Credit Union National Association
CUNA

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The Honorable Mike Crapo
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, I am writing today regarding the Senate Banking Committee's hearing entitled, "Oversight of Financial Regulators," at which National Credit Union Administration (NCUA) Chairman Rodney Hood will testify. Please find below a comprehensive overview of issues important to credit unions we would like the Committee to be aware of as it proceeds with this hearing. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

Priorities as NCUA Chair

At the April meeting of the NCUA Board, Chairman Hood highlighted several areas he intends to focus on, including enhancing the credit union charter, enhancing cybersecurity efforts, and reducing regulatory burden.

In the recent past, the credit union industry has focused its advocacy efforts on enhancements to the credit union charter. Therefore, we urge the agency to take steps toward this objective, which may include collaborating with parties outside NCUA.

Concern over cyber and data security is likely the single biggest issue currently facing most industries, including financial services. We appreciate NCUA's recognition of the importance of this issue and its commitment to make it a focus area. We ask the agency to outline its short- and long-term strategy for ensuring credit unions and the agency are well positioned to avoid unauthorized loss of information through both cyber and general data breach threats. Further, we urge NCUA to deepen its relationships with other governments agencies and remain consistently engaged in public/private partnerships and cyber exercise planning. Additional commitment toward cyber issues will only help to ensure that credit unions continue to bolster their cyber expertise and ensure that the agency has the relevant expertise to help protect the credit union system.

We also appreciate the agency's commitment to address unnecessary regulatory burden. In addition to following the spirit and intent of the Presidential Executive Order to reduce regulatory burden, we ask the agency to provide a roadmap of both the concrete and policy approaches it will commit to in order to reduce the ever-increasing regulatory pressures on our nation's credit unions.

Importance of the NCUA as an Independent Regulator and Insurer
CUNA continues to strongly support the NCUA's current status as an independent regulator and insurer. Maintaining a separate, independent federal credit union regulator and insurer is critically important to the credit union system. The structural and mission-driven differences between credit unions and banks necessitate such a regulatory scheme: credit unions' not-for-profit structure and their mission to promote thrift and provide access to credit for provident purposes are fundamentally different than other financial services providers.

The NCUA is funded by credit unions and their members, not by taxpayers. Credit unions and their members remain willing to pay for their own regulator provided there is sufficient transparency, including with regard to the agency's budget. For the last three years, even before it was statutorily required to do so, the NCUA has held an annual hearing on its budget, and as a result, the agency's budget has improved. CUNA is generally supportive of NCUA's broad budget priorities. We are hopeful that, as a new member of the NCUA Board, Chairman Hood will commit to prudent stewardship of the credit union member resources put in the agency's trust.

The NCUA-administered National Credit Union Share Insurance Fund (NCUSIF) is also independent of the federal appropriations process, which insulates it from unexpected lapses in funding, including the recent partial government shutdown. Credit union share deposits remain insured and secure. In Fall 2017, the NCUA closed the Temporary Corporate Credit Union Stabilization Fund and merged it with the NCUSIF. The result of this action increased the NCUSIF's equity ratio well past the 1.30% of insured deposits that Congress set as a benchmark. The NCUA set the normal operating level at 1.38% and distributed excess funds to credit unions. We hope, under the Chairman's leadership, the new NCUA Board will commit to returning the normal operating level to 1.30% over a reasonable period of time.

Recent NCUA Actions that Have Been Positive for Credit Unions
We are optimistic that, under Chairman Hood, a full NCUA Board will ensure the NCUA will continue to take action that results in increased flexibility and decreased compliance requirements for credit unions. We appreciate recent actions taken by the NCUA that have been positive for credit unions. These include:

