Branch Closures

Question – Is there any prohibition against a credit union closing due to a pandemic? Is there requirement to notify NCUA or any required member disclosures?

Answer – Temporary branch closures may be appropriate as the COVID-19 issue continues to develop. In Letter to Credit Unions 20-CU-02, NCUA noted that there is no federal law or regulation that would prevent a FCU from closing its offices. NCUA also stated “A FCU may adopt reasonable measures to safeguard the health and safety of its staff and members. CUs taking these measures, however, should ensure they apply the policy in a uniform and consistent manner. FCUs should follow the direction of any federal, state or local authorities with respect to social distancing or related measures.” NCUA also clarified that credit unions have the flexibility to make reasonable, good faith decisions to close branches and offer members services through other channels like phone, ATM, or online. Additionally, the decision to make closures could be ratified by the credit union’s board by email or at a future board meeting.

FCUs may see banks or other financial institutions in their area taking different steps. This is likely because other regulators and state chartering authorities have instituted guidance and requirements for closures, including reporting branch closures to the agencies. For example, under 12 USC §1831r-1 of the Federal Deposit Insurance Act, any depository institution insured by the FDIC is required to provide notice to regulators of branch closings. In 1999, these agencies issued an interagency policy statement on branch closure notices that, while not binding on credit unions, may be useful.

Question – When would a credit union need to report branch or operational closures to NCUA?

Answer – NCUA has rules for filing catastrophic act reports. 12 CFR 748.1(b) requires federally insured credit unions to notify their regional director within five business days of “any disaster, natural or otherwise...causing an interruption in vital member services...projected to last more than two consecutive business days.” A “vital member service” is a defined term that includes “informational account inquiries, share withdrawals and deposits, and loan payments and disbursements.” In the preamble to the final rule, NCUA gives the following example: “If a credit union, normally operating Monday through Friday from 9:00 am to 5:00 pm, shuts early on Thursday because a hurricane has caused a loss of power, the credit union must file a report only
if it is unable to provide vital member services, through any of its delivery channels, by 9:00 am on Tuesday.” See, 72 Fed. Reg. 42271, 42272. As long as a credit union is able to provide “vital member services” during a disaster or evacuation, it does not need to notify NCUA, assuming there is no physical damage or destruction of the credit union. Credit union closures or broad branch closures may need analyzed for whether vital member services are being disrupted.

Closing a branch or certain credit union operations, especially for an extended period of time, may have employment law implications as well. A credit union may want to consult with counsel to address these kinds of issues.

**Corporate Governance and FCU Bylaws**

**Question – Our annual meeting was supposed to happen soon, can we delay our annual meeting?**

**Answer –** At this point, multiple states have prohibited large gatherings in certain areas or even statewide. Others may follow suit as the COVID-19 issue continues to evolve. Many credit unions have asked about rescheduling annual meetings. For federal credit unions (FCUs), NCUA addressed postponing meetings. In Letter to Credit Unions 20-CU-02, NCUA indicated that FCUs can delay or postpone the annual meeting, which may include amending the FCU’s bylaws to change the specific date of the meeting.

**Question – Can our annual meeting be held remotely?**

**Answer –** In recent guidance, NCUA declined to provide such relief at this time. While virtual attendance is permitted, that is so long as “an in-person meeting is held for those who cannot attend virtually or choose to attend in-person.” NAFCU continues to seek additional relief and flexibility for credit unions to operate in the current environment.

**Question – If we are postponing our annual meeting but already sent out our paper notices, do we need to resend those notices with the new meeting date?**

**Answer –** Unfortunately, in recent guidance NCUA indicated that if a FCU reschedules or postpones its annual meeting, “it should provide notice of the rescheduled meeting as required in the FCU Bylaws.” Under Article IV, Section 2, a FCU must provide written notice to each member of the annual meeting at least 30 but no more than 75 days in advance. If a member as opted to receive statements and notices electronically, the FCU may provide the meeting notice electronically.
Question – Can our board of directors meet remotely?

Answer – As NCUA noted in Letter to Credit Unions 02-CU-01, NCUA’s bylaws do permit fully virtual board meetings for FCUs. Article VI, Section 5 of the bylaws indicates that the board “must hold a regular meeting each month,” only one regular meeting per calendar year needs to be in person. Even then, if “a quorum of the board is present at the in-person meeting,” then the rest of the board can attend by audio or video teleconference and still meet the requirement to have an in-person meeting. If a FCU has not adopted the most recent NCUA bylaws, the 2007 version of the bylaws also allowed the board to meet by audio or video teleconference.

