

RB-2003-01 Serving Members Affected By Natural

INTRODUCTION

This bulletin is intended to encourage credit unions to work with members in communities affected by natural disasters. The Department recognizes that effects of such disasters on individuals and businesses are usually temporary, and prudent efforts to alter or adjust payment terms or to grant new loans to members in affected areas should not be criticized by examiners.

POLICY

One of the principal objectives of the supervision by risk approach is to achieve an accurate assessment of a credit union's risk management practices. The assessment includes an evaluation of how a credit union identifies, monitors, manages, and controls risks when a segment of its loan portfolio is affected by external factors such as a natural disaster. This Department believes that a proactive approach is best and highly recommends that each credit union develop a Disaster Recovery Plan, which details policies and procedures the credit union will follow in the event of a natural disaster which directly affects the credit union facility and/or its members. Please keep in mind that the officer in charge of a credit union is permitted to close the credit union in the event of an emergency in accordance with TAC Section 91.5001.

The Department recognizes that the efforts of credit unions to work with members in communities under stress, if conducted in a reasonable manner, are consistent with the principles of safety and soundness and in the public interest. It is the

Department's policy not to criticize reasonable efforts to alter or adjust payment terms or to grant new loans to members affected by disasters.

Credit unions may, as part of effective risk management, choose to work with members by extending the terms of repayment or otherwise restructuring the member's debt obligations. Such cooperative efforts can ease pressures on troubled members, improve their capacity to service debt, and strengthen the credit union's ability to collect on its loans. Credit unions may also ease credit-extension terms for new loans to certain members, consistent with prudent credit union and risk management practices. This will help such members recover their financial strength and place them in a better position to service their debts.

Credit unions operating in or extending services near an affected area may also want to consider temporarily waiving:

- late payment charges as well as penalties for share drafts returned because of insufficient funds where it appears that such late payments and NSF conditions resulted from delays beyond the members control; and
- penalties for early withdrawal of savings in circumstances where the member has a demonstrable need for the funds resulting from the disaster.

CONCLUSIONS

With proper risk controls and management oversight, these steps can contribute to the health of the local community and serve the long-term interest of the credit union as well. Consistent with long-standing Department practice, such efforts by credit unions will not be subject to criticism, if carried out in a prudent manner.