ROCHDALE + VLI

2024 Q4 Emerging and Trending Risk Report

The following report is compiled quarterly and distributed to all active Rochdale clients. It is a compilation of discussions from Rochdale consultants regarding some of the largest emerging and trending risks we see as we work with our credit union clients.

We are making the ***2024 Q4 Emerging and Trending Risk Report*** available to all VLI 2025 attendees and hope you take it back and are able to leverage it within your credit unions.

If you have interest in the Emerging and Trending Risk Report on an ongoing basis, please contact us at *info@reimaginerisk.com*.

Thank you for your attendance at VLI-Hawaii 2025!

ROCHDALE™

Emerging and Trending Risks

reimaginerisk.com | 913.890.8080 | info@reimaginerisk.com

2024 Q4

Known and Trending Risks

Current risk considerations that are seen in the industry (higher impact and moderate to high likelihood)

General Regulatory and Consumer Protection ▲	Inflation ◇	Interest Rates ◇ ▼	Insurance Coverage and Affordability Issues ▲
Commercial Real Estate Market Stress and Challenges ▲	Recession ▼	Downside Risks of Generative AI Adoption ▲	NCUA Succession Planning Rule ▲
Change in Political Climate ▲	Lack of Early Adoption of AI and Related Technologies ▲	Climate-Related Financial Risk ◇ ▲	Growth in Cryptocurrency ▲
Increase in Electronic Payment Fraud ▲	Cyber Security / Ransomware ▲		RISK PROFILE: Elevated ▲, Stable ◇, Decreasing ▼

Overview	Considerations	Risk Drivers
1. General Regulatory and Consumer Protection ▲ The CFPB issued its final "open banking" rule in October 2024. The rule requires financial institutions to provide, upon a consumer's request, financial data to the consumer and authorized third parties in a standardized format within a certain number of days of the request. The data must be provided at no charge to the consumer. Compliance with the open banking rule is staggered for institutions based on asset size, with institutions $850 million and less exempt. The rule is intended to foster competition between financial institutions and fintechs across the country. While credit unions exceeding the $850 million exemption will face the cost of implementation, institutions within the exemption category face the risk of not being competitive if they are not able to support the open banking concept. The NCUA issued Letters to Credit Unions 24-CU-03, Consumer Harm Stemming from Certain Overdraft and Non-Sufficient Fund Fee Practices, in December 2024 to highlight the risks associated with certain overdraft and NSF fee practices and outline practices that may help credit unions manage and mitigate these risks. The guidance specifically addressed unanticipated overdraft fees, returned deposited item fees, and other practices such as high or no daily limits on the number of fees assessed, insufficient or inaccurate fee disclosures, and ordering transactions. The NCUA indicated it will continue to review overdraft programs to ensure credit unions are effectively managing the risks associated with these fee practices, noting ceasing unanticipated fee practices as an expectation.	• For data provider institutions, identify processes for implementing standardized interfaces that meet performance and security criteria • Establish and maintain written policies and procedures that are designed to ensure the availability, accuracy, and retention of covered data. • For exempt institutions, determine the competitive risk of not complying with the open banking rule • Analyze overdraft and NSF fee practices and disclosures and other materials that inform members about these practices • Track and analyze related member complaints • Determine the member impact as it relates to the highlighted fee practices	• Heightened regulator emphasis on consumer protection • Heightened emphasis on risk governance

ROCHDALE
reimagine risk

Known and Trending Risks (2024 Q4)

Current risk considerations that are seen in the industry (higher impact and moderate to high likelihood)

