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October 26, 2018

The Honorable J. Mark McWatters
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

Dear Chairman McWatters:

On behalf of America's credit unions and their 110 million members, the Credit Union National Association (CUNA) appreciates the National Credit Union Administration's (NCUA) transparency in the budget process. By providing budget documents in advance, holding an open briefing where stakeholders were invited to comment, and soliciting written comments, NCUA has demonstrated a commitment to effective governmental engagement. We commend you for continuing these efforts.

CUNA continues to believe that the efficiency of NCUA's operation is paramount to responsibly shepherding credit union members' resources as NCUA seeks to become a world-class regulator. We believe there is immense capacity for NCUA to reduce its footprint, right-size the organization, and emerge from the resulting transition as a nimbler, stronger, and more efficient and effective regulatory body.

The NCUA's proposed 2019 operating budget represents a small increase relative to the 2018 board-approved budget and it compares favorably to both increases in headline inflation and to increases in credit union operating expenses.

CUNA has urged the NCUA to decrease staffing and to reign-in fast-growing compensation outlays. Employee pay and benefits account for nearly three-quarters of the agency's proposed budget and individually they are the two largest groups of expenditures. The NCUA Board has been receptive to CUNA's view and has proposed a variety of changes that impact the budget through reorganization and needed updates to the examination process. These changes will lower the agency's authorized staffing level by 91 FTEs compared to peak levels.

With our ongoing interest in staffing issues (and related costs), CUNA previously urged the NCUA to study the composition of the Regions to explore possibilities for significant cost savings. The agency's willingness to deliver on this proposal is clearly reflected in this budget – and the action you took on this front resulted in a significant decline in facilities costs relative to the prior year budget. Further, we applaud the anticipated additional savings from lease terminations in 2021, once Eastern Region personnel are co-located in the NCUA-owned central office building.

The budget clearly supports the NCUA's strategic plan focus on implementation of a more flexible examination schedule, including extended cycles up to 20 months and virtual examinations with remote monitoring. NCUA's commitment to modernization in this area, as demonstrated by increasing leverage of technology resources as a long-term cost savings, is both innovative and laudable among financial regulators. We appreciate that balancing the value in reduced staff travel and remote assessment with the value in having on-site examiners to develop relationships and insight in the field is a delicate challenge. As we've said in the past, we think that investments in time and money are well spent in modernizing NCUA's examination process as this makes for a more efficient NCUA staff.

NCUA has made progress by implementing the 18-month examination cycle and planning for examinations with remote components. We believe more can be done on this front. For instance, Section 210 of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) amends the Federal Deposit Insurance Act to increase the asset limit below which depository banks are eligible for an 18-month examination cycle (rather than a 12-month examination cycle) from $1 billion in assets to $3 billion in assets. NCUA ought to exercise similar discretion for credit unions.

CUNA has commented several times over the past year on the issues of electronic data modernization and on call report/profile content modernization. We appreciate the agency convening working groups to address call report improvements, which allowed for significant outreach and feedback resulting in a proposed rule that requires little alteration prior to adoption. It is critically important that both call report content and electronic data modernization efforts more clearly account for the challenges faced by smaller credit unions – with less onerous reporting and longer implementation timelines.

Finally, we applaud the agency's decision to merge the Temporary Corporate Credit Union Stabilization fund into the National Credit Union Share Insurance Fund and to make a significant equity distribution to credit unions and their members. We support efforts to return additional monies to credit unions as soon as possible and we strongly believe the NCUA Board should, over the next several years, revert the normal operating level to its traditional 1.3% ratio. Controlling insurance fund operating expenses is vitally important in this context.

In conclusion, CUNA recognizes and applauds NCUA's improved budget process as well as most of the details of the budget proposal. Together, they continue to represent a clear, positive, and significant step in the right direction as the agency works to become a leader and innovator in the financial services industry. We hope NCUA will continue to focus on innovation and modernization, more material reductions in the budget, and slowing the growth rate of expenditures.

On behalf of America's credit unions and their more than 110 million members, thank you very much for your consideration of our views.

Sincerely,

Mike Schenk
Deputy Chief Advocacy Officer & Chief Economist