

Memo

To: North Dakota State Chartered Credit Unions
From: North Dakota Department of Financial Institutions
Date: 12/5/2017
Re: Changes to the CAMEL Rating System

The North Dakota Department of Financial Institutions currently uses the CAMEL rating system for credit unions. This system is used to rate the overall level of risk to the institution, as well as in 5 separate risk areas. This current system is based largely upon NCUA's Letters to Credit Unions 03-CU-04 and 07-CU-12. The system differs slightly from the system used by other financial institution regulators and by the Department for bank examinations in that the rating utilized is a CAMELS system which adds a sixth component.

The CAMELS rating system is much the same as the CAMEL rating system with one important difference. Sensitivity to market risk (also known as interest rate risk) and liquidity risk are combined within the L component in the CAMEL rating system. Liquidity risk alone is captured within the L component in the CAMELS system. The sensitivity to market risk element is captured in the S component in the CAMELS system.

A separate S component has several important advantages. The related but separate areas of liquidity risks and sensitivity to market risks are clearly assessed and rated. With the combined system both risks are reviewed under the L component, and the assessment is less clear. Additionally, the area with the greatest risk is generally the area focused on during examinations and carries the most weight in rating. A separate rating for each ensures that the risks in each are clear.

Due to the advantages of separating these risks into two components, the Department will start to rate these components separately in a CAMELS rating system during credit union examinations beginning in January of 2018. We will join at least 16 other states that now employ the CAMELS system. Additionally, NCUA has committed to this change, but has not yet established an effective date.

The Department intends to use the standard FFIEC CAMELS Rating Guidance. We encourage you to review this system. It can be found at the following link <https://www.fdic.gov/regulations/laws/rules/5000-900.html>. Additionally, the FFIEC issued a frequently asked questions document when the CAMELS rating system was introduced which may also be useful. It can be found at the following link <https://www.fdic.gov/news/news/financial/1997/fil9717.html>.

If you have any question, please feel free to reach out to Chief Examiner Corey Krebs at ckrebs@nd.gov or (701) 328-9937.