Overview	Considerations	Risk Drivers
2. Inflation Headline inflation, as measured by the Consumer Price Index (CPI), remains above the Fed's 2.0% target. The November print ticked back up to 2.7% year-over-year from 2.6% in October and 2.4% in September. The November reading is the highest since July. Core inflation was up 3.3% year-over-year in November. Inflation pressures may be elevated by the Trump administration's pro-growth policies and proposed tariffs, although this could be offset by lower energy prices (energy accounts for more than 9% of CPI, and oil prices are expected to fall by 20% under the new administration), reduced government spending, and a slowing of monetary accommodation. Fed officials are already planning to slow the pace of easing in 2025. Notably, inflation did not increase during Trump's first term when tariffs were put in place.	• Monitor actions of new administration with respect to tariffs, energy policy, reduced government spending, and other policies that may affect inflation • Monitor impact on FOMC actions/interest rates • Monitor credit metrics as borrowers struggle with higher prices	• Fiscal policy / spending • Consumer activity
3. Interest Rates The FOMC commenced easing with a larger-than-expected 50bp rate cut in September, followed by a 25bp cut in November, on the heels of the Presidential election, and another 25bp cut in December. Treasury yields moved lower following the September cut, with the two-year yield falling below 3.5% and the ten-year approaching that level. However, since the Fed has signaled it will slow the pace of accommodation next year, yields have drifted higher in spite of the December rate cut, with 2s yielding around 4.25% and 10s trading above 4.55% on the last trading day of 2024. Fed funds futures have priced in one or two rate cuts in 2025 according to CME FedWatch, with the next 25bp cut coming in March or May.	• Begin to extend asset duration, but cautiously • Proactively re-price deposits as rates change • Monitor and manage interest rate risk position • Consider retaining fixed-rate mortgage originations	• Inflation, labor market data • FOMC policy

Known and Trending Risks (2024 Q4)

Current risk considerations that are seen in the industry (higher impact and moderate to high likelihood)

Overview	Considerations	Risk Drivers
4. Insurance Coverage and Affordability Issues ▲ Many insurance companies have stopped accepting new homeowners and vehicle insurance applications and non-renewed existing policies in certain regions due to high loss frequencies, increased construction and repair costs, unfavorable litigation environments, and regulatory constraints on premium increases and the use of certain underwriting factors. In other areas, insurance companies have increased premiums considerably to cover their rising losses. These situations will make it more difficult for many borrowers to obtain or pay for insurance covering their mortgage and vehicle collateral, and subject credit unions to losses in the event they must foreclose or repossess damaged collateral.	• Require pre-approved insurance as part of mortgage and other loan application processes • Review and become familiar with alternatives to traditional mortgage and vehicle insurance (e.g., the California FAIR plan) • Ensure rising insurance costs are factored into ability-to-repay calculations through the underwriting process	• Continued high insurance losses and inflation • Regulatory constraints on premium increases • Unfavorable litigation environments

Overview

5. Commercial Real Estate Market Stress and Challenges ▲

Credit unions and other financial institutions face mounting pressure from the U.S. commercial real estate market crisis, with over $1 trillion in CRE loans maturing in the next two years, and a projected peak of $1.26 trillion by 2027. The convergence of high interest rates, falling property values, and evolving work patterns has created significant market stress, particularly affecting smaller financial institutions whose CRE loan values often exceed their risk-based capital levels.

Market indicators show concerning trends, including record-high office vacancy rates reaching 20% and deteriorating credit quality across office, hotel, and retail sectors. Smaller financial institutions are nearly five times more exposed to CRE than larger banks, creating disproportionate risk. Some institutions may be delaying loss recognition through loan extensions, potentially masking deeper problems.

The Federal Reserve anticipates prolonged market stress, having tested scenarios including potential 40% drops in CRE values. This situation could lead to widespread undercapitalization among financial institutions, resulting in tight lending standards, elevated borrowing costs, and potential market liquidity shortages.

