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**National Association of Federally-Insured Credit Unions**

March 28, 2018

The Honorable J. Mark McWatters, