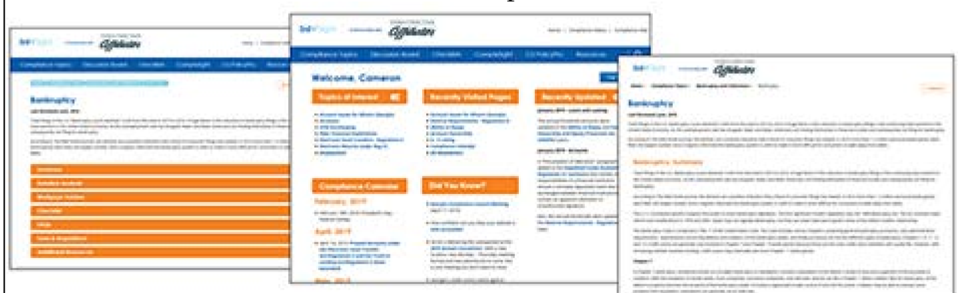
## InfoSight Highlight

Coming March 1st, 2019 - The All New InfoSight!
All good things must come to an end... and be replaced by something better!

An all-new InfoSight is coming soon! A more streamlined design, easier to navigate site that is packed with great compliance information, an interactive dashboard, and more state-specific content!



**What can you expect in the new InfoSight?**

**Interactive Dashboard**
Customize "Topics of Interest" and "Recently Updated" to quickly access and review updates about those compliance areas - and only those areas - that are important to you. Pick up where you left off with the "Recently Visited Areas" listing!

**Consolidated Compliance Information**
We've always had great compliance information, but the new site will compile all the information in one place. For each compliance topic, learn what the compliance issue is, how it affects credit unions, and what your credit unions need to do about it. Easily view (and print) all information

**FAQs and Checklists**

Georgia Credit Union Affiliates

InfoSight
Compliance eNEWSLETTER
February 25, 2019
Vol. 13, Issue 8
Created in partnership with the

Credit Union National Association

## Compliance Video

**Compliance Connection Video**

[In this video](), League InfoSight CEO Glory LeDu talks about the highlights from the 4th Quarter of 2018 and the 1st Quarter of 2019.

When S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, passed in 2018 there was a lot to understand! Glory LeDu, League InfoSight CEO, provides Part 1 in this short video to break it down for you.

Compliance videos can be found on YouTube at the Compliance

More than 70 checklists are available for various compliance topics credit unions can use to see if a regulation affects them. Frequently Asked Questions (FAQs) provide useful answers to common questions on various topics. The new site has consolidated FAQs into a searchable database to make finding answers easier than ever!

**Compliance Calendar**
Stay on top of upcoming effective dates and compliance due dates with our Compliance Calendar! The calendar is now available right from the dashboard so you have a front-row view of what's coming up.

**Compliance Videos**
InfoSight's Compliance Connection videos provide condensed overviews of timely regulatory topics that can help your credit union and board of directors understand and stay informed on compliance changes. Access the videos quickly from the links in the page header.

**State Compliance Content**
Our new site will have more state-specific content than ever! And we are developing the site to help state content stand out so it's easier to find and help identify how state laws and regulations may impact your credit union.

**It's Free!**
Don't forget that InfoSight is provided as a FREE resource for Georgia Credit Union Affiliated member credit unions! If you haven't been taking advantage of InfoSight, now is the time to get set up so you are ready when the new site launches! If you need login information, contact compliance@gcua.org.

## Compliance News

Reminder: Registration for 2019 Compliance Council Deadline Is February 28th
The dates and locations of meetings are as follows:

| | |
|---|---|
| April 17, 2019<br>Atlanta Postal Credit Union<br>400 Tradeport Blvd<br>Atlanta, GA 30354 | August 29, 2019<br>Georgia United Credit Union<br>6705 Sugarloaf Parkway<br>Duluth, GA 30097 |

Connection channel, where they are generally updated quarterly.

## Credit Union Compliance Help

Need a BSA, ACH, SAFE Act or website audit? GCUA has certified Compliance Specialists who can help. For scheduling and pricing information contact compliance@gcua.org.