Considerations

- Review and diversify CRE loan portfolio to minimize exposure to high-risk properties
- Conduct stress tests on CRE loan portfolios under various economic scenarios
- Strengthen capital buffers to withstand potential loan losses
- Implement more stringent underwriting standards for new CRE loans
- Develop contingency plans for potential liquidity shortages
- Explore partnerships or mergers with larger institutions to increase stability
- Enhance risk management practices and early warning systems for loan delinquencies
- Consider offering loan modification options to struggling CRE borrowers
- Increase provisions for loan losses to prepare for potential defaults

Risk Drivers

- Record-high office vacancy rates reaching 20%
- Interest rates upon renewal impacting refinancing costs
- Shifting work patterns affecting property demand
- Declining commercial property values
- High concentration of maturing CRE loans
- Deteriorating credit quality in key sectors
- Limited market liquidity
- Delayed recognition of loan losses

Overview	Considerations	Risk Drivers
6. Recession ▼ Our previous view was that the likelihood of recession was somewhat path-dependent hinging on the outcome of the election. Now that the path is clear, history tells us that the likelihood is diminished. The new administration's pro-growth economic policies are similar to those of the President's first term, which was marked by strong economic growth until the covid pandemic hit, and economic recovery from the shutdown was well underway by the time his first term ended. Compound inflation continues to adversely affect those at the lower end of the economic spectrum, but overall spending is healthy, and monetary policy will gradually shift from accommodation to finish the fight against inflation. The first consumer sentiment reading following the election showed an increase, and the immediate reaction in the stock market was positive, as the Dow gained over 1,500 points on election day. And there is increasing talk in the markets that the Fed has achieved a "no-landing" scenario, which is good for the economy overall, but not so good for those pining for lower interest rates.	• Monitor economic data • Be prepared to adjust lending criteria and other policies and practices if the outlook deteriorates, but position the credit union to take advantage of economic growth	• Consumer behavior • Fed policy • Fiscal and regulatory policy • Political landscape

Overview

7. Downside Risks of Generative AI Adoption

Credit unions face significant risks in the adoption and implementation of generative AI technologies, particularly regarding data security, decision-making transparency, and member trust. As these technologies become more prevalent in financial services, credit unions must navigate challenges ranging from potential data breaches to regulatory compliance and ethical considerations.

The rapid evolution of generative AI presents specific operational risks, including the potential for AI-generated fraudulent content that can bypass traditional security measures, data poisoning attacks that could compromise AI model integrity, and algorithmic biases that might unfairly impact member services. Additionally, the technology's "black box" nature can complicate regulatory compliance and audit requirements, particularly in lending decisions and member service interactions.

Financial and reputational risks are amplified by the potential for AI systems to make errors in member-facing applications, generate biased or inappropriate content, or inadvertently expose sensitive member information through prompt injection attacks or model vulnerabilities. The complexity of the technology also creates challenges in staff training, system oversight, and maintaining appropriate human intervention points in critical processes.

Considerations

- Implement robust AI governance framework and oversight mechanisms
- Establish clear protocols for AI system testing and validation
- Deploy comprehensive monitoring systems for AI output accuracy
- Create detailed documentation of AI use cases and risk controls
- Develop incident response plans for AI-related failures
- Maintain strong human oversight in critical decision processes
- Conduct regular AI bias and fairness assessments
- Update security measures specifically for AI-related threats

Risk Drivers

- Increasing sophistication of AI-enabled fraud schemes
- Regulatory uncertainty around AI applications
- Complex integration with legacy systems
- Data quality and bias concerns
- Rapid AI technology evolution
- Growing privacy and security threats
- Rising litigation risks from AI decisions
- Workforce adaptation challenges

Known and Trending Risks (2024 Q4)

Current risk considerations that are seen in the industry (higher impact and moderate to high likelihood)

Overview

8. NCUA Succession Planning Rule

The NCUA finalized a rule requiring all federally insured credit unions to implement formal succession plans. According to NCUA Chairman Harper, this final rule establishes a way for the NCUA to address one of the most common causes for unplanned and unforced credit union mergers.

Key elements of the rule include the requirement for a written plan that addresses the specified positions that are vital to the credit union's continued operation and management (a narrowed list from the proposed rule), periodic reviews to ensure such plans remain relevant, and requires newly appointed members of the board have a working familiarity with the plan no later than six months after appointment.

Two primary factors highlighted the need for such rulemaking, according to the NCUA, including the long-running trend of consolidation and increased retirements of CEOs and other executive staff. The effective date of the new rule is January 1, 2026.