Operational Challenges

Question – We have heard that some financial institutions are finding that members are rushing to withdraw cash at this time. Can a credit union limit the maximum amount of cash that a member can withdraw in-person at the branch?

Answer – There are no federal requirements that prohibit a credit union from setting a cash withdrawal limit. There are some credit unions that may include limits in their account agreements or have policies that require a member to provide notice to the credit union in the event that the member wants to make a cash withdrawal over a certain amount. Absent any contractual limitations, the credit union may need to make a risk-based determination about whether it wants to cap cash withdrawals at a certain amount. It is NAFCU’s understanding that some institutions will provide cash in an amount up to their maximum cash withdrawal amount and then pay the balance of the withdrawal with a cashier’s check.

Question – What are some things a credit union can do to provide services its members during a pandemic like the coronavirus outbreak?

Answer – NAFCU has heard of credit unions around the country using multi-faceted approaches to mitigate risks and remain operational during this time. Many credit unions have communicated with their membership on steps the credit union is taking in its operations while encouraging members to use remote based services where possible. Where branches remain open, many credit unions have implemented social distancing including asking members to keep some distance between themselves and staff/other members. Other credit unions are having tellers wear gloves and cleaning/sanitizing work areas with high frequency. Many have also increased cleaning overall including regularly sanitizing high traffic areas like ATMs and doors. Where risks are higher, we have heard of some credit unions only offering drive-thru services at branches or even closing branches depending on the circumstances.

Many credit unions are mitigating risks in their other offices as well. This includes having employees who are able telework, replacing in-person meetings with conference calls, conducting interviews for job candidates by phone or video call, and limiting nonessential vendors’ access to facilities.
**Question – Does our credit union have to follow the funds availability requirements in Regulation CC because of the coronavirus?**

**Answer** – It is possible that a credit union may be able to take advantage of the emergency conditions exception hold described in section 229.13(f) to delay funds availability. At the outset, it is important to note that the emergency conditions exception does not apply to in-person cash deposits or electronic payments like an ACH credit transfer. Regulation CC requires that those deposits be made available the next business day following the banking day of deposit. But for checks subject to sections 229.10(c) (e.g., state and local government checks, U.S. Treasury checks, USPS money orders, etc.) and 229.12 (e.g., local checks, etc.), those funds availability rules do not apply if (1) the credit union’s communications, computers, or facilities are interrupted; (2) another bank suspends making payments; (3) a war affects the ability to make funds available; or (4) there is an emergency condition beyond the control of the credit union. There is one additional requirement: The credit union needs to exercise “such diligence as the circumstances require” in order to invoke the exception.

The commentary provides an example of when a credit union might be able to use the exception:

“For example, if a bank learns that a check has been delayed in the process of collection due to severe weather conditions or other causes beyond its control, an emergency condition covered by this section may exist and the bank may place a hold on the check to reflect the delay.” See, 12 CFR Part 229, App. E, comment 229.13(f)-1

So, if the credit union learns that the collection of a check has been delayed due to causes beyond its control, the commentary suggests that the credit union may be able to invoke the emergency conditions exception hold.

When the emergency exception hold is provided, section 229.13(g)(4) requires that the credit union provide notice to the member in a reasonable form and within a reasonable time given the specific circumstances. Under the rule, the notice generally needs to include the reason the exception was invoked, the time period for the availability of funds (unless it is unknown), and when the funds shall be made available. The rule, however, does not require notice if funds are made available before the notice must be sent.

**Question – We read that the Federal Reserve Board suspended reserve requirements at this time. Does this mean that the six-transaction limitation in Regulation D does not apply?**

**Answer** – NAFCU sought clarification on this from the Federal Reserve, and staff indicated that Regulation D is still in effect. However, the requirement to reserve against transaction accounts is not. As a result, when making the business decision to classify accounts as transaction accounts...
instead of savings accounts, there is no need to increase reserves to maintain the reserve ratio. Credit unions can continue to use their discretion on whether to classify each account as transaction or non-transaction accounts. This announcement essentially makes it cheaper to consider savings accounts to be transaction accounts, for reserve requirement purposes under Regulation D, since credit unions may avoid the transfer limit headache. For additional information, it may be helpful to review sections 204.2(d)(2) and (e) of Regulation D as well as the Federal Reserve’s Regulation D Compliance Guide. At this time, the elimination of the reserve requirement is not necessarily permanent. This means that a credit union that treats all accounts as transaction accounts for reserve purposes may want to consider what the difficulties would be in reverting back to treating certain accounts as savings deposits and re-instituting the six-transaction limitation. NAFCU will keep members posted as this issue evolves.

