of regulatory non-compliance, risk to soundness of operations, timeline needed for correction, and required board involvement
- ▶ Recommendations can range from being minute in nature (loan exceptions) to severe and requiring significant board attention (Document of Resolution)

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Document of Resolution

Examiner Finding

Supplementary Fact

Loan Exception



Loan Exception

- ▶ Loan exceptions note instances where underwriting deviates from policy, and is not recognized as such by management or received managerial or board approval
- ▶ Loan exceptions generally do not require a commitment by management or the board, or require a corrective action
- ▶ Loan exceptions by themselves are non-systemic in nature, and do not indicate patterns of weakness in underwriting; however, loan exceptions can be used to support examiner findings or documents of resolution that identify systemic issues with underwriting

Loan Exception



Examples:

- ▶ Debt-to-income ratio outside of policy limits
- ▶ Age of credit report exceeds policy guidelines
- ▶ Loan purpose is not identified on the application
- ▶ Loan is coded incorrectly
- ▶ No income verification for borrower
- ▶ Loan-to-value exceeds policy limits



Supplementary Fact



- ▶ A supplementary fact can serve two purposes:
 - ▶ A “best practice” recommendation
 - ▶ A means to support topics or issues contained in the examination overview and/or findings and documents of resolution
- ▶ Supplementary facts as recommendations are based solely on guidance, such as letters to credit unions, supervisory letters, and interagency guidance, or best practices, and detail areas that would benefit from improvement, but may not have a material impact on the soundness of operations if not addressed
- ▶ Supplementary facts can also be used to provide further detail on topics discussed in the examination overview section of the report



Examiner Finding

- ▶ Examiner findings are recommendations that are based on laws and regulations, either at the federal or state level, as well as internal credit union policies
- ▶ Examiner findings identify issues that may not have an immediate impact on the soundness of the institution, but could if issues are left unresolved
- ▶ Management can typically resolve examiner findings in the course of routine business, with little board involvement
 - ▶ (Continues on next slide)

Examiner Finding (cont.)

- ▶ During the examination, examiners obtain management commitment and a target date to resolve findings
- ▶ Examiners follow up on the status of findings at the next examination or during an interim offsite review, if the finding is related to an outstanding document of resolution





Document of Resolution

- ▶ Documents of resolution are issues that may have an immediate impact on an institution's soundness, and/or represent compliance violations and persistent, unresolved findings
- ▶ As with examiner findings, documents of resolution are based on law or regulation
- ▶ Documents of resolution are matters that require board attention, and the Board will typically be required to be involved in resolving these issues
- ▶ During an examination, examiners get management commitment to resolve documents of resolution, as well as a "hard" resolution date
 - ▶ (Continues on next slide)

Document of Resolution (cont.)

- ▶ Outstanding documents of resolution require examiner follow up between examinations
- ▶ Examiners will perform an offsite review of all outstanding documents of resolution midway between examinations to gauge management and the board's progress on resolving outstanding documents of resolution
- ▶ At the next examination, the status of prior documents of resolution are noted in the document of resolution section of the report of examination



Where Are These Found in the Report?

- ▶ Recommendations were previously referenced within the examination overview, but detailed in separate pages following the overview
- ▶ In 2021 we began incorporating the management commitment for Examiner Findings within the examination overview, following the description and corrective action of each Examiner Finding
- ▶ Documents of Resolution, Supplementary Facts, and Loan Exceptions continue to be detailed on pages following the examination overview
- ▶ References for Examiner Findings are listed on a page following the examination overview



Example:

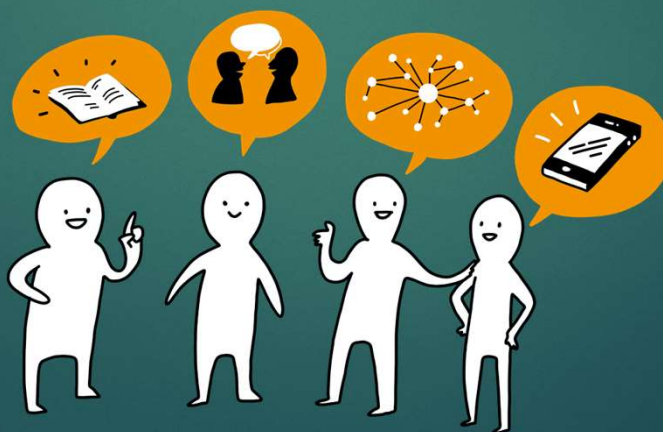


While the Information Security Program is generally satisfactory, management is not maintaining a risk assessment. To ensure compliance with NCUA R&R 748 Appendix A, management must develop an Information Security Risk Assessment, and present to the Board for approval. Additionally, management and the Board must review this annually.

Vice President of Security John Smith agreed to develop an Information Security Risk Assessment and present to the Board for approval by year-end 2021.

Managing Recommendations

- ▶ Review the examination report in its entirety and acknowledge that you've done so
- ▶ Develop an audit and examination findings tracking log
- ▶ Assign teams or individuals recommendations to resolve
- ▶ Follow up on progress of recommendation resolution at board meetings



References

- ▶ Regulatory references and other guidance that further explain subject matter on supplementary facts, examiner findings, and documents of resolution can be found online
- ▶ The following are the most common sources for references



References



- ▶ NCUA Rules and Regulations

<https://www.ecfr.gov/cgi-bin/text-idx?SID=b4651eb457ad5604f38e960ed83cbcef&mc=true&tpl=/ecfrbrowse/Title12/12chapterVII.tpl>

- ▶ Letters to Credit Unions and Supervisory Letters

<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance>

References



- ▶ **KRS 286.6 – Credit Union Statutes**

<https://apps.legislature.ky.gov/law/statutes/chapter.aspx?id=38636>

- ▶ **808 KAR 3:050 Conduct of Credit Unions**

<https://apps.legislature.ky.gov/law/kar/808/003/050.pdf>