Considerations

- Review current succession planning practices and compare to final requirements
- Assess potential impact on governance processes and board responsibilities
- Evaluate resources needed to comply with documentation and review requirements
- Develop strategies to balance regulatory compliance with maintaining operational flexibility
- Analyze how the rule might affect merger considerations or strategies
- Prepare board and key personnel for any required changes in succession planning processes based on the final rule

Risk Drivers

- Regulatory focus on credit union governance and stability
- Concerns about credit union mergers, executive retirements and system-wide risks
- Evolving expectations for board oversight and risk management
- Potential for increased regulatory scrutiny of governance practices

Overview	Considerations	Risk Drivers
9. Change in Political Climate ▲ President-elect Trump will return to the White House in January 2025, marking a transition in executive branch leadership. Administrative changes historically bring modifications to regulatory priorities, economic policies, and the overall business environment. Drawing from both historical precedent and stated policy positions, credit union leadership should prepare for potential shifts that could affect operations, compliance requirements, and member services. While it's unknown exactly what impact the change of administration will have, based upon campaign promises and Trump's first term activity, it's certain that changes will follow. It's imperative that credit union leaders be proactive in considering what changes might occur and how they can best leverage such changes for the good of the credit union and its membership. The following are representative of questions that have received significant discussion through the campaign and post-election process, and are deserving of continued monitoring. • Will there be significant deregulation or just a slowing pace of regulatory change? • Will the proposed Department of Government Efficiency (DOGE) truly impact government spending and how might that impact "business as usual"? • Could there be a combination of regulatory agencies and what impact might that have on the credit union charter? • Will a change in the NCUA Chair have an impact on regulatory priorities? • Will additional tariffs be put in place and what, if any, impact might that have on consumer prices? • What changes might occur in tax policy and how will that impact consumers? Credit unions? • Will interest rates continue to decline and, if so, how far?	• Be prepared to take advantage of reduction in regulatory hurdles and increased loan demand accompanying a more pro-business environment • Maintain/increase advocacy about the credit union difference to ensure the credit union story is heard	• Policies enacted by the new administration

Overview

10. Lack of Early Adoption of AI and Related Technologies

Credit unions face significant opportunity costs if they fail to embrace AI and related technologies in the near term. Beyond technological gaps, the risks include organizational challenges such as a lack of understanding of AI's potential, executive reluctance, and a culture of risk aversion.

The financial services industry is rapidly evolving, with AI at the forefront of innovation. Credit unions that fail to integrate AI technologies risk falling behind competitors who leverage AI to enhance decision-making, member experiences, and operational efficiency.

The risks extend beyond missing technological advancements. Many credit unions face internal barriers that exacerbate the opportunity cost of inaction:

- Organizational Understanding: A lack of awareness or understanding of AI's potential among staff and leadership can lead to missed opportunities for incremental improvements
- Executive Reluctance: Leadership hesitation, often driven by uncertainty about ROI or the fear of failure, can stymie innovation
- Risk Aversion: A culture focused on minimizing risk rather than seizing opportunities may prioritize maintaining the status quo, delaying critical advancements

Failing to overcome these barriers can result in:

- Missed opportunities to improve efficiency and member satisfaction
- Erosion of market relevance as competitors and fintechs deploy AI-powered tools to gain strategic advantages
- Challenges in meeting evolving regulatory requirements that favor advanced risk modeling and data management capabilities

Considerations

- Strategic Impact: Evaluate how delayed AI adoption impacts long-term competitiveness and market relevance
- Cultural Barriers: Identify areas where organizational culture, leadership reluctance, or lack of AI literacy impede progress
- Operational Efficiency: Assess the cost of inefficiencies due to outdated or inefficient processes and systems
- Short-term Gains: Leverage immediate opportunities to demonstrate AI's benefits, such as automating low-risk tasks or improving data analysis
- Workforce Development: Ensure staff and leaders have the knowledge and skills necessary to effectively deploy and manage AI tools