**Question – What should credit unions do if the coronavirus may affect their ability to timely file BSA reports (SARs, CTRs, etc.)?**

**Answer** – The Financial Crimes Enforcement Network (FinCEN) recently issued guidance that mirrored the advice it offered in response to several natural disasters that impacted the ability of a credit union to timely file BSA reports. In short, FinCEN advised credit unions to contact FinCEN and their functional regulator as soon as practicable to discuss their concerns and specific situations.

**Question – What should a credit union due if the coronavirus impacts their ability to file the Call Report in a timely fashion?**

**Answer** – In Letter to Credit Unions 02-CU-20, NCUA stated that credit unions experiencing this problem should fine as soon as possible and inform NCUA’s Office of Examination and Insurance at CallReportLateFiler@ncua.gov as to the reason for the delay when they do file. NCUA also noted state-chartered credit unions should contact their state regulator.

**Question – Can account statements and electronic disclosures be provided electronically if the coronavirus limits a credit union’s ability to send them in in paper form?**

**Answer** – Credit unions may send periodic statements and account or loan disclosures electronically, but the credit union generally must obtain the member’s consent before doing so. The Electronic Signatures in Global and National Commerce Act (E-SIGN) contains requirements for delivering disclosures electronically. In Regulatory Alert 01-RA-03, NCUA indicated that before a credit union could send required disclosures electronically, two things had to happen. First, the credit union must provide members with certain disclosures such as the scope of the consent to receive disclosures electronically and what hardware or software is needed to access disclosures. Second, after the member receives this information, he or she must voluntarily consent to receive electronic disclosures. That is, the member needs to reasonably demonstrate that he or she can
access the records and disclosures the credit union will provide in electronic form. In short, the E-SIGN Act creates an “opt-in” system for consumers.

Failure to comply with the E-SIGN consent requirements before sending required disclosures to consumers is essentially as if the credit union had not sent the disclosures in the first place.

There are certain types of disclosures that do not require E-SIGN consent, but these are usually advertising disclosures or disclosures in connection with an electronic application. This means disclosures for accounts, loans, adverse action notices under Regulation B, and most Regulation Z disclosures can only be provided electronically if made in compliance with E-SIGN. Some FAQs on E-SIGN can be found here and credit unions may also find this Consumer Compliance Outlook article from the Philadelphia Federal Reserve helpful.

**NCUA Examinations**

**Question – Our credit union anticipates its NCUA exam to happen soon. How is COVID-19 impacting NCUA exams?**

**Answer** – According to Letter to Credit Unions 02-CU-20, at this time, NCUA has all examiners working remotely through March 30, 2020. The agency will re-evaluate this policy every two weeks and generally, no onsite exam work will be scheduled until further notice unless there is an “exigent circumstance.” NCUA examiners will utilize technology including teleconference and videoconference options to interact with credit unions.

**Question – How will NCUA gather information through offsite exam efforts?**

**Answer** – According to Letter to Credit Unions 02-CU-20, examiners and credit unions can use NCUA’s Secure File Transfer Portal (SFTP) to share information. The SFTP is a “protected workspace where NCUA staff and partners can share large or sensitive files.” NCUA has published a guide for using the SFTP. While the SFTP is NCUA’s preferred method for exchanging information, other options will be available. This includes: using the Zix Gateway to initiate encrypted email exchange; password-protected zip files using strong passwords; and credit union file transfer portals under certain conditions.

**Helping Members**

**Question – Our credit union is considering ways to help our members. Does NCUA have guidance on potential concerns for assisting our members?**

**Answer** – Federal financial regulators, including NCUA and the CFPB, issued a statement encouraging financial institutions to “work constructively with borrowers and other customers in [COVID-19] affected communities.” Additionally, the regulators indicated that “prudent efforts that are consistent with safe and sound lending practices should not be subject to examiner
criticism.” In Letter to Credit Unions 20-CU-02, NCUA indicated this may include: waiving ATM fees, overdraft fees, late fees, and early withdrawal penalties; increasing ATM daily cash withdrawal limits; increasing credit card limits for creditworthy borrowers; easing credit terms for new loans for members who qualify, and offering payment accommodations like deferments or extending due dates.

