NCUA
National Credit Union Administration

Office of Inspector General

OIG-26-08

Limited Review of North Bay Credit Union

June 26, 2026

NCUA

OFFICE OF INSPECTOR GENERAL

Memorandum

SENT BY EMAIL

DATE: June 26, 2026

TO: See Distribution List

FROM: Acting Inspector General Marta Erceg Marta Erceg

SUBJECT: Limited Review of North Bay Credit Union

This memorandum presents the results of our limited review of the circumstances related to the loss incurred by the National Credit Union Share Insurance Fund (Share Insurance Fund) with respect to North Bay Credit Union (North Bay), Santa Rosa, California, chartered on January 1, 1948, as a state-chartered credit union that was federally insured by the National Credit Union Administration (NCUA).[1] As of March 31, 2025, the credit union reported $118,851,187 in total assets. On February 12, 2026, the NCUA approved the merger of North Bay into Alero Financial Credit Union (formally known as Corporate America Family Credit Union), also a state-chartered credit union, with cash assistance due to North Bay being in financial distress. This assistance resulted in a loss to the Share Insurance Fund of $4,240,000.

The Federal Credit Union Act requires the Inspector General to identify any non-material losses that were incurred by the Share Insurance Fund with respect to insured credit unions during the preceding 6-month period and determine the grounds identified for appointing the NCUA Board as the liquidating agent for a credit union (the credit union was not liquidated here, so there was no need to determine these grounds), determine whether any unusual circumstances existed that might warrant an in-depth review, and prepare a written report on the results of our determinations.[2] Applying these steps is what comprised our limited review. This loss to the Share Insurance Fund occurred during the period of October 1, 2025, through March 31, 2026.[3]

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[1] Federally insured state-chartered credit unions are primarily regulated by the State Supervisory Authority that is generally responsible for verifying regulatory compliance. NCUA on-site participation allows the NCUA to effectively assess conditions that may pose a risk to the Share Insurance Fund.
[2] 12 U.S.C. § 1790d(j)(4).
[3] There are two semiannual reporting periods: (1) April 1 through September 30 and (2) October 1 through March 31.

With respect to North Bay, because the loss to the Share Insurance Fund was less than the material loss threshold set forth in the Federal Credit Union Act,[4] we conducted a limited review. We performed procedures that included: (1) reviewing and summarizing examination[5] reports, supervisory memoranda, and other pertinent documents; (2) assessing the CAMELS ratings[6] assigned to the credit union during the 5 years preceding the loss; (3) conducting interviews with NCUA personnel; (4) determining whether any investigative actions were taken, planned, or considered involving credit union officials; and (5) analyzing supervisory history and other supervisory review methods. We performed our fieldwork from April 2026 through May 2026.

All work completed complied with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Federal Offices of Inspector General (August 2012), which require that the work adheres to the professional standards of independence, internal control, and quality assurance to ensure the accuracy of the information presented.

Cause of Loss to the Share Insurance Fund

The loss to the Share Insurance Fund resulted from North Bay becoming undercapitalized due to a series of regulatory and operational failures. Management operated the credit union with inadequate internal controls that resulted in operational breakdowns, weak underwriting, and risk management, leading to a high concentration of poor-quality marijuana-related business loans. Weak internal controls included: (1) a lack of proper monitoring and due diligence of North Bay's credit union service organization,[7] which later became a subsidiary approved by the State Supervisory Authority, to serve marijuana-related businesses; (2) untested core system conversion to implement Banking as a Service with fintechs; (3) a lapse in using a Bank Secrecy Act (BSA)/Anti-Money Laundering monitoring tool due to delayed core system conversion; (4) deficiencies in North Bay's new BSA monitoring software; and (5) a lack of formal reconciliation of general ledger accounts, with supporting documentation either being incomplete or inconsistent with call reports.[8]

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[4] A loss is material if it exceeds the sum of $25 million and an amount equal to 10 percent of the total assets of the credit union on the date on which the NCUA Board initiated assistance under section 1788 of the Federal Credit Union Act or was appointed liquidating agent. In such a case, the Inspector General would conduct a material loss review. Id. § 1790d(j)(1)-(2).

[5] The agency's risk-focused examination for credit unions with asset sizes over $50 million, requires examiners to complete certain review areas and authorizes examiners to opt in to optional areas based on risks identified at a particular credit union.

[6] **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk. Examiners assign each CAMELS component and an overall, composite score, a rating of "1" (no cause for supervisory concern) through "5" (greatest supervisory concern).

[7] A credit union service organization is an organization that one or more federally insured credit unions has an investment in or loan to and primarily serves credit unions, credit union members, or both. Federally insured state-chartered credit unions will have varying restrictions on their relationships with credit union service organizations depending upon applicable state laws and regulations.

