Credit Union National Association
CUNA

WASHINGTON, D.C.

99 M Street SE
Suite 300
Washington, D.C. 20003-3799

Phone: 202-638-5777
Fax: 202-638-7734

December 2, 2019

The Honorable Rodney E. Hood
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: NCUA 2020 - 2021 Proposed Budget

Dear Chairman Hood:

On behalf of America's credit unions, thank you for opening the National Credit Union Administration's (NCUA) budget process to credit unions and credit union stakeholders. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

We commend the agency for continuing to provide comprehensive budget information as well as rationalization of the budget and agency expenditures in the context of a well-communicated strategic plan. Providing budget items in advance, holding an open briefing where stakeholders are invited to comment, and soliciting written comment is good public policy and reflects the agency's commitment to government transparency.

As stated in our correspondence on this issue last year, CUNA believes the efficiency of NCUA's operation is paramount to responsibly applying 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 come out of the resulting transition as a nimbler, stronger, more efficient, and more effective regulator.

In the past few years, NCUA has listened to and been generally responsive to CUNA and credit union concerns. You addressed our concern about the Overhead Transfer Rate (OTR) calculation, demystifying the OTR calculation process and introducing a fair, simplified, and principles-based methodology. The agency also has begun to address our concerns over fast-rising costs and overstaffing and has looked for efficiencies, consolidating its five regional offices into three and reorganizing the Office of Small Credit Union Initiatives & other functions into the Office of Credit Union Resources and Expansion.

In addition, the NCUA is well on its way to applying an extended examination cycle for many well-managed, low-risk federal credit unions, and it performs streamlined examinations for well-managed small credit unions.

We applaud these actions.

The Budget Justification document is clear, comprehensive, and well-developed. The proposed activities and expenditures align with previously-announced and vetted strategic initiatives, including the Examination Flexibility Initiative, remote examinations & data analytics, modernization of the agency's Information Technology systems, and cybersecurity concerns.

The NCUA's proposed 2020 operating budget represents a small increase relative to the 2019 Board-approved budget, and it compares favorably to increases in both headline inflation and credit union operating expenses.

This is all vitally important as credit union operations have generally benefited from the economic expansion and bottom-line results are at cyclical highs. Yet, fully two-thirds of the respondents to CUNA's most recent Examination Survey stated that heavier regulatory and examination requirements are putting increasing pressure on credit union resources. This makes effectively serving members a more difficult challenge.

Therefore, CUNA recommends the following changes to enable credit unions to better serve their members:

Regional Consolidation
We applaud the NCUA for its focus on cost savings and efficiency in consolidating regions. However, we encourage the agency to focus on smooth transitions with as little disruption as possible. We are concerned about feedback received in CUNA's 2018 Examination Survey which highlights a great deal of anxiety about regional consolidation. New examination teams, many contend, will potentially have a negative impact on examination experiences. Inconsistency in the interpretation and application of rules and regulations are especially challenging for credit unions that have new examiners. These inconsistencies can throw strategic plans off track resulting in significant service disruption and misallocation of resources.

Examination Cycle
As you know, in December 2018, the federal banking agencies issued a final rule to implement a provision giving banks holding under $3 billion in assets an examination only once every 18 months, leaving credit unions on an uneven playing field. Credit unions, however, remain eligible for an 18-month examination cycle only if their asset level is below $1 billion. This regulatory disparity now serves as a comparative advantage for community banks.

Congress has already delegated authority to NCUA to set the frequency of examinations for credit unions. Credit unions deserve the privilege of providing customer service subject to comparable regulatory supervisory thresholds as applied to banking organizations—and this issue continues to be a concern among industry leadership. We urge the NCUA to extend the credit union asset threshold for the 18-month examination cycle from $1 billion to $3 billion.

National Credit Union Share Insurance Fund Normal Operating Level
In December 2018, the NCUA Board approved a reduction of the Share Insurance Fund Normal Operating Level (NOL) from 1.39% to 1.38% for 2019. We thank NCUA for acting to lower the NOL and encourage NCUA to issue additional Share Insurance Fund distributions whenever possible with the expectation that the initial increase in the NOL was temporary. We look forward to a phase-down of the NOL to 1.30% by 2021.