NCUA indicated that “prudent efforts” to help members on existing loans “will not be subject to examiner criticism.” NCUA also stated that credit unions may ease terms for new loans to affected borrowers “where prudent.” Overall, NCUA does not have prescriptive lending underwriting requirements, but does expect credit unions to operate a safe and sound lending program including following their own lending policies and procedures. Keep in mind that the CFPB has ability to repay requirements for certain mortgages and for credit card products.

Question – Can a credit union modify a loan by extending the amortization period but not the actual maturity of the loan?

Answer – NCUA’s rules and regulations concerning long-term mortgage loans to members state a federal credit union may make residential real estate loans, including loans secured by a manufactured home permanently affixed to the land, with a maturity of up to 40 years subject to conditions as outlined in the rule. See, 12 C.F.R. § 701.21(g). The regulation does not stipulate a time limitation requirement for balloon loan amortizations. The agency issued a legal opinion letter stating it does not regulate the amortization rate of loans, only the loan maturity. The letter also indicates that balloon loan amortizations are permissible if the loan does not exceed the maturity limitations. See, NCUA Legal Opinion Letter 93-0508.

Question – If a skip-a-payment program is implemented on open-end loans, is a change in terms notice required?

Answer – Regulation Z governs the notice and disclosure requirements for skip-a-payment programs and fees. Generally, the member is not required to receive a change in terms notice prior to using the skip-a-payment program. If the program is not disclosed in the account opening disclosures, however, the credit union will be required to issue a change in terms notice prior to resuming the original payment schedule.

Section 1026.9 of Regulation Z covers subsequent disclosure requirements for open-end credit. The commentary to section 1026.9(c)(2) discusses skip-a-payments and change in terms notices for open-end credit. This clarifies that, for open-end credit, if the account opening disclosures included the terms for the skip a payment feature, no prior or subsequent notice would be required when the member opts to use the feature. If notice was not given in the account opening disclosures concerning the higher payments upon resumption, Regulation Z would require the credit union to issue a change in terms notice prior to resuming the original payment schedule.
As the commentary notes, if the credit union did not disclose the skip feature at account opening, it does not need to give advance notice of the skip feature. It can be on the offer for the feature, and the change in terms advance written notice required by section 1026.9 may be combined with the notice of the skip feature offer.

**Question – What is required to implement a skip-a-pay program for closed-end loans?**

**Answer** - There is nothing in Regulation Z that suggests that skip-a-pay programs are not permissible for closed-end credit. Usually, a skip-a-pay can either be built into the loan agreement as an option the member can exercise at some point, or function as a separate offer to allow the member to skip-a-payment and modify the existing loan by extending the term by one month. If it is built into an existing agreement the terms are there, but the reason many skip-a-pay situations require a formal loan modification is to clearly establish the credit union's legal right to extend the loan term by one month and collect those funds.

When it comes to closed-end lending, Regulation Z does not appear to require the credit union to issue new disclosures as part of a closed-end loan modification. Section 1026.17(e) states that “[i]f a disclosure becomes inaccurate because of an event that occurs after the creditor delivers the required disclosures, the inaccuracy is not a violation of this part, although new disclosures may be required” under other parts of the rule depending on the specific circumstances. Additionally, section 1026.20, which governs the post-consummation disclosure requirements for closed-end credit, only requires new account opening disclosures when the credit transaction has been “refinanced” or completely satisfied and replaced by a new credit agreement.

Credit unions may consider notifying the member that by modifying the loan, they may be pushing back the maturity date to make sure that the member is making an informed choice. Providing a written disclosure of the new maturity date may also reduce any litigation or reputation risk that may result in the event that the member forgets about the modification or otherwise disputes the terms of the modification agreement. State law may also require the credit union to make these disclosures so the credit union may wish to consult with counsel on this issue.

NCUA issued a [legal opinion letter from 2005](https://www.ncua.gov/ncuadocuments/memo/lp20050130.pdf) that credit unions considering a skip-a-pay program may find helpful. While it interpreted an earlier version of Regulation Z, the legal opinion letter emphasized the no additional disclosures are required for skip-a-pays for closed-end credit.
Question – Can we offer a skip-a-pay program for mortgages or other real estate secured loans?

