



A MESSAGE FROM COMMISSIONER ENTRINGER



I am sure you all are aware that the National Credit Union Association (NCUA) issued a proposed rule on Prompt Corrective Action and Risk-Based Capital on January 23, 2014; the proposed rule was published in the Federal Register on February 27, 2014 and the comment period expires on May 28, 2014. While the proposal is 44 pages long it is certainly worth your time to read, digest AND COMMENT. While I certainly encourage you to submit a comment letter in order to increase the effectiveness of the letter it needs to indicate how the proposal will impact your institution. In fact Chairman Matz has a video on the NCUA website where she discusses how to write an effective comment letter. <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx> After you have

read the proposal I would also encourage you to use the Risk-based Capital Calculator NCUA has on their website at <http://rbnw.ncua.gov> On May 21, 2014 *The Memo*, from the Credit Union Association of the Dakotas also urged all credit unions to read the proposal and submit a comment letter. While you think the proposal may not be applicable to you consider the fact that as changes in your institution's circumstances may make the proposal applicable to you down the road. For example, lets say your credit union is below the \$50 million threshold right now; what happens as your credit union continues to grow and you surpass the \$50 million dollar threshold? How will it impact you then? I would suggest playing a "what if" scenario with the Risk-based Capital Calculator to see the impact if or when your credit union is subject to the proposal.

As always if you have questions, please feel free to call our office anytime.

Fun Facts

As of May 22, 2014:

- Average Adversely Classified Loans to Equity Ratio: 14.93%
- Average Adversely Classified Loans to Loans Ratio: 2.82%
- Average Adversely Classified Loans to Assets Ratio: 1.68%
- First Quarter 2014 Average Allowance for Loan and Lease Loss to Loans Ratio: 1.29%
- First Quarter 2014 Average Delinquency Ratio: 0.41%

Averages are of the 21 North Dakota state chartered credit unions



BANK SECRECY ACT

While not a new regulation, we have noted an increase in the number and severity of Bank Secrecy Act program violations over the past year. Below are some of the more common issues noted:

1. Lack of Board training—Since the Board of Directors has the ultimate responsibility to ensure compliance with the Bank Secrecy Act, they need ongoing training, just as staff needs ongoing training. This will likely be different than the technical training received by staff tasked with the day to day administration of the program. The ultimate goal of the training is to ensure the Board has an understanding of the goals and objectives of the institution's Bank Secrecy Act program, and to ensure they understand how they fit into that program.
2. Incorrectly completed Currency Transaction Reports—A number of errors have been made resulting in improperly completed Currency Transaction Report filings. Items such as not noting the drivers licenses as the source of identification have frequently been missed or misstated. Please take the time to periodically reread the instructions for completing a Currency Transaction Report, and the instructions for other reports you file as they may have changed since you last reviewed them.
3. Incomplete FinCEN reviews and audit trails—Monitoring of the FinCEN requests has been outsourced to data processors at some credit unions. In addition to performing an adequate level of due diligence over this third party, please be aware that once the data file is uploaded to the data processor and they have provided you a report back showing the results of the data scrub, credit union staff still need to go back into the FinCEN system and check the box that it was completed. Telling FinCEN that the review is complete and documenting your review log to create an audit trail showing when it was completed are necessary steps in the process.
4. We recently encountered an interesting situation relating to the completeness of the Customer Identification Program. While identifying information has been required for some time, the current standard of membership identification documentation only came into effect in 2003. Earlier accounts were grandfathered in. A problem was noted at a credit union when trying to file a Suspicious Activity Report. The account had been opened some time in the 1980s, and the data captured on the membership card was limited. While the credit union clearly needed to file the Suspicious Activity Report, they did not have enough information on the member to completely fill it out. We are encouraging all credit unions to update their Customer Identification Information. While it might be a slight inconvenience, this inconvenience for your staff and members should be minimal. Having a completed membership card to in the event you need to complete a Suspicious Activity Reports or if you otherwise need the data it will make the inconvenience worthwhile.
5. You may have noticed a new page on the March call report asking about Money Service Businesses. This is an area we are looking closer at than in the past. Please review the April 26, 2005 Interagency Guide http://www.fincen.gov/statutes_regs/guidance/html/guidance04262005.html to see what is expected for these accounts. Even if you do not think you have these accounts, it is good to know what is expected of your Customer Identification Program to monitor and spot these types of accounts.

