

NATIONAL CREDIT UNION ADMINISTRATION

EXAMINER'S GUIDE

TRANSMITTAL SHEET

CHANGE 1

TO: FEDERALLY INSURED CREDIT UNION EXAMINERS AND STAFF:

1. **PURPOSE.** The National Examination Committee (NEC), made up of representatives from NCUA regions and the National Association of State Credit Union Supervisors (NASCUS), have developed this Change 1 to the National Credit Union Administration Examiner's Guide (revised June 2002) in the following manner:
 - a. **Appendix 5A – Opinion Audits**
 - Added a section on Audit Documentation Standards for Financial Statement Audits incorporating requirements of SAS 96.
 - b. **Chapter 6 – Information Systems and Technology**
 - Added a section on Effects of IS&T on the Auditor's Consideration of Internal Controls in a Financial Statement Audit incorporating requirements of SAS 94.
 - c. **Chapter 7 – Management**
 - Added a section on Due Diligence Over Third-Party Service Providers that includes the subsection Due Diligence Review and Controls, in response to credit unions that failed to meet the requirements of NCUA's Rules and Regulations regarding performance of adequate due diligence in Bentley Enterprises.
 - d. **Appendix 10A – Loan Types**
 - Expanded the section on Loan Participations.
 - e. **Chapter 12 – Investment Analysis**

To assist examiners in their evaluation of a credit union's practices and due diligence regarding the investment portfolio and specifically the areas of portfolio diversification, safekeeping of investments, and brokered CDs, the following changes were made to the Investment Analysis chapter:

 - Revised the paragraph entitled concentration risk under the section heading Policies to address the need for proper diversification of a credit union's investment portfolio.

- Revised the section entitled Safekeeping to emphasize the importance of safekeeping with a reputable third party and implementing necessary internal controls to minimize the possibility of loss.
 - Revised subsection Time Certificates of Deposit under heading Other Shares, Deposits, and Certificates and added a discussion on brokered CDs and due diligence for brokered CDs.
- f. Appendix 12B – Reviewing the Audit of Derivative Instruments, Hedging Activities, and Investments in Securities**
- Added this appendix incorporating requirements of SAS No. 92, regarding reviewing the audit documentation for derivatives, hedging, and investments to assist in developing the scope and risk assessments.
- g. Appendix 18B – Regulatory Flexibility Program (RegFlex)**
- Updated the NCUA Rules and Regulation cites for investment and deposit activities in the Exemption under RegFlex section of the chapter due to revision of Part 703 of the NCUA Rules and Regulations.
 - Added discussion of additional authority for eligible credit unions in areas of borrowing, repurchase transactions, and commercial mortgage-related securities.
- h. Chapter 19 – Consumer Compliance**
- Reorganized the chapter to emphasize risk focused approach and management due diligence for consumer compliance area.
 - Removed sub-headings Field Examiners, Compliance Subject Matter Examiners, Regional Compliance Analysts, and Compliance Program Officer (E&I) and shortened these sections and included them in Consumer Compliance Program section.
- i. Appendix 19M – Consumer Leasing Act**
- Revised Appendix to comply with changes in the Federal Reserve Board’s Regulation M, the Consumer Leasing Act, and NCUA’s Rules and Regulations §714.
- j. Chapter 20 – Report Writing**
- Revised the chapter in light of the experience gained from performing risk focused examinations (e.g., relating risk areas applicable to the credit union to the CAMEL rating).
 - Added a section on the Compliance Violation Form.
 - Added a section on Informal Discussion Items.

k. Appendix 22B – State Credit Union Report Reviews

- Focused the chapter on what the examiner does.
- Included the review of the scope workbook in the review process of state credit union reports.
- Added references to the Code 26 reviews within the scope workbook.
- Deleted sections referring to DOS and regional office reviews.
- Deleted Attachment 22.1 and sections discussing the state examination review summary (now the Code 26 function is part of the scope workbook).

l. Chapter 32 – Incidental Powers

- Added a chapter on Incidental Powers to provide guidance on the expanded activities in which credit unions may engage per NCUA Rules and Regulations Part 721.

m. Table of Contents

- Enclosed with Change 1 are updated Table of Contents for Chapters 6, 7, 10, 12, 18, 19, 20, 22, and a new Table of Contents for the new Chapter 32. The overall Table of Contents was also updated.

2. INSTRUCTIONS:

- a. Your Examiner's Guide should be updated as follows:

Discontinue Using:

Appendix 5A

Chapter 6

Chapter 7

Appendix 10A

Chapter 12

Appendix 18B

Chapter 19

Appendix 19M

Chapter 20

Appendix 22B

Attachment 22.1

Use New Sections:

5A

Chapter 6

Chapter 7

Appendix 10A

Chapter 12

Appendix 12B

Appendix 19B

Chapter 19

Appendix 19M

Chapter 20

Appendix 22B

Chapter 32

3. Appendix 10A and 18B have not been updated for the revision of Part 723 of the NCUA Rules and Regulations, Member Business Loans. Chapter 12 has not been updated for the revision of Part 703, Investment and Deposit Activity. Both of these revisions are scheduled for a future date.

- a. This electronic version of Change 1 will be supplemented with a printed version of this and future changes in December 2004. The NCUA e-library will be updated with the third quarter CD.

Sincerely,



J. Leonard Skiles
Executive Director