Answer – Although there isn’t a specific federal regulatory prohibition on skips for real estate loans, many credit unions exclude real estate secured loans because they are much more complicated and can create issues related to flood certifications, negative amortization, etc. Credit unions that perform skips on real estate loans have often discussed this with local counsel. Real estate transactions are largely governed by state law and skips could impact the credit union’s recourse down the road (such as how to make extending the payment schedule by a month enforceable) which is something you would want to make sure you consider and address with local counsel familiar with applicable state law. The credit union may want to consider other relief options for mortgages like waiving late payment fees or deferring negative reporting to credit bureaus. Also, credit unions considering modifications for mortgages will need to be mindful of mortgage servicing rules such as loss mitigation notice requirements.

Question – Our credit union is considering various loan deferment options to assist members impacted by COVID-19. Is it possible these kinds of programs would be considered a troubled debt restructuring (TDR)?

Answer – Appendix B to Part 741 of NCUA’s rules discusses TDRs, noting that TDR is a defined term under generally accepted accounting principles (GAAP) and that NCUA’s guidance follows that definition. If a loan is a TDR, this has implications for a credit union’s Call Report and accounting for the loan’s accrual status. According to NCUA, a TDR is “a restructuring where the borrower is experiencing financial difficulties and the credit union...grants a concession to that borrower that the credit union would not have otherwise considered, based on economic or legal reasons related to a borrower’s financial difficulties.” Examples provided in Appendix B include re-agings, extensions, deferrals, renewals, or rewrites.

GAAP terms are in the realm of an accountant’s expertise as opposed to legal expertise. Credit unions may want to check with their accountant regarding the GAAP definition of “troubled debt restructuring” to obtain a formal opinion from a person with the appropriate expertise as to whether a particular kind of loan modification falls under the TDR definition.

Question – If a loan modification is considered a TDR, once the situation improves, how can such a loan regain accrual status?

Answer – When making a loan modification, a credit union must determine whether the modified loan is a troubled debt restructuring (TDR). According to Financial Accounting Standards Board (FASB), a restructured loan is a TDR when the credit union, for economic or legal reasons related to the member’s financial difficulties, grants a concession that it would not otherwise consider. The FASB standard offers guidance on how creditors should make a TDR determination.
Regarding when a TDR loan can regain its accrual status, this Supervisory Letter attached to Letter to Credit Unions 13-CU-03 may provide some guidance. It generally states that pursuant to Appendix B to Part 741, a credit union may return a nonaccrual loan to accrual status if the credit union obtains an affirmation of the member’s renewed willingness and ability to make timely payments of principal and interest under the revised contract terms. For specific requirements across various loan types, credit unions may wish to consult the supervisory letter and Appendix B to Part 741.

Question – Our credit union is considering broader ways to help impacted people in our community. What are ways we can do that?

Answer – NCUA has preapproved the giving of charitable contributions and donations as an incidental power held by FCUs. Those gifts can include donations to community groups, nonprofit organizations, other credit unions or credit union affiliated causes, or donations to create charitable foundations. In 2013, NCUA amended its regulations to clarify that FCU have the incidental authority to invest in charitable donation accounts (CDAs), as long as they meet some specific requirements. This includes: having the primary purpose of generating funds to donate to 501(c)(3) tax-exempt charities; limiting aggregate investments to no more than 5% of the FCU’s net worth; distributing at least 51% of the total investment return to charities at least every 5 years; holding assets in a segregated custodian account with special requirements if held as a trust; and having a written agreement and policies including documented investment strategies.

Helping Other Credit Unions

Question – We are looking into how we can assist other credit unions during the pandemic. Can a larger federal credit union provide share draft processing, check collection and ACH origination and receipt for a smaller credit union?

Answer – Under the FCU Act and NCUA’s regulations, FCUs can provide emergency financial services to other credit unions’ members by virtue of their correspondent services incidental power. NCUA clarified this in Legal Opinion Letter 10-1169. A FCU may provide to another credit union any service it is authorized to perform for its own members or as part of its operations. This can include loan processing services, loan servicing, check cashing services, wire transfers, disbursing share withdrawals, ATM deposit services, and more. NCUA requires that a FCU seeking to provide correspondent services first establish a written agreement addressing both credit unions’ responsibilities and obligations under the arrangement. State-chartered credit unions may have similar authority under the law in their state.