## Compliance Calendar

**March 2019**

**March 1st**
**New InfoSight Rollout**
**March 10th**
**Daylight-Saving Time Begins**

**Click here for upcom**

## Compliance Training

February 25, 2019
Debit Card Chargebacks: Understanding Visa Claims Resolution
**3:00 pm - 4:30 pm ET**

February 27, 2019
ACH Specialist Series: ACH Dispute Resolution
**3:00 pm - 4:30 pm ET**

February 28, 2019
Flood Insurance Compliance Update & FAQs
**3:00 pm - 4:30 pm ET**

March 4, 2019
Banking Marijuana-Related Businesses
**3:00 pm - 4:30 pm ET**

March 5, 2019

Not a member? Click here for registration form.

Fee: $150.00 annual dues

Membership includes: *Annual / Per Person dues / Includes two (2) annual Compliance Council Meetings, access to previous meeting handouts and the Compliance Council Community*.

For additional questions please contact compliance@gcua.org.

Week Six Supervisory Priority Highlight:
Liquidity and Interest Rate Risks
Liquidity is the ability your credit union has to convert any security or investment into cash quickly. Would your credit union know how to sell a security after purchase, if they needed to? Some investment options have low transaction costs and active secondary markets with many buyers. Other investments options may have much higher transaction costs and inactive secondary markets with few buyers. Some investment options do not have a secondary market at all. In connection with investments, liquidity basically comes down to how easy it is to buy and sell. Even if your credit union intends to buy and hold to maturity all securities in the investment portfolio, owning securities that have active secondary markets and active pricing can be great information when measuring interest rate risk. Receiving information about the value of securities on a regular basis after you purchase them can be important when managing your investment portfolio successfully over time.

The NCUA wants to review the credit union's ability to fund the outflow of non-core deposits in a rising rate environment and the potential for a significant increase in utilization rates on lines of credit if the economy took a hit. Credit unions struggle with how much cash and short-term investments less than one year to hold in the balance sheet. Holding too much liquidity can be damaging to earnings where as insufficient liquidity may put the credit union at risk and draw the attention of examiners. It is a fact that credit unions by nature will hold large portions of their balance sheets in illiquid assets (loans to members). As an offset to this fact, it's important to consider having some or all of your investment portfolio in assets that you can sell if needed.

As credit union loan portfolios are the most illiquid parts of your balance sheet, it pays to consider secondary liquidity options on the investment portfolio at the credit union. In fact, holding a percentage of your investment portfolio in securities such as treasuries and bullet agencies could be part of your credit union emergency liquidity plan. An awareness of how bonds trade and access to a couple of different pricing sources and

C-Suite Series: Strategic Decisions Regarding CECL Methodologies, Processes & Governance
**3:00 pm - 4:30 pm ET**

March 6, 2019
Board Reporting Series: Essential Board Reporting: Requirements, Timing, Delivery Options, Risks & Concerns
**3:00 pm - 4:30 pm ET**

March 7, 2019
Federal Requirements for Tech-Based Marketing: Websites, Social Media, Robo Calls & More
**3:00 pm - 4:30 pm ET**

March 11, 2019
Teller Training Series: Cross Selling: The Key to Accountholder Satisfaction & Retention
**3:00 pm - 4:30 pm ET**

March 12, 2019
Synthetic ID Fraud: What It Is, How It Works & Real-Life Scenarios
**3:00 pm - 4:30 pm ET**

March 13, 2019
ACH Specialist Series: 2019 ACH Rules Update
**3:00 pm - 4:30 pm ET**

March 14, 2019
Debit Card Chargebacks: Understanding Mastercard Dispute Resolution
**3:00 pm - 4:30 pm ET**

BSA Training Opportunities

brokers or an investment advisor is also very helpful in investing your portfolio for liquidity.

When managing your investment portfolio, don't forget to consider liquidity. And don't forget about liquidity in other areas of your credit union (backup liquidity facilities, lines of credit, etc.) There may be the temptation to buy securities and investments based solely on investment return. However, when it comes time to sell, you might be surprised by how differently brokers of securities price your investments or if there is an offer to buy them at all. In the case of some securities like non-negotiable CDs, private mortgage backed, or loan participations, secondary liquidity is limited or nonexistent.



