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STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
OFFICE OF CREDIT UNIONS
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DIRECTOR

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LETTER NO.: 2024-CU-02

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: Consumer Compliance (CC) component of Examinations

This letter provides an update to the Consumer Compliance (CC) component of Michigan state-chartered credit union examinations, introduces examination guidance, and provides related background information.

Background

Credit union compliance with a wide variety of regulations, including those with consumer protection provisions, has always been a fundamental part of regulatory examinations. Changing legislation and increasing litigation surrounding various compliance and consumer-protection related issues highlights the increasing importance of all institutions to have a sound and effective compliance management system, while managing and mitigating the compliance-related risk(s) which are present in every financial institution.

To ensure examinations appropriately capture the compliance posture of credit unions, and consistently convey the related risks which may be identified, the Office of Credit Unions (OCU) is:

- Providing high level guidance on the basic components of an effective credit union compliance management system.
- Standardizing this component of the examination process, through the issuance of examination policy and examination resource material.
- Applying a more systematic approach to the examination of compliance, with expanded review of compliance management systems for institutions with higher risk/size/complexity.
- Formalizing the method in which compliance related findings and conclusions will be conveyed within safety & soundness examination reports.

Consumer Compliance (CC) Examination

The Office of Credit Unions is implementing a Consumer Compliance examination as a risk-based component of the standard safety and soundness examination program. As such, the scope and interval will depend upon prior findings, institution complexity, management/system changes, and other factors. Each CC examination will result in component and composite ratings, based upon the FFIEC's Uniform Interagency Consumer Compliance Rating System. The three key components evaluated are 'Board and Management Oversight', 'The Compliance Program', and 'Violations of Law and Consumer Harm'. CC examination ratings range from '1' (exemplary performance) to '5' (high risk necessitating regulatory intervention). The CC composite rating will not necessarily be an average of the three component ratings, but representative of the examiner's conclusion on the credit union's overall consumer compliance posture. CC ratings will be considered as applicable to the credit union's overall examination CAMELS ratings.

Basic policy and procedures regarding CC examinations have been adopted in the Office of Credit Unions' exam manual found on the DIFS Office of Credit Unions' website. The Policy includes supplemental examination guidance, and a copy of the FFIEC's Uniform Interagency Consumer Compliance Rating System for further detail regarding the various CC component and composite ratings.

The CC examination process recognizes the importance of effective credit union compliance management systems, and the related financial, reputational, and strategic risks which institutions may be exposed to. The Office of Credit Unions hopes this process will assist management in identifying and mitigating risk exposure, as well as providing guidance on regulatory and industry best practices for strong compliance management systems.

The Michigan Office of Credit Unions remains committed to serving and protecting Michigan residents and ensuring the soundness of Michigan's credit union industry.

Sincerely,

A handwritten signature in blue ink, appearing to read "Denice Schultheiss".

Denice Schultheiss, Director
Office of Credit Unions