Risk Drivers

- Technological Advancements: Competitors adopting AI widen the innovation gap, leaving credit unions at a disadvantage
- Organizational Understanding: Lack of familiarity with AI's capabilities hinders adoption and perpetuates reliance on inefficient practices
- Executive Reluctance: Leadership hesitation, driven by uncertainty or resistance to change, slows progress
- Risk Aversion: A focus on minimizing risk, rather than balancing risk and opportunity, stifles innovation and adaptation
- Member Expectations: Members increasingly demand seamless, personalized, and technology-driven experiences, which non-adopting credit unions may struggle to provide
- Regulatory Evolution: Compliance pressures favor institutions with advanced capabilities in data governance and risk modeling

Overview

11. Climate-Related Financial Risk

Changes in climate conditions, including the increasing frequency and intensity of severe climate and weather events and other natural disasters, might result in damage to loan collateral, devaluation of certain investments, and depression of the local and national economies. This could increase net loan charge-offs, diminish future product volumes, and result in investment write-downs in excess of normal expectations.

Changes in climate conditions may also increase the physical risks to the credit union's office space and infrastructure, and its employees.

Transition risk, defined as "Stresses to financial institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes that would be part of a transition to a lower carbon economy", is also a relevant concern.

Considerations

- Take climate-related risk drivers into consideration when developing and implementing business strategies, including understanding and evaluating how these risks could impact the resilience of the credit union's business model over the short, medium and longer terms
- Ensure the board and senior management have an adequate understanding of climate-related financial risks, and senior management is equipped with the appropriate skills and experience to manage these risks
- Regularly carry out a comprehensive assessment of climate-related financial risks and set clear definitions and thresholds for materiality
- Develop appropriate key risk indicators for effective management of material climate-related financial risks that align with regular monitoring and escalation arrangements
- Assess and monitor potential concentration of exposure to geographies and sectors with higher climate-related risk
- Require borrowers to carry P&C insurance to protect loan collateral and require flood insurance for properties in flood plains
- Review the December 2023 NY DFS letters on climate change as a regulatory reference

Risk Drivers

- Increasing frequency and intensity of climate and weather events, affecting people, businesses, and the economy
- Regulatory reactions to the impact of severe climate and weather events

Overview

12. Growth in Cryptocurrency

Credit unions face significant risks of making poorly informed or uninformed decisions regarding cryptocurrency, especially over the next 12 to 18 months, as the cryptocurrency market is poised for substantial growth due to several key factors:

- The Bitcoin and Altcoin markets are entering the bullish price appreciation phase of their four-year market cycle, expected to extend into late 2025. Cryptocurrency-related news is expected to be prominent on mainstream media and social platforms.
- The Trump administration's pro-crypto stance is likely to accelerate adoption. Paul Atkins, a strong advocate for digital assets, is expected to become the next SEC Chair, signaling a shift toward crypto-friendly regulation. Additionally, Donald Trump has voiced support for a U.S. Bitcoin Strategic Reserve, a concept championed by Sen. Cynthia Lummis (R-Wyo.), which involves the federal government holding Bitcoin as a strategic asset. Three states, Pennsylvania, Ohio, and Texas have already introduced legislation to establish state-level Bitcoin reserves, with others expressing similar interest.
- Further momentum for cryptocurrency adoption is driven by the launch of 11 spot Bitcoin ETFs in January 2024, corporate treasury Bitcoin strategies, and the expanding network of cryptocurrency users globally.

Credit unions that increase transaction friction related to buying, holding, or trading cryptocurrency risk losing affected members to competitors.

Credit unions wishing to attract and retain younger generations of members must keep in mind that these digital natives understand cryptocurrencies and are key participants in the growth in this space.

Credit unions that are late-adopters to innovation related to cryptocurrency may fall behind the industry and its competition.