Three popular ways for credit unions to manage liquidity:

*Pricing Strategies*

1. To maximize member value, credit unions must provide competitively priced savings and loan products. A credit union's ability to provide the latter is largely dependent upon its ability to attract members through the former.

   Traditionally, credit unions have strengthened their balance sheet by increasing share balances and distributing those funds in the form of loans. All things being equal, a credit union can use its members' share balances to make loans. Even becoming "loaned out," the term applied when loan balances equal share balances, has not stopped some prolific lending shops.

   Loan growth and share growth have an inverse relationship. In times of economic prosperity, consumers demand more or larger loans. During periods of economic contraction, consumers seek safe havens for their savings.

*Sales to The Secondary Market*

2. For credit unions that do not want to limit lending, there are other options to manage liquidity. For example, fixed rate first mortgage loans have both the largest capital requirement and longest average duration on a per loan basis of any product in the portfolio of most credit unions. Because of these requirements, 38.0 percent of credit unions that originated a first mortgage loan as of the fourth quarter of 2017 also sold them.

   The most popular avenue to sell first mortgage loans is to the secondary market. The primary parties that purchase loans on the secondary market are government-sponsored enterprises such as Fannie Mae, Freddie Mac, Ginnie Mae, and Federal Home Loan Banks and other government affiliates such as the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), and to a lesser extent other financial institutions and insurance companies.

   For lenders that want to serve their members but are wary of adding loans to their balance sheets, the secondary market can be an attractive option. From a directional perspective, sales to the secondary market as a percentage of first mortgage originations will generally lag behind a rising or falling loan-to-share ratio.

*Loan Participation Sales*

3. Selling loans to the secondary market can be an effective way to manage the liquidity and interest rate risk of a credit union's first mortgage portfolio. So, too, is selling loan participations to other financial institutions.

   The end result of selling loan participations is similar in principal to selling first mortgage loans to the secondary market. However, loan participations are not limited by loan type. In fact, credit unions can sell real estate, member business loans, and consumer loans alike.

   The broader industry dynamics associated with secondary market sales holds true for sales of participation loans. When loan growth consistently outpaces share growth, there is an incremental increase in sales of participation loans. As credit unions seek to free up capital, they convert assets into liabilities they can redeploy to areas that better fit their operational goals for the given economic environment. For example, in times of economic growth, credit unions might find it advantageous to sell less-profitable portions of their portfolio and increase their activities in higher-yielding areas.

**Interest Rate Risk**

Interest rate risk refers to the current and prospective risk to a credit union's capital and earnings arising from movements in interest rates. When interest rates change, the present value and timing of future cash flows may change. This, in turn, changes the underlying value of a credit union's assets, liabilities, and off-balance-sheet items and thus its overall net economic value. Changes in interest rates also affect a credit union's earnings by altering interest rate-sensitive income and expenses, which affects its net interest income. Excessive IRR can present a significant threat to a credit union's current capitol and projected earnings if not managed appropriately.

IRR is a potentially significant risk that arises from credit union activities and is inherent to some degree in all credit unions. The risks arise because interest rates can vary significantly over time while credit union business typically involves activities that produce exposures to maturity mismatch (for example, long-maturity assets funded by short-maturity liabilities) or rate mismatch (such as fixed-rate loans funded by variable-rate shares/deposits). In addition, there are embedded options in many of the typical credit union balance sheet items (such as non-maturity shares, term deposits, mortgage loans, and investments) that could be triggered with changes in interest rates.

*Methods and Process to Measure IRR*

Federal Financial Institutions Examination Council (FFIEC) has guidance that emphasizes the importance of effective governance, policies and procedures, risk management and monitoring systems, stress testing, and internal controls related to IRR exposures. The advisory indicates that IRR should be managed in a method commensurate with your credit union's complexity, risk profile, business model, and scope of operations. As these factors increase, supervisory expectations scale upward accordingly. Each credit union should employ a measurement method that captures all material balance sheet items and is capable of quantifying IRR exposure to both earnings and net worth. The most common methods for measuring IRR are:

- Net Interest Income Simulation - Measures the changes to earnings, typically in the short term (for example, 12 to 36 months), caused by changes in interest rates.
- Net Economic Value - Measures the changes in the economic value of net worth caused by changes in interest rates.
- Interagency guidance encourages institutions to use both NII and NEV methods. When used together, these measures provide a more comprehensive view of potential IRR.