- Extended examination cycles: The NCUA's recent effort to extend the examination cycle for certain credit unions has benefited numerous credit unions, particularly those for which a 12-month cycle was clearly unnecessary. However, we believe the NCUA should extend the examination cycle for credit unions under $3 billion in assets, as is provided for banks under the Federal Deposit Insurance Act, as recently amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act.
- Streamlined examinations: We appreciate the NCUA's efforts to streamline examinations and make operations more efficient, and we urge the agency to continue these efforts.
- Virtual examinations: We support the NCUA's move toward virtual examinations, provided credit unions have the ability for in-person interaction to allow them to engage with examiners.
- Modernization of the call report: We support the NCUA's work to modernize the call report. On a going-forward basis, we request the agency continually monitor the call report to determine how it can be further improved.
- FOM litigation: We support the NCUA's litigation efforts regarding its field of membership (FOM) rulemaking, including the NCUA's recent appeal to the U.S. Court of Appeals for the D.C. Circuit, which CUNA filed an amicus brief in support of.
- Executive order: We appreciate that even though it is an independent agency, the NCUA has stated its commitment to respect the spirit and intent of the Presidential Executive Order to reduce regulatory burden.

- Supplemental capital: While the NCUA has yet to issue a rulemaking on supplemental capital, it has stated it will do so in the near future. CUNA supports an NCUA rulemaking that would provide all credit unions the ability to issue a form of supplemental capital.

We hope Chairman Hood and his fellow Board Members will work to build on the positive momentum that has been created in recent years.

Issues the NCUA Can Improve

While we appreciate the NCUA's recent actions, there are nevertheless issues and rulemakings that cause concern for the credit union industry. We urge the NCUA Board to maintain an open dialogue with CUNA, the state credit union leagues and associations, and credit unions to ensure it is aware of areas where improvements can be achieved.

The NCUA's recent rulemaking on risk-based capital is a prime example of where we believe the NCUA can make improvements. During the rulemaking process, credit unions across the country expressed significant concerns with the new standards, particularly regarding whether the NCUA has legal authority to impose the requirements. Credit unions have concerns with the new risk-based capital standards for determining whether a credit union is well-capitalized, as the Federal Credit Union Act permits the NCUA to impose a risk-based standard for the purpose of determining capital adequacy only.

In addition, credit unions question whether the cost of the additional regulatory burdens imposed by these standards is justified. CUNA's analysis shows that it would have done very little to reduce costs to the NCUSIF had it been in effect during the most recent financial crisis. Upon reflection, the current Prompt Corrective Action (PCA) system served very well during the crisis, with relatively few credit union failures. If the goal of a PCA scheme is for covered institutions to hold sufficient capital to withstand a severe financial crisis without imperiling the deposit insurance fund, credit unions' performance during the recent financial crisis stands as compelling evidence that a major overhaul of current credit union capital requirements toward a Basel-style system is simply not required. Simply put, we believe the NCUA's rule is a solution in search of a problem. We hope that with a fully constituted Board, the NCUA will revisit this rule.

We appreciate comments regarding risk-based capital included in Chairman Hood's answers to written questions posed to him as part of the confirmation process. He stated that he would support a further delay to the implementation of the risk-based capital rule to allow him and his fellow Board Members to further study and assess the rule's real effects on the credit union system. We find these remarks encouraging and urge the agency to implement a plan to conduct such a study.

Furthermore, while outside the NCUA's rulemaking authority, the Financial Accounting Standards Board's (FASB) recent standard on credit losses [referred to as CECL (current expected credit losses)] will have a significant financial and compliance impact on credit unions. We believe a more proactive and collaborative strategy by the NCUA with industry stakeholders will better ensure credit unions are prepared for this major change as the effective date approaches. Preparation for credit unions to comply with the CECL standard should be a top priority for the NCUA, and we hope Chairman Hood will commit to ensuring the NCUA is doing everything it can in this regard.

Importance of NCUA Coordination with Other Regulators

We emphasize the importance of the NCUA's continued coordination with other federal regulatory agencies. As the prudential regulator and federal insurer, the NCUA retains oversight over the vast majority of a credit union's operations. However, there are other agencies that examine and/or regulate credit union operations, such as the Consumer Financial Protection Bureau (CFPB) in regard to certain consumer financial protection laws and regulations, and the Federal Communications Commission in regard to certain consumer protections including the Telephone Consumer Protection Act. It is critical that the NCUA work closely with these and all agencies affecting credit union operations.

Conclusion

On behalf of America's credit unions and their 115 million members, we appreciate the Committee's commitment to pursuing issues of importance to America's credit union industry. Thank you for your consideration of our views.

Sincerely,

Jim Nussle
President & CEO