Considerations

- Expand the credit union’s knowledge and experience with cryptocurrencies so that it can make informed decisions about cryptocurrency policy and products and services
- Stay current on the competition and how they embrace or block opportunities regarding cryptocurrency
- Take cryptocurrency into consideration when developing and implementing business strategies
- Refer to the NCUA Letter to Credit Unions 22-CU-07 / May 2022

Risk Drivers

- Explosive growth and user adoption of cryptocurrency expected into second half of 2025
- A regulatory-friendly environment for cryptocurrency is expected during the Trump administration
- Growth in financial institutions and non-bank FIs that are more crypto friendly.

ROCHDALE
reimagine risk

Overview

13. Increase in Electronic Payment Fraud ▲

Electronic payment fraud emerged as a primary concern for credit unions in 2024, with cybercriminals systematically targeting digital transaction channels. This includes card-not-present (CNP) fraud for credit cards, unauthorized transactions through peer-to-peer (P2P) platforms like Venmo and Cash App, fraudulent activities on instant payment services like Zelle, and compromised ACH transfers.

CNP fraud now accounts for 79% of all card fraud losses, a 5% increase from the previous year. P2P payment fraud has seen a dramatic rise, with losses projected to reach $1.2 billion in 2024, up from $893 million in 2022. ACH fraud attempts have increased significantly compared to 2023, showing a 41% rise in volume and a 65% increase in value.

The consequences for credit unions include direct financial losses, increased operational costs for fraud detection and prevention, and potential regulatory scrutiny. Members face risks of unauthorized transactions, account takeovers, and identity theft. The broader implications involve eroding trust in digital payment systems, which could slow down the adoption of innovative financial technologies and impact the credit union's competitive edge in the digital banking landscape.

Considerations

- Deploy machine learning algorithms for real-time fraud detection across payment channels
- Enhance authentication through biometric verification and multi-factor authentication
- Implement member-controlled transaction limits and real-time payment alerts
- Conduct regular security assessments of third-party payment providers
- Develop member education programs on safe digital payment practices
- Implement tokenization for card-not-present transactions.
- Participate in fraud intelligence sharing networks
- Offer secure, credit union-branded P2P payment alternatives

Risk Drivers

- Rapid adoption of digital payments without adequate security measures
- Sophisticated phishing and social engineering tactics targeting users
- Delayed implementation of Strong Customer Authentication measures
- Instant payment services reducing fraud detection windows
- Inconsistent security standards across payment platforms
- Dark web trade of stolen financial data

Overview

14. Cyber Security / Ransomware ▲

The credit union sector has experienced a significant surge in cyber attacks, particularly ransomware incidents, posing substantial risks to operations and member data security. From September 2023 to May 2024, credit unions reported 892 cyber incidents to the National Credit Union Administration (NCUA), highlighting the scale of this growing threat.

Recent incidents demonstrate the sector's vulnerability to both direct attacks and supply-chain compromises. A notable December 2023 ransomware attack affected approximately 60 credit unions through a single cloud computing provider. Other significant incidents in 2024 have exposed member personal information including names, addresses, Social Security numbers, dates of birth, and account numbers, with some breaches affecting hundreds of thousands of members.

The impact of these attacks extends beyond immediate operational disruptions to include potential data breaches, reputational damage, and regulatory compliance issues. Financial losses can range from thousands to millions of dollars, with additional long-term consequences for member trust and institutional stability.

Considerations

- Implement robust access controls with multi-factor authentication
- Secure network infrastructure through firewalls and encryption
- Conduct regular risk assessments and vulnerability testing
- Maintain comprehensive incident response plans
- Establish thorough vendor management programs
- Provide ongoing employee cybersecurity training
- Obtain cyber insurance coverage
- Implement regular system updates and patch management

Risk Drivers

- Expanding digital footprint increasing attack surface
- Critical service provider dependencies creating supply-chain risks
- Evolving attack sophistication including zero-day exploits
- Human error and cybersecurity awareness gaps
- Inadequate system maintenance and update practices
- Resource constraints affecting security investments
- Growing financial incentives for cybercriminals
- Rapid technological change outpacing security measures