There are also two important instrument-level measures also can provide information about price sensitivity and valuations, and serve as the underpinning of the NEV computation:

- Duration - Duration analysis measures the change in the valuation of an asset or liability that may occur given discrete change in interest rates. Duration measures the average price change for a plus and minus 1 percent change in rates.
- Convexity - This method measures the curvature in the relationship between prices and yields and reflects how the duration of a financial instrument changes as interest rates change.

A less common method of interest rate measurement that may be utilized by smaller credit unions is gap analysis. This is a simple IRR measurement method that identifies maturity and repricing mismatches between assets and liabilities over a given time period (for example, 3, 6, or 12 months). Generally, gap analysis is appropriate only for simple balance sheets that consist primarily of short-term investments, non-mortgage-related loans, and basic funding sources (like regular shares).

However, gap analysis can be used to determine whether a credit union's balance sheet is more asset or liability sensitive. For example, if earnings move upward as interest rates increase, the balance sheet is more asset-sensitive (positive gap). If earnings deteriorate as interests rate increase, the balance sheet is more liability sensitive (negative gap).

In other words, if savings rates go up faster than loans can be repriced then earnings will go down. A little of that is not too bad. Too much is not good. Stable rates are a good thing however, rapid rate changes are generally not. So, the challenge is to know how your CU will deal with rate changes - either up or down. Rate changes can impact liquidity if you can't match the market. If you must borrow to meet share withdrawal demand (for whatever reason) you will have to pay the going rate for the loan, which is usually going the wrong way (up) when you need it.

Click here for FFIEC FAQs.

NCUA Letter to Credit Unions 10-CU-06

**CUNA Provides Checklist, Consolidates Final Rules & Regulation from 2018**
CUNA's 2018 Year-in-Review Checklist was recently released to consolidate resources and information available on the finalized rules and regulations that occurred during calendar year 2018.

Compliance staff designed the checklist to assist credit unions in updating necessary policies and procedures.

The checklist includes:

- The Consumer Financial Protection Bureau's (CFPB) pre-paid accounts rule;
- Amendments to the Truth in Lending Act-Real Estate Settlement Procedures (TILA-RESPA) rule;
- NCUA's share insurance advertising requirements;
- Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155) changes to:
    - Qualified mortgages;
    - Certain appraisal exemptions;
    - Exemptions from Home Mortgage Disclosure Act;
    - Certain escrow exemptions;
    - Member identification;
    - Veterans' credit reporting;
    - Reporting suspected senior financial exploitation;
    - Refinancing mortgages insured by the Department of Veterans Affairs;
    - Protections under the Servicemembers Civil Service Relief Act;
    - Private student loans;
- CFPB exceptions to privacy notice requirements;
- Capital planning and stress testing;
- Regulation CC (which implements the Expedited Funds Availability Act);
- Community charters/field-of-membership;
- Voluntary mergers; and
- Amendments to Regulation J.

---

Your CU Should Know

**$10.00 GRMA Fee Reminder**
The GRMA $10.00 per loan fees required by O.C.G.A. Section 7-1-1011(b)(2) and Department Rule 80-5-1-.04 are due by no later than March 1, 2019, for mortgage loans closed during the period of July 1, 2018 through December 31, 2018.

To avoid fines for failure to remit GRMA fees when due, reporting and payment must be completed online by the deadlines established in Rule 80-5-1-04. Refer to the Department's Frequently Asked Questions document for further information about the reporting and remittance requirements for GRMA per loan fees. Collecting agents submitting GRMA fees after the due date or for prior semiannual periods must complete and mail a paper form, along with their payment to the Department, using the fillable PDF form.

