



WASHINGTON, D.C.
601 Pennsylvania Avenue NW
South Building, Suite 600
Washington, D.C. 20004-2601
Phone: 202-638-5777
Fax: 202-638-7734

April 10, 2018

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

Dear Chairman McWatters and Board Member Metsger,

I'm writing today on behalf of the CUNA Small Credit Union Committee. As you're aware, the Committee met with your Chiefs of Staff Sarah Vega and Mike Radway, in addition to Examination and Supervision Office Director Larry Fazio prior to the CUNA Governmental Affairs Conference. We wanted to write a letter both to thank the agency for dedicating time to the thoughts and concerns of small credit unions, and to reiterate the issues and recommendations we made during our discussion.

Overall, we are mostly encouraged by the vision the NCUA has laid forth for the future of credit union examination and supervision. Based on the NCUA's recent initiatives to find efficiencies within its organization and modernize its own infrastructure, in addition to its ongoing efforts to upgrade data collection and call report processes, it's clear that both the agency and small credit unions are aligned on the need for a more-efficient and streamlined supervision process. As described by Larry Fazio during our meeting—a future in which supervision takes place on a "rolling basis" with a strong focus on remote technology, thereby reducing the amount of time spent by examiners in our offices, is one we believe would be beneficial both to the NCUA and to credit unions of all sizes.

While the Committee supports this vision, and looks forward to its ultimate execution, our intention during the meeting was to remind the NCUA that significant changes to examination and supervision processes are often more burdensome and costly for small credit unions to implement. Given the NCUA's adopted policy to administer streamlined small credit union exams when possible; its recent efforts to reduce the frequency of examinations to 18 months; and its decision to apply the Automated Cybersecurity Examination Tool (ACET) to credit unions only above \$1 billion in assets, the Committee believes the NCUA appreciates this dichotomy between the impact of such changes on larger and smaller credit unions.

But pain points remain. We feel that, oftentimes—despite ongoing efforts at the NCUA to train examiners, efforts we acknowledge and appreciate—policies set by agency leadership aren't always properly implemented by field staff. For example, during our meeting, committee members relayed examples where examiners demanded to see strategic plans, or spent a significant amount of time in the committee member's office working on another credit union's exam—activities that appear to be at odds with the NCUA and Mr. Fazio's policies.

We acknowledge the scope and complexity of the agency, and we commend the efforts we have outlined above to improve examination consistency and to find efficiencies in examination and supervision practices. However,

until the NCUA achieves its vision of a more-integrated and streamlined process, we strongly encourage the agency to continue exploring ways that it can provide small credit unions relief.

Below, please find the specific issues we outlined during the meeting, in addition to our recommendations. One point we would highlight is there appears to be great interest among credit unions of all sizes to raise the cap on non-member deposits. As we expressed to NCUA staff during our meeting, we strongly recommend the agency expedite its efforts on that issue.

1. Examinations

While improvements in the frequency of examinations have been seen nationwide, examination length and consistency remain significant challenges for small credit unions. One committee member, for example, with \$1.5 million in assets, experienced a recent exam that took place over the course of three weeks, a common length of time heard by the committee anecdotally. On the need for greater consistency, other committee members report that examiners have given lower CAMEL ratings where, after pushback by the credit unions, the examiners realized mistakes had been made and amended their findings.

In the long term, we support the agency's commitment to training examiners for consistency, in addition to a future approach outlined by Mr. Fazio where examiners would focus on different areas of the credit union on a rolling basis to reduce examination length. We also support more communication between examiners and credit unions prior to examinations to ensure more predictability both in terms of scheduling and information needed.

In the short term, we would recommend the agency provide clear guidance to small credit unions on a regular basis on the main areas of focus for examiners during a given period to provide sufficient time to prepare. We would also recommend ensuring that NCUA protocols for examiner activities while in credit union offices are being followed, particularly to reduce instances where examiners are working on other credit unions' examinations.

2. Call Report Modernization Efforts

The committee has been very engaged with the NCUA's request for information (RFI) process on its call report modernization efforts. The greatest concerns held by the committee are whether all core processors will be able to adapt in advance of the implementation of these forthcoming changes, in addition to the cost small credit unions will bear both from the time spent adapting to the changes and the hard costs passed on by vendors. Committee members have direct experience with vendors passing along such changes directly to credit unions.

We agree with the recent CUNA recommendation for a one-year implementation schedule following finalization of the rule "to permit for informational technology updates, along with an additional two quarters whereby late filings or non-material reporting errors would not be subject to penalty, particularly for smaller credit unions."

3. Data Collection Processes

The committee was pleased to provide its feedback to the NCUA within CUNA's overall comments for the original RFI for the agency's data collection efforts, and we appreciate that the NCUA has heard our concerns about the potential costs and resource burdens that significant changes and additions to data collection could cause small credit unions.

As with the call report modernization effort, core processor capabilities and how vendors choose to pass along costs for the upgrades will play an outsized role in how these changes impact small credit unions. Furthermore,

not all core processors house the data that the NCUA is proposing to collect, raising significant concerns from the committee that the changes and subsequent reporting requirements could be very time intensive and costly for small credit unions.