[8] Call reports are a report of the credit union's financial information, including assets, liabilities, and capital, income and expenses, delinquent loans and charge-offs, investment classification and breakdown, loan classification and breakdown, and share classification and maturity.

The most recent joint on-site examination by the State Supervisory Authority and NCUA was as of March 31, 2025. During this examination, numerous regulatory and operational failures were uncovered that led examiners to include multiple Document of Resolution[9] items and Examiner's Findings,[10] including concerns about controls over North Bay's BSA program, commercial lending program, and liquidity issues. The commercial lending program had grown unchecked over the last year, with loans exceeding statutory limits and lacking sufficient oversight. Experienced staff and leadership had left the credit union and remaining staff were inexperienced, leaving critical gaps in institutional knowledge and risk management. A core system conversion in April 2025, coupled with the delayed implementation of new BSA software, created a 2-month gap in transaction monitoring, which caused management to rely on manual oversight that proved insufficient. The core system conversion was completed without conducting the appropriate due diligence before implementing the system, including no data validation review. Examiners also found general ledger accounts were not formally reconciled, with supporting documentation either being incomplete or inconsistent with the credit union's call reports. These discrepancies made it impossible to verify North Bay's true financial condition. The allowance for loan loss accounts was underfunded, which was especially concerning given the concentration of marijuana-related commercial loans. North Bay's most recent financial statement audit indicated significant problems with the records of North Bay's subsidiaries and associated consolidation entries and noted several accounts that needed adjusting entries. The balance sheet general ledger accounts lacked a consistent formal reconciliation process. In addition, the Banking as a Service program, which was started by North Bay in March 2025 to generate additional revenue streams, operated a wholly-owned subsidiary to provide wires, ACH transactions, deposit account services, ATM network access, and compliance and regulatory support for other fintechs. This program represented a higher risk because the subsidiary serviced other fintechs without proper controls in place, including transaction monitoring. State and NCUA examiners immediately paused the onboarding of additional fintechs during the examination.

The NCUA issued a preliminary warning letter on July 17, 2025, for extreme weaknesses in North Bay's BSA/Anti-Money Laundering program.[11] A $100 million guaranteed line of credit was approved by NCUA for the credit union on July 30, 2025, due to the expected upcoming commercial write-offs, losses caused from recordkeeping, and potential member withdrawals.[12] On November 4, 2025, the State Supervisory Authority issued a consent

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[9] Problems included in a Document of Resolution must be significant enough that an examiner would recommend escalating to the next level of elevated enforcement action for failure to correct the problem. Document of Resolution items are those that management must begin to address immediately or within a compressed timeframe due to the risk associated with the problem. A Document of Resolution must concisely describe a problem (including all supporting facts) and outline the corrective action necessary to resolve it.

[10]Examiner's Findings reflect problems credit union management must address, but do not currently threaten the viability of the credit union or represent systemic violations. Management can decide the timeframe and approach for correcting these problems and can do so in the normal course of business.

[11]A preliminary warning letter is a warning of potential formal administrative action if corrective action is not taken.

[12]A guaranteed line of credit is a non-cash form of 12 U.S.C. § 208 assistance (section 208 assistance

order requiring North Bay to identify a merger partner acceptable to the Commissioner of the State Supervisory Authority within 30 days. Due to the consent order and the declining financial condition of North Bay, the State Supervisory Authority and NCUA attempted to expedite the merger, but experienced delays as a result of the California Franchise Tax Board. The cash assisted supervisory merger was approved by all necessary parties on April 24, 2026, with Alero Financial Credit Union.[13]

North Bay serving marijuana-related businesses presented the NCUA with an uncommon regulatory issue as this type of business, which was permitted by California, is illegal under federal law. This created risks for the NCUA if it acted as agent for the credit union if it was conserved. However, NCUA was able to supervise within these constraints and expedited an assisted merger as a solution that minimized the loss to the Share Insurance Fund. NCUA's Office of General Counsel indicated that certain supervisory actions related to credit unions serving marijuana-related businesses require further clarification, and guidance is currently being developed in coordination with other federal regulators.

Conclusion

The loss to the Share Insurance Fund resulted primarily from North Bay's growth into higher-risk and complex business lines, including serving marijuana-related businesses and fintechs. Based on our review of the causes of the loss to the Share Insurance Fund, we determined that there were no unusual circumstances that would necessitate an in-depth review of the loss.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during the limited review. If you have any questions, please contact me at 703-518-6350.

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permits the NCUA to use funds from the Share Insurance Fund to provide special assistance to a federally insured state-chartered credit union in troubled financial condition).
[13] Where the acquired credit union is a single or multiple common bond charter and the continuing federal credit union is a multiple common bond charter, the merger may be classified by NCUA as "supervisory" when NCUA determines supervisory concerns exist.

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Pursuant to Pub. L. 117-263 § 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to oigmail@ncua.gov within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information. A response that does not satisfy the purpose set forth by the statute will not be attached to the final report.