



### Examining the Examination Process with NCUA Region IV Regional Director

#### Keith Morton

Credit unions of all asset sizes have, at one time or another, expressed frustration about the examination process. Two of the most common complaints are that the constant interruptions disrupt member service, and that there are unfair surprises in the examination report or at the joint conference. Below, Mr. Morton responds to the Association's questions about how to improve the examination process.

**Association: *What is the most important factor contributing to an efficient examination?***

Mr. Morton: I believe the most important factor is open, ongoing and respectful communication between the NCUA examiner-in-charge and the senior management team and Board. Both NCUA staff and credit union staff/volunteers have a role to play in ensuring effective communication takes place during all examinations/supervision contacts.

**Association: *What steps can credit unions take to minimize the disruption of service to their members during the examination?***

Mr. Morton: An examination can occur, like any other audit, with minimal disruption if carefully planned, and expectations are clearly understood by all parties. Prior to an examination, a credit union will receive a list of documents needed. NCUA's National Supervision Policy Manual suggests an examiner provide as much advance notice as possible prior to conducting an examination or supervision contact; and, when feasible, to provide a minimum of 5 working days advanced notice. To the extent possible, having the documents ready when the examiner arrives while communicating any questions or difficulties in gathering information early should minimize disruptions.

I would meet with the examiner when they come on site and discuss the examination process, including any expectations I have, and the best method to resolve disputes. For example: if I was concerned about disruption of member service, I would do my best to provide sufficient documentation to the examiner before they arrived so they could work on the exam. I would also have them interact with other members of staff to obtain information they need for different areas of the examination.

**Association: *Should credit unions feel empowered to "set the tone" of the examination together with the EIC?***

Mr. Morton: Yes, the examiner is a guest in the credit union. As such, they should be respectful of management's role and responsibility in guiding the credit union's business, including how NCUA staff will interact with credit union management and staff. It is a two-way street. A best practice is for the CEO to arrange a time to check in at least once a day with the examiner-in-charge to minimize disruption during the work day.

**Association: *Would you encourage a credit union to establish a "point person" during the examination and establish reasonable limits for contacts with other staff members to limit the interruptions during the examination?***

Mr. Morton: No. While we don't have any objection to a credit union establishing a point person, limiting access to key staff can often lead to a bottleneck that delays the completion of the examination. A point person is best used to clarify and direct the examiner to the best resource. I would prefer that the credit union and examiner discuss the issues and concerns, and develop a mutually beneficial plan of action.

**Association: *Would you encourage credit unions to set reasonable limits on the number of examiner contacts each day to improve examination efficiency and minimize service disruption?***

Mr. Morton: Yes, this should be discussed with the examiner if a credit union is concerned that member service could be adversely affected by the examination. I suggest contacts be scheduled each morning in the event the examiner cannot identify the items requested and needs assistance from credit union staff.

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**Association: *What are your recommendations for handling “process” disputes?***

Mr. Morton: The best approach in dealing with any issue, concern, or dispute related to the examination process is through communication with the examiner-in-charge. To avoid a small issue becoming a big problem, timely communication is critical. If a credit union is not satisfied with an examiner’s handling of a particular matter, then these issues should be addressed with the supervisory examiner.

**Association: *Should the findings and document of resolution be discussed and agreed upon before the joint conference is held?***

Mr. Morton: Yes, I believe it is sound practice to meet with senior management and come to agreement on the examination findings and document of resolution. In some cases, however, it is not always possible due to several factors, including: travel schedule or unavailability of the president/CEO and senior staff; travel schedule of the examiner; and, the timing of the joint conference with the board of directors. I believe this is a “process” issue that should be discussed with the examiner at the onset of the examination.

**Association: *If something that is discussed at the joint conference was not previously discussed with management, what steps can the credit union take?***

Mr. Morton: A joint conference is held at the conclusion of the examination as a meeting between the examiners and the board. We strive to reach agreements with the board to take appropriate action in dealing with the material issues noted during the examination. In CAMEL 1 or 2 rated credit unions, a joint conference is optional at the discretion of the board chair.

Management and key officials should be aware of the major deficiencies before the joint conference. In those rare cases where this might occur, I would advise the examiner and board that the issue had not been previously raised with staff, and respectfully request time to review the issue before committing to a defined course of action. I would also discuss the concern with the examiner after the meeting. If you are not satisfied with the examiner’s explanation, then I would contact the supervisory examiner.

**Association: *Occasionally, the examination report will be presented to the board and management for the first time at the joint conference. Must the credit union “accept” the report at that meeting, or can the board consider the report for a reasonable period of time?***

Mr. Morton: As stated earlier, it is sound practice for examiners to meet with senior management and come to agreement on the examination findings and document of resolution before the joint conference. While we strive to provide the full final examination report at the joint conference, occasionally this is not possible. I believe it is reasonable for a credit union to ask an examiner to grant time to review the report before adopting Documents of Resolution or agreeing to action plans, especially if operational management had not received these items prior to the joint conference. We expect credit union officials will receive timely information and will take timely corrective action.

**Association: *If there are errors in the examination report or items that were not previously discussed with management, what steps should the credit union take?***

Mr. Morton: If you have a legitimate complaint about how an exam was conducted or contest the facts presented, NCUA really does want to hear from you. Your constructive comments can help NCUA create a more effective examination system. I realize that the lines of communication sometimes break down in the examination process. I encourage credit union management to provide ongoing feedback during the exam, and to work with examiners to resolve issues before the final report is written.

If you are not able to resolve the issue with your examiner, I would elevate the discussion with the supervisory examiner. Credit unions can also file a written complaint to their respective regional director, where we will have an analyst independently investigate the complaint and provide a recommendation for resolution. Finally, if the issue involves the overall CAMEL rating, or a dispute with respect to Allowance for Loan and Lease Losses funding, you can file your written complaint directly with NCUA’s Supervisory Review Committee.

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