



**NCUA**  
National Credit Union Administration

Joanne Black, Supervisory Examiner  
Eastern Region

# Eastern Region Trends and Supervisory Priorities

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**Any opinions expressed are the presenter's own views and do not necessarily reflect those of the National Credit Union Administration or the NCUA Board.**



# FINANCIAL TRENDS

# Maine Credit Union Trends

Ratio	Nation 12/31/23	Nation 6/30/24	Eastern 12/31/23	Eastern 6/30/24	ME 12/31/23	ME 6/30/24
Net Worth	10.94	11.07	10.96	11.07	10.33	10.33
Return on Average Assets	0.68	0.69	0.62	0.69	0.78	0.61
Delinquent Loans to Loans	0.83	0.84	0.76	0.75	0.66	0.65
Net Charge Offs	0.61	0.79	0.37	0.52	0.20	0.27
Loans to Shares	85.21	83.97	83.27	81.80	81.01	79.71
Loan Growth (annualized)	6.38	1.86	-1.23	1.39	7.76	4.66
Cash & ST Investments	11.47	12.74	11.22	13.08	13.32	14.35



# **SUPERVISORY PRIORITIES**

# Supervisory Priorities



**Credit Risk**

**Liquidity Risk**

**Interest Rate Risk**

# Supervisory Priorities



**Information Security (Cybersecurity)**

**Consumer Financial Protection**

# Credit Risk

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Allowance for credit losses (ACL)

Common/potential issues:

1. Loans have grown substantially, and the ACL is declining.
2. Inadequate policy – i.e. no defined lookback period, or defined WAL.
3. The ACL does not address qualitative factors.
4. No independent evaluation of model.
5. The ACL policy does not address collateral dependent loans.



# Liquidity Risk

- Pressure in deposit pricing and the use of wholesale funding is accelerating as alternative funding options.



- Member behaviors and risk relationships are changing, thus requiring a greater focus on forecasting assumptions, forward-looking cash flows, and risk projections.

# Liquidity Risk

## Common Issues identified:

- Insufficient borrowing capacity. Consider unfunded lending commitments and decline in shares.
- Insufficient stress testing – stress is not as severe as actual outflows seen in 2022 and 2023.
- Outside of liquidity policies and not addressed in ALCO and Board minutes. No plan to return to compliance.
- Stress testing shows deficient liquidity, but no potential mitigation is addressed.
- Consider ebanking and impact on liquidity.

# Interest Rate Risk (IRR)

Higher interest rates continue to amplify market risk in asset and liability repricing mismatches.



# Interest Rate Risk

## Common Issues Identified:

- Key assumptions are not well supported. I.E. – CU experienced substantial outflow of NMS when rates increased. Can you support longer maturities on NMS?
- No Back testing and sensitivity analysis of assumptions. I.E. – CU experiencing compressed NIM, but income simulation shows increasing earnings.
- Outside of IRR policy and no discussion in ALCO or board minutes and/or no discussion of plan to come back into compliance.

# Concentration Risk

## Common Issues Identified:

- Credit Union has not established concentration limits for various products.
- Real Estate limits do not consider total mortgage backed securities. I.E. loans and Investments, which behave similarly in changing rate environments.
- No stress testing of the concentration limits.

# Questions

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- 1. Succession planning**
- 2. Executive Benefits**
- 3. Top Performing Boards and Supervisory Committees**

# Contact Information

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**Feel free to contact us with questions or comments.**

**Primary Staff:**

Joanne Black, Supervisory Examiner

**Work Phone:**

207-776-9841

**Email:**

[jblack@ncua.gov](mailto:jblack@ncua.gov)