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| **September 2016** |
| Dear CU PolicyPro Client,  *Note from the CU PolicyPro Staff: We apologize that the September newsletter is coming out in October. We needed a few extra days to put the finishing touches on the 3rd Quarterly Content Update.  Thanks for your patience!*  The leaves are changing and so are the regulations.  Thankfully, in the **third quarter content update**, we have addressed one of the largest changes impacting credit unions that conduct [Member Business Lending](https://www.federalregister.gov/documents/2016/03/14/2016-03955/member-business-loans-commercial-lending).  These changes go in to effect on January 1, 2017 so credit unions should have time to review and customize policy 7420 accordingly.  There’s more information below on the content update, including information on how this affects your credit union’s policies and what you need to do next.  **In this edition:**   * Monthly OPS Notes Release: Member Business Lending / Commercial Loans * Content FAQ * 3rd Quarter 2016 Content Update * Technical FAQ * Questions? |
| **Monthly OPS Notes Release: Member Business Lending / Commercial Loans** |
| There were significant changes made to Section 723 of NCUA rules impacting Member Business Lending that become effective on January 1, 2017.  To highlight and summarize some of the changes, the NCUA published a [Summary of Key Changes](https://www.ncua.gov/About/Documents/Agenda%20Items/AG20160218Item2c.pdf), which is helpful for credit unions that are trying to implement changes to their program based on the new rules.  Highlighted below are some of the significant changes that credit unions will want to know.  **Coverage**  The new regulation allows credit unions that meet **all** of the below conditions to be **exempt** from the Board and Management responsibilities provisions (**723.3**) and the policy requirements (**723.4**):   1. Total assets are less than $250 million, 2. Aggregate amount of the below loans total less than 15% of the Credit Union’s net worth:    1. Outstanding commercial loan balances and unfunded commitments, **plus**    2. Any outstanding commercial loan balances and unfunded commitments of participations sold, **plus**    3. Any outstanding commercial loan balances and unfunded commitments sold and serviced by the Credit Union, and 3. In a given calendar year, the amount of originated and sold commercial loans the Credit Union does not continue to service total less than 15% of the Credit Union’s net worth.   **Definitions**  Credit unions should be aware of the new definition of a “commercial loan” that was added in the new regulation.  Additionally, there is clarification on types of loans that are considered commercial loans, but not considered member business loans and therefore are not included in the aggregate limit and related MBL cap.  There are also loans that are considered member business loans and included in the cap, but are not considered commercial loans under the new rules.  **Commercial loan –** any loan, line of credit, letter of credit (including any unfunded commitments), and any interest a credit union obtains in such loans made by another lender to individuals, sole proprietorships, partnerships, corporations or other business enterprises for commercial, industrial, agricultural, or professional purposes, but not for personal expenditure purposes.  The following loans are **excluded** from the **commercial loan** definition:   * 1. Loans made by a federally insured credit union (FICU) to another FICU.   2. Loans made by a FICU to a credit union service organization (CUSO).   3. Loans secured by a 1 to 4 family residential property (whether or not it is the borrower’s primary residence).   4. Loans fully secured by shares in the Credit Union making the extension of credit or deposits in other financial intuitions.   5. Loans secured by a vehicle manufactured for household use.   6. Loans that would otherwise meet the definition, but when aggregated (outstanding balances plus unfunded commitments), less any portion secured by shares in a credit union to a borrower or an associated borrower, equal less than $50,000.   **Member business loan (MBL)** – means any commercial loan, except that the following commercial loans are not considered member business loans and are not counted toward the aggregate limit:   * 1. Any loan in which a federal or state agency fully insures repayment, fully guarantees repayment or provides an advance committee to purchase the loan in full; and   2. Any non-member commercial loan or non-member participation interest in a commercial loan made by another lender, provided the Credit Union acquired the non-member loans and participation interests in compliance with all relevant laws and regulations.   The following loans are **excluded** from the commercial loan definition, but are considered **member business loans** (if the outstanding aggregate new member business loan balance is $50,000 or greater) and are counted toward the Credit Union’s aggregate member business lending limit:   1. Loans secured by a lien on a 1 to 4 family residential property that is not  member’s primary residence; and 2. Loans secured by a vehicle manufactured for household use that will be used for a commercial, corporate, or other business investment property or venture, or agricultural purposes.   **Expertise and Experience**  The previous requirements of having personnel with a minimum of 2 years’ experience in making and administering business loans was removed from the revised regulation.  Instead, credit union’s **senior executive officers** who oversee the commercial lending activities must have (at a minimum) a comprehensive understanding of the role of commercial lending in the Credit Union’s overall business model and establish a risk management processes and controls necessary to safely conduct commercial lending.  **Lending staff** must have experience underwriting and processing the types of commercial loans the Credit Union engages in, overseeing and evaluating the performance of the portfolio, including rating and quantifying risk through the credit risk ratings system and conducting collection and loss mitigation activities for the types of commercial loans the Credit Union is engaged in.    The Credit Union can meet the experience requirements by conducting internal training and development, hiring qualified individuals or using a third party, such as a CUSO.  **Credit Risk Ratings**  The revised regulation requires that credit unions assign risk ratings to commercial loans at inception and to review them as frequently as necessary to satisfy risk management policies and to ensure adequate reserves as required by generally accepted accounting principles (GAAP).  There is also a definition of a **credit risk rating system** which means a **formal process** that identifies and assigns a relative credit risk score to each commercial loan in portfolio, using ordinal ratings to represent the degree of risk.  The credit risk score is determined through an evaluation of quantitative factors based on financial performance and qualitative factors based on management, operational market and business environmental factors.  **Construction and Development Lending**  The previous limit (without a waiver) for aggregate member business loans for construction and development loans of 15% of net worth has been removed from the revised regulation.  There were additional changes made to the regulation with regarding the determination of collateral values, policy requirements and the disbursement process. |
