



Anticipated “Hot Topic”: Disaster Preparedness

One of the compliance “hot topics” this year will be disaster preparedness. With hurricanes Katrina, Rita and Wilma in 2005, the September 11, 2001 terrorist attacks, and the Oklahoma City bombing in 1995, having plans in place for responding to a disaster has become a higher priority than it has been in years past.

On December 7th CUNA’s Board of Directors adopted a national disaster preparedness plan for credit unions to coordinate responses to challenges created by a national catastrophe or emergency.” The Credit Union System National Disaster Plan will coordinate essential and appropriate responses to significant financial, operational, legal, political and public challenges. According to CUNA Chairman Juri Valdov, the plan’s purpose is to aid in coordinating the credit union’s response to catastrophes or emergencies.

In the development of this plan, much of the focus was on lessons learned from past disasters. Some of these lessons learned include:

- “A coordinated plan for disaster assessment that triggers ‘next step’ activities is essential. This includes a ‘triage’ team to evaluate and coordinate national assistance for leagues, credit unions, credit union staff and members, and to coordinate with federal agencies.”
- “‘Cash is King.’ Members need cash after a disaster or catastrophe. Plastic, in an environment of no power and little communications, becomes mostly useless. Credit unions, heeding storm and other warnings, must be prepared to have additional cash on hand, including methods to disburse cash.”
- “Alternate communication and operation sources are critical to business continuity and disaster recovery—particularly for credit union staff, and for continuing credit union operations from alternate locations.”
- “Additional strategic business partners should be identified to meet the emergency needs following a disaster.”

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Bank Secrecy Act Compliance

While “reasonable efforts” for Bank Secrecy Act Compliance are likely to be acknowledged by regulators, the “level of reasonableness” is changing. Addressing a large group of credit union personnel attending a four-day BSA compliance conference, David Asher, a financial industry consultant, warns credit unions that the standard of what is a reasonable compliance effort is “dynamic in nature.” “The bar will continue to rise... [and regulators and examiners] will be looking for a proactive approach, not a reactive approach” to complying with BSA requirements. Though there is no regulatory requirement that a credit union execute a risk assessment, the regulators are underscoring that a good assessment of risk is a necessary cornerstone to any good BSA compliance program. Such an assessment requires a real understanding of a member’s:

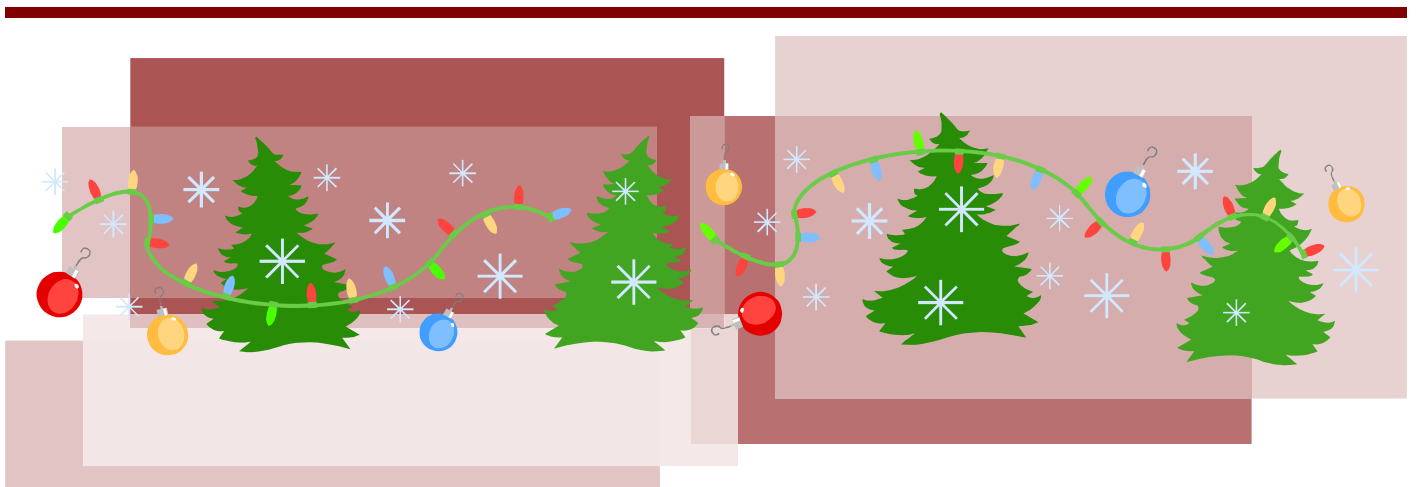
- Employment or business;
- Anticipated source of funds; and
- Anticipated recipient of payments

As well as:

- The anticipated nature of a member’s receipts and disbursements, such as checks, wires, currency, monetary instruments, inter-account transfers and more; and
- The anticipated amounts of those receipts and disbursements

Know your Customer (KYC) or Customer Due Diligence (CDD) [KYM or MDD for credit unions] efforts cannot be static, and *at minimum*, high risk accounts should be revisited annually.