In the interest of transparency, we encourage the agency to more regularly share its views on the possible return of capital from conserved corporate credit unions. Credit unions deserve more information and discussion on the mechanics and considerations surrounding the decisions to sell or manage securities of the various estates after the NCUA Guaranteed Notes are retired.

Expanded Office of Consumer Financial Protection
Board Member Harper, as a supplement to the official budgetary process, has proposed to expand the agency's Office of Consumer Financial Protection (OCFP) with the goal of creating a dedicated consumer compliance examination program for "large, complex credit unions." While this proposal may be well-intentioned, CUNA and our members believe altering the agency's risk-focused examination process and increasing examination-related expenditures is not warranted.

There has been no supplementary evidence introduced or observed to suggest credit unions' consumer compliance management has become a risk area warranting an increased expenditure of agency resources. Absent evidence demonstrating an emerging need or establishing a clear benefit to all credit unions, our members view the proposal as a solution in search of a problem.

As its mission statement makes clear, the NCUA exists to ensure the safety and soundness of the credit union system and its examination program should remain focused on that objective. In addition, the agency already has the tools in place to further evaluate a credit union's consumer compliance program when a need is identified through the risk-focused examination process. In fact, the current safety and soundness examination procedures include an evaluation of a credit union's consumer compliance risk—which is subsequently incorporated into a credit union's CAMELS rating. And finally, the NCUA has access to consumer complaint data that could provide a basis for identifying emerging consumer compliance issues in need of further investigation.

We also caution the NCUA against drawing parallels between itself and bank regulators in terms of resource allocation or examination priorities. Ultimately, each federal banking agency is tasked with overseeing significantly different entities with markedly different organizational structures, product offerings, and risk profiles. The fact that a regulator of for-profit banks identifies a systemic need for the industry it regulates does not necessarily mean that other regulators—especially the regulator of not-for-profit cooperatives—ought to follow suit.

Credit unions' unique structure embodied in member-ownership and democratic-control ensures that the incentives faced by management are aligned with and are in the best interests of consumers. At credit unions, the absence of outside investors demanding a market rate of return on investment ensures pro-consumer behaviors and strongly discourages abuses. Furthermore, CUNA's recent study of financial institution executive compensation reveals that, adjusted for asset size, bank Chief Executive Officers receive a substantially higher proportion of their overall pay in so-called "high-powered" compensation—pay-for-performance schemes that encourage excessive risk-taking and a wide variety of anti-consumer behaviors.

The NCUA, we believe, would be wise not to concede ground to the bank regulators as somehow "doing it better." If that notion were true, then bank fines and lawsuits due to violations of consumer protection laws would not be as commonplace as they are currently. According to Barclays and Capital Performance Group, the largest domestic and European banks operating in the United States have incurred nearly $300 billion in fines since 2009.

Rather than developing and implementing a new, costly examination procedure, CUNA recommends the NCUA build upon the consumer compliance resources currently available to credit unions through the agency, and further improve examiner training to ensure examinations are more efficient and less invasive. Examples of additional credit union resources include: more compliance webinars on consumer financial protection issues and new regulatory requirements; compliance checklists and resources, such as Frequently Asked Questions, on various compliance issues; and an accessible help-line where credit union representatives may ask questions and seek feedback on various consumer compliance issues.

Communicating Results and Key Performance Indicators

NCUA has greatly improved its budget process and has better connected the budget to its strategic plan. One part of the process that could be improved is the way in which the agency communicates strategic results. In this regard, we urge the NCUA to better identify key performance indicators across each strategic initiative and to regularly report on the progress toward the goals for each initiative. The agency has increased expenditures in a number of areas and credit unions deserve to know the specific effects of those actions relative to the plan.

Conclusion

We reiterate CUNA's belief that seeking and considering industry feedback prior to proposing regulations, adopting strategic initiatives, and producing detailed budgets helps ensure these activities are better understood by all stakeholders. Ultimately, this means these efforts will be more effective.

The NCUA Board—in its approach to the budget process—recognizes and embraces this idea, and we encourage continued dialogue and focus on efficiencies and cost savings that allow credit unions to do what they do best: effectively serve and improve the financial health of millions of Americans.

On behalf of America's credit unions and their more than 115 million members, thank you for your consideration of our views.

Sincerely,

Mike Schenk
Deputy Chief Advocacy Officer & Chief Economist