Compliance eNewsletter

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InfoSight News

ANNUAL SURVEY!

It's that time of year again! We are moving into strategic planning and budget time! Every year, we use the feedback that you provide in our annual survey to determine our next steps in product development. We want to hear what you think are the critical elements for InfoSight and CU PolicyPro! Please fill out the survey and let us know so that we can make our products even better!

Privacy

The rules relative to Privacy include several components, including disclosure rules created by the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act as well as the reimbursement to financial institutions for providing records. You will want to review the items in the Privacy topic today, to ensure you are compliant!

Compliance News

FinCEN Issues Guidance Related to Opioid Crisis

Recently, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Treasury's Financial Crimes Enforcement Network (FinCEN) announced coordinated actions to bring additional financial pressure upon those who manufacture, sell, or distribute synthetic opioids or their precursor chemicals.

OFAC identified Chinese national Fujing Zheng (Zheng) and the Zheng Drug Trafficking Organization (DTO) as significant foreign narcotics traffickers pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act). OFAC also designated one additional Chinese national, Guanghua Zheng, for his support to the Zheng DTO's drug trafficking activities, as well as one Chinese entity, Qinsheng Pharmaceutical Co. Ltd., for being owned or controlled by Fujing Zheng. OFAC is also identifying Xiaobing Yan (Yan) as a significant foreign narcotics trafficker pursuant to the Kingpin Act.

FinCEN published an Advisory to alert financial institutions to illicit financial schemes and mechanisms related to the trafficking of fentanyl, fentanyl analogues, and other synthetic opioids,2 2. The chemical names of synthetic opioids often sold online include: Acetylfentanyl, Butyrfentanyl, Carfentanil, FUF Fentanyl HCL, Furanylfentanyl, Isobutyrfentanyl, Lofentanil, 4'-methyl Acetyl fentanylHCL, Valerylfentanyl, and the U series, including U-47700. According to the Drug Enforcement Administration (DEA), informal slang terms for these variants include: 30s, Blues, Dragon's Breath, Fent, Fentanyl, Fenty, M-30s, etc. Additional slang words for fentanyl and other synthetic opioids can be found in the: DEA Intelligence Report on Drug Slang CodeWords. and to assist them in detecting and reporting related activity.

Source: OFAC and FinCEN

What Does FHFA's Validation and Approval Of Credit Score Models Final Rule Mean For CUs?

The Federal Housing Finance Agency (FHFA) published a final rule on August 16, 2019 that presents the standards and criteria, and outlines a four-phase process, that Fannie Mae and Freddie Mac (the Enterprises) will use to validate and approve third-party credit score models. The final rule implements Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the Act), which amended the Enterprise charter acts and the Federal Housing Enterprises Financial Safety and Soundness Act (Safety and Soundness Act).

Although the final rule is effective October 15, 2019, the FHFA anticipates the process of approving an alternative credit score model will take up to 26 months. That timeframe doesn't include the implementation of any approved model for use by the Enterprises and that process will likely take as much as two more years beyond that. "FHFA believes, based on years of related credit score work, that it will take the industry approximately 18-24 months to adopt a new credit score model after a model has been approved by an Enterprise," the FHFA said. So, the entire timeframe from approving an alternative credit score model to implementation of a different credit scoring model by the Enterprises will likely be at least four more years.

Currently, Fannie Mae and Freddie Mac require lenders to provide credit scores derived from the Classic FICO credit score model for each loan delivered to the Enterprises. The FHFA noted that it expects Classic FICO to meet the criteria for approval based on its history of use while continuing to state that it expects the Enterprises to submit other credit score models to it for approval, acknowledging that "approving a credit score model in use for the past decade would not satisfy the intent of section 310 that the Enterprises consider credit score models developed after Classic FICO."

If an Enterprise conditions its purchase of a mortgage loan on the provision of a borrower's credit score, the score must be produced by a model that has been validated and approved by the Enterprises using the following four-phase process:

- **Solicitation of applications from credit score model developers –** during this phase, the Enterprise will describe what information must be submitted with the application, what are the timeframes for submitting applications, what criteria will the Enterprise use to conduct the validation and approval of a credit score model, how will the Enterprise obtain data for testing, and any additional approved information.
- **Submission and initial review of applications –** during this phase, the Enterprise will determine whether each application is complete and includes all required fees, and if not, will notify the applicant of any additional information that is required.
- **Credit score assessment –** during this phase, each credit score model with be assessed for accuracy, integrity and reliability independent of the use of the credit score in the Enterprise's system.
- **Enterprise business assessment –** during this phase, the Enterprise will assess the credit score model in conjunction with the Enterprise's business systems and processes. This phase will include assessing the accuracy and reliability of the credit score when used within the Enterprise's system, assessing possible impacts on fair lending and on the Enterprise's operations and risk management, and consideration of the impact on the mortgage finance industry, and other evaluations as established by the Enterprise as part of this assessment phase.

For a credit score model to be approved for use, the model must pass both a credit score assessment and an Enterprise business assessment. FHFA then reviews a proposed determination by an Enterprise for use of the credit score model and will either approve or disapprove the proposed determination. If an application is approved by FHFA, the Enterprise must follow through with a final determination to approve the credit score model for use in its systems.

The final rule did not adopt a proposed conflict-of-interest certification requirement. The proposed rule would have required each applicant to provide a certification regarding any conflict-of-interest as part of its application. This reflected concerns that the consumer reporting agencies lacked an incentive to support new entrants because of their ownership of VantageScore Solutions, LLC. Therefore, the independence requirement of the proposed rule was intended to encourage additional credit score developers to enter the mortgage marketplace. The final rule does not adopt this requirement and instead permits credit score model developers to submit applications to the Enterprise in response to a credit score solicitation, regardless of the ownership structure of the credit score model developer. However, the final rule does permit consideration of any conflict-of-interest as part of a comprehensive Enterprise business assessment to determine whether use of a credit score model could have an impact on competition in the industry. The Enterprise must consider whether such impact is due to any ownership or other business relationship between the credit score model developer and any other institution.

FHFA’s Fact Sheet on the final rule.

Source: CUNA Compliance Blog

Articles of Interest:

- FFIEC Encourages Standardized Approach to Assessing Cybersecurity Preparedness
  California Consumer Privacy Act (CCPA)
  6 Things to Know About the California Consumer Privacy Act (CUNA Blog)

Advocacy Highlight

FASB Seeks Comment on Delay of CECL Effective Date

The FASB Board issued an exposure draft exposure draft for public comment regarding the effective dates of several different standards as they apply to each type of reporting entity. Under the proposal, as it applies to credit unions, the plan would:

- Delay CECL until 1/2023
- Delay leasing until 1/2021
- Delay hedging until 1/2021

In addition, the proposal would change the current three bucket effective date structure of CECL to a two bucket structure. Currently, the standard differentiates between public business entities that are SEC filers, public business entities that are not SEC filers, and non-public business entities (which includes credit unions).

CUNA's Advocacy Resources

- CUNA’s 2019 Advocacy Agenda
- Input to lawmakers and regulators
- CUNA Advocacy page
- CUNA’s Removing Barriers blog
- CUNA's Priorities
- Actions You Can Take

Compliance Calendar

- September 2nd, 2019: Labor Day - Federal Holiday
- September 20th, 2019: Providing Faster Funds Availability (Effective Date)
- October 14th, 2019: Columbus Day - Federal Holiday
- October 22nd, 2019: Appraisals (NCUA)

- October 22nd, 2019: Fidelity Bonds (NCUA)