Allen Leslie, another compliance expert, indicates that step-one of BSA compliance (pulling together the information) is something at which the majority of credit unions have become fairly proficient. The second step, that is analyzing information, can pose problems and challenges, he said. Leslie noted that a credit union should take the risk ratings obtained through their information gathering step and relate them to their Customer Identification Program (CIP/MIP) process and their Know Your Member (KYM) or Customer Due Diligence process. ‘Even if your risk assessment is not account by account or member by member, it should at least group or stratify members by levels of risk’ he noted.



ALLL Policy Update Released by Financial Regulators

On Wednesday, December 13th the National Credit Union Association (NCUA) issued an interagency policy statement with the other federal financial institution regulators on the allowance for Loan and Lease Losses (ALLL). This new regulatory statement is the 1st time that the ALLL policy has been updated in 13 years, but according to Mary Dunn, Credit Union National Associations's senior Vice President for regulatory advocacy and deputy general counsel, this statement, to a degree, simply incorporates accounting guidance that is already available elsewhere. Dunn adds that CUNA will be analyzing the interagency action to provide further guidance for credit unions.

In a release, the NCUA said the agencies believe an assessment of the appropriateness of the ALLL is critical to the safety and soundness of a financial institution, especially in today's uncertain economic environment and when concentrations in untested loan products are present. The original 1993 policy—which did not have NCUA's involvement— was intended to describe:

- The responsibility of the Boards of Directors, management, and examiners of banks and savings associations regarding the ALLL;
- Factors to be considered in the estimation of the ALLL; and
- The objectives and elements of an effective loan review system, including a sound credit grading system.

The revised policy statement updates this guidance and also extends it to credit unions and their examiners.

The NCUA announcement noted that because of the updated policy's significance, each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the ALLL and the provision for loan and lease losses. To fulfill this responsibility, the agency said, each institution should ensure controls are in place to consistently determine the ALLL in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

PMI Insurance Change

According to a press release from the PMI Group, Inc. and PMI Mortgage Insurance Company, private mortgage insurance is now tax deductible for those making \$100,000 or less annually. Congress passed a law before adjourning December 9th allowing borrowers closing loans to purchase homes in 2007 who have annual household incomes of \$100,000 or less to be able to deduct the full cost of their mortgage insurance premiums on their federal tax returns.

2007 Compliance Training Schedule

	Monday	Tuesday	Wednesday	Thursday	Friday
January	1- Offices Closed	2	3	4	5
	8	9	10	11	12
	15- Offices Closed	16	17—RTFPA	18—RTFPA	19
	22	23	24	25—HOEPA	26
January/February	29	30	31—UCC 3 & 4	1—UCC 3 & 4	2
	5	6	7	8	9
	12	13	14—E-Sign	15—E-Sign	16
	19—Offices Closed	20	21—UCC 9	22	23
February/March	26	27	28	1	2
	5	6	7—Lending regs.	8	9
	12	13	14	15	16
	19	20	21—Fair Housing	22	23
	26	27	28—TISA/TILA advertising	29—TISA/TILA advertising	30
April	2	3	4	5	6
<i>Key:</i>	9	10	11	12	13
<i>Everyone Loan Dept.</i>	16	17	18—RESPA	19	20
<i>Front Line Loan and Front Line</i>	23— Post Testing (during day)	24—Post Testing (during day)	25	26	27

Compliance Kudos!

There were several people who received Compliance Bucks the past couple of months. Congratulations to all of you who found the error on the Newsletter Quiz. A special congratulations goes out to **Sarah** who found a misleading typo in the last newsletter and who found a FOM error on the website!

This newsletter will be archived on the ISPCU intranet!

Inspirational Thoughts:

And the Grinch, with his Grinch-feet ice cold in the snow, stood puzzling and puzzling, how could it be so? It came without ribbons. It came without tags. It came without packages, boxes or bags. And he puzzled and puzzled 'till his puzzler was sore. Then the Grinch thought of something he hadn't before. What if Christmas, he thought, doesn't come from a store. What if Christmas, perhaps, means a little bit more.

From "The Grinch Who Stole Christmas"
~ Dr. Seuss