**CFPB Issues Small Entity Compliance Guide for Payment Related Provisions of Payday Lending Rule**
The Bureau has released a small entity compliance guide that summarizes the payment-related provisions of the Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule (Payday Lending Rule). The guide is available here.

**NMLS 2018 Annual Report Released**
The 11th annual report on NMLS operations, performance and new development efforts has been released in conjunction with the kick-off of the NMLS Annual Conference & Training. The report, "Transforming Supervision," highlights activities and progress achieved in 2018.

**Agencies Publish Private Flood Insurance Rule**
The OCC, Fed, FDIC, FCA and NCUA have published at 84 FR 4953 their previously announced [see the February 13 Story] final rule implementing the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 to require regulated lending institutions to accept policies meeting the definition of "private flood insurance." The rule will be effective July 1, 2019.

**Stress Testing Requirements Comment Period Extended**
The Federal Reserve Board has extended to March 21 the comment period for its proposed rule that would modify company-run stress testing requirements to conform with the Economic Growth, Regulatory Relief, and Consumer Protection Act. Originally, comments were due by February 19.

**SSA Amends Rules on Rep Payee Approval**
The Social Security Administration has published at 84 FR 4323 in today's *Federal Register* a final rule on conducting background checks to prohibit persons convicted of certain crimes from serving as representative payees under the Social Security Act, as required by the Strengthening Protections for Social Security Beneficiaries Act of 2018. The rule will be effective March 18, 2019.

**Venezuelan Officials Targeted by OFAC**
OFAC has announced its designation of five officials "aligned with illegitimate former President Nicolas Maduro, who continue to repress democracy and democratic actors in Venezuela and engage in significant corruption and fraud against the people of Venezuela."

As a result, all property and interests in property of the targeted individuals, and of any entities that are owned, directly or indirectly, 50 percent or more by such individuals, that are in the United States or in the possession or control of U.S. persons are blocked and must be reported to OFAC. OFAC's regulations generally prohibit all dealings by U.S. persons or within (or transiting) the United States that involve any property or interests in property of blocked or designated persons.

For identification information on these individuals, see OFAC Update.

**OFAC Sanctions Iranian Organizations and Individuals**
The Department of the Treasury announced that OFAC has designated an Iran-based entity that organizes international conferences that supported the Islamic Revolutionary Guard Corps-Qods Force's (IRGC-QF's) efforts to recruit and collect intelligence from foreign attendees, including U.S. persons, and four associated individuals. OFAC also designated a separate Iran-based entity and six associated individuals involved in the targeting of current and former U.S. government and military personnel as part of a malicious cyber campaign to gain access to and implant malware on their computer systems.

Because of this action, all property and interests in property of these individuals and entities that are in the United States or in the possession or control of U.S. persons are blocked and must be reported to OFAC. OFAC's regulations generally prohibit all dealings by U.S. persons or within (or transiting) the United States that involve any property or interests in property of blocked or designated persons. In addition, persons that engage in certain transactions with the individuals and entities designated today may themselves be exposed to designation.

For identifying information on the targeted individuals and entities, see OFAC Update.

**Pending Regulatory Comment Calls**

For more information regarding these proposals, please follow the links below:

| Issues | Comment Period Deadline | Agency | CUNA Staff Contact |
|---|---|---|---|
| Targeted Transition Relief for Credit Losses | Mar. 8, 2019 | FASB | Luke Martone |
| Payday, Vehicle Title, and Certain High-Cost Installment Loans; Delay of Compliance Date | Mar. 18, 2019 | CFPB | Alexander Monterrubio |
| Validation and Approval of Credit Score Models | Mar. 21, 2019 | CFPB | Mitria Wilson |
| Consumer Credit Card Market | May 1, 2019 | CFPB | Alexander Monterrubio |
| Payday, Vehicle Title, and Certain High-Cost Installment Loans | TBD | CFPB | Alexander Monterrubio |

---

The CUNA Advocacy Update keeps you on top of the most important changes in Washington for credit unions - and what CUNA is doing to monitor, analyze, and influence government agencies and federal law. You can view the current report and past reports from the archive.