| **Content FAQs** |
| **Question:  What is the significance of adding the new definition of “commercial loan” in the revised rules?**  **Answer:** The commentary in the revised regulation indicates that the new “commercial loan” definition was added to distinguish between commercial lending activities and the statutorily defined “member business loans” (MBLs).  Member business loans are subject to a statutory cap (**723.8**) of the lesser of 1.75 times the actual net worth of the Credit Union or 1.75 times the minimum net worth required under Prompt Corrective Action rules.  Commercial loans are subject to the rule’s safety and soundness provisions, but may not be included in the MBL statutory cap calculation.  Be on the lookout, as the NCUA also indicates in the commentary of the revised regulation that the Call Report will be modified and instructions provided to credit unions prior to implementation of the final rule.  **Question: In the revised rules, is it correct that there are no longer 80% loan-to-value (LTV) thresholds?**  **Answer:** Correct.  The previous requirements to have a maximum loan-to-value ratio for all liens not to exceed 80% was removed from the revised regulation.  The revised regulation indicates that the Credit Union must require collateral commensurate with the level of risk associated with the size and type of any commercial loan.  Credit unions making unsecured loans must determine and document the loan file the mitigating factors that sufficiently offset risk.  The commentary of the revised regulation indicated that the NCUA will be issuing supervisory guidance that will focus on the Credit Union’s process for establishing sufficient collateral protections. |
| **3rd Quarter 2016 Content Update** |
| We are pleased to announce the third quarterly content update for 2016 for the CU PolicyPro Operations Manual - Update Version 2016.3.  This update includes **nineteen policy updates,** plus the addition of **one new policy: Policy 4305 - Configuration Management.  A full listing of the updated policies can be found in the "Update Overview" document below.**  The tracked changes version of each update can be found in the Resources Area of CU PolicyPro (under the “Updates” tab). There is also a full word version of the new policy that mirrors the content found in the online Model Policies Manual. It is important to note that when updates are made to the Model Policies Manual, these updates do not automatically go into your CU Policies Manual. We do not want to take the chance of overwriting your content, or putting in content that may not apply to your credit union.  There is more information below on the next steps necessary to incorporate the updates into your own policies. Next Steps for your Credit Union Using the “Overview” document below, and the “Tracked Changes” information found in the Resources Area of CU PolicyPro (under the “Updates” tab), review the changes for each policy, and for each policy decide if you want to:   1. Do nothing and leave your policy as is (usually only if the update does not apply to your credit union, or you are not currently using the policy) 2. Remove the policy from your CU Policies Manual and bring in the updated policy in its entirety (usually if your CU Policies Manual version has little or no customization, or if our updates were very extensive and it would be easier to start with the updated content and re-customize for your credit union) 3. Use the redlined version as a guide and manually incorporate the updates into your CU Policies Manual version (usually if the updates were very minor, or if your CU Policies Manual version is heavily customized and it would be less work to manually add the updates rather than re-customize the policy)  Documentation The following documentation is available online to help you understand the updates and incorporate them into your CU Policies Manual:   1. [Update Overview](http://infosight.secure.cusolutionsgroup.net/files/infosight/34973/file/CUPolicyPro/System%20Documents/content%20updates/An%20Overview%20-%202016%203.docx) - this lists all of the updated and new policies and provides a brief overview of what was updated and why it was updated. 2. [Video Webinar](http://infosight.secure.cusolutionsgroup.net/Content_Updates_Training_Video_43295.html) - Updating Your Working Manual - this recorded webinar walks you through the update process, including manually inserting the updated content into your policies.  Please note this webinar was recorded using the content from a previous update; however, the methodology will be the same for any update. 3. [Alphabetical Policy Listing](http://infosight.secure.cusolutionsgroup.net/files/infosight/34973/file/CUPolicyPro/System%20Documents/Alphabetical%20Policy%20List.pdf) - this is an updated version of the alphabetical policy listing, which is helpful for finding particular policies.   **As with all the policies, you may need to modify these updates to meet your specific needs and ensure they comply with state law regulations.**   If you have any questions, please contact the CU PolicyPro support team at [policysupport@cusolutionsgroup.com](mailto:policysupport@cusolutionsgroup.com). |
| **Technical FAQs** |
| **Question: I logged into CU PolicyPro and everything looks different.  What’s changed?**  **Answer:** In September 2016, we made a large technical update to CU PolicyPro. This long-awaited system upgrade includes a brand new look and is packed with new features and functionality.  Please visit our support site at: <http://leagueinfosight.com/CU_PolicyPro_Enhancements_Overview_and_Tutorial_53255.html> for a list of the new enhancements and features as well as a link to a video overview and tutorial that walks through the new site layout, terminology and each of the new features and tools.  If you have any questions or need more information, please don’t hesitate to contact our support staff at [policysupport@cusolutionsgroup.com](mailto:policysupport@cusolutionsgroup.com). |
| **Questions?** |
| If this information was forwarded to you, and you'd like to be on the distribution list to receive information and updates related to CU PolicyPro, or if you have any questions regarding the CU PolicyPro content, or questions on how to use the system, please contact [policysupport@cusolutionsgroup.com](mailto:policysupport@cusolutionsgroup.com).  Thanks and have a great weekend! |