The committee recommends that the NCUA fully understand the ways in which the data it will require is pulled and collected by small credit unions, and develop a collection process and/or establish separate requirements specific to the reasonable capabilities of small credit unions. This echoes CUNA's official comment letter:

"CUNA recommends that any data collection proposal reconsider the impact that additional technology reporting and compliance would have on small credit unions' ability to serve their members, keeping in mind the lack of negotiable power wielded toward vendors, the additional record-keeping and compliance costs involved, overall automation and manual file-keeping transfer requirements unique to smaller institutions, as well as limited personnel and staffing resources. Any mandatory one-size data collection effort, as outlined in the RFI, would be nearly insurmountable for the majority of America's smallest credit unions."

4. Non-member Deposits

Several members of the committee leverage the ability as low-income credit unions to accept non-member deposits when in need of liquidity to continue serving members. The 20% cap on all shares, however, prohibits credit unions in need of liquidity to serve their members. It also diminishes opportunities for credit unions with excess liquidity to invest shares in an already-insured, low-risk manner, i.e. other federally insured credit unions.

As one of our Committee members states: "Raising or eliminating the cap would be a win-win for credit unions of all sizes, as leveraging non-member deposits would be a desired option for smaller credit unions who do not have the staff on hand to manage loan participation programs; the expertise required is often prohibitive to getting involved, especially for smaller credit unions."

During the meeting, the agency relayed to the committee that raising the cap was an item on the NCUA's long-term agenda. Our recommendation would be to elevate the priority of this issue, as this minor shift would yield meaningful and tangible benefits for small credit unions, particularly from a profitability and soundness standpoint, while also remedying the non-uniform application of the present state in which the decision is left to each regional director. The committee would invite further dialogue at an upcoming monthly teleconference meeting on this issue if desired by the agency.

5. Forgoing Tests/Assessments Similar to Approach with ACET

As noted above, the committee recognizes and appreciates the NCUA's decision to apply ACET to larger, more complex credit unions at the initial implementation of that program. During the meeting, we urged the agency to look for additional opportunities to forgo similar assessments that don't necessarily yield significant improvements in supervision for less-complex financial institutions, for example: the Net Economic Value (NEV) assessment, any overly sophisticated asset-liability management (ALM) assessments, and even forthcoming requirements for the new Current Expect Credit Loss accounting methods. We believe forgoing these assessments, when appropriate, could both reduce the burden on small credit unions and make the examination process more efficient for examiners.

6. Small CU Risk to Share Insurance Fund

During the meeting, the committee asked a general question about the NCUA's approach to small credit union examination and supervision, particularly as it relates to the risk small credit unions pose to the National Credit Union Share Insurance Fund. In no way does the committee advocate for reductions in examination and

supervision activities that would weaken the NCUA's ability to properly protect the safety and soundness of both the industry overall and individual small credit unions. The committee also appreciates the significant reputational risk of fraud associated with insufficient monitoring of credit union operations of any size.

However, the committee believes that the NCUA can continue to pursue an appropriate level of examination and supervision for small credit unions that would adequately protect against fraud and ensure soundness, while also providing much-needed relief from any processes and activities that are inconsequential to the safety of the share insurance fund. What's more, we believe that identifying any excessive requirements and examiner activities related to the examination and supervision of small credit unions could also provide the NCUA cost savings through greater efficiencies and time saved at the agency.

Thank you for considering these thoughts and recommendations. And thank you for all the work you have already done in recent years to provide support and relief to small credit unions. We look forward to further dialogue on these issues.

Gary Parker
President/CEO, 1st University CU, Waco, Texas
Chair, CUNA Small Credit Union Committee

Gary Parker, 1st University CU, Waco, Texas | **Teri Robinson**, Pacific NW Ironworkers FCU, Portland
Becky Brosius, Combined FCU, Hot Springs, Ark. | **Christopher Bruno**, McKesson EFCU, San Francisco
Joe Foster, HALLCO Community CU, Gainesville, Ga. | **Ynette Gibbs**, Newrizons FCU, Hoquiam, Wash.
Dale Hansard, Caprock FCU, Lamesa, Texas | **Lori Herrick**, Manchester (Conn.) Municipal FCU
Bob Hoel, Filene Research Institute | **Tom Kane**, Illinois Credit Union League
Beth Krahn, County City CU, Jefferson, Wis. | **Mira Ness**, New York University FCU, New York
Maggie Pope, Peru FCU, Peru, N.Y. | **Eunice Rogers**, NRS Community CU, Birmingham, Ala.
Stephanie Sievers, ANECA FCU, Shreveport, La. **Carrie Wood**, Timberland FCU, DuBois, Pa.
Nick Woodard, United Savings FCU, Fargo, N.D. | **Tom Sakash**, Small Credit Union Advisor, CUNA
Mike Schenk, VP of Economics and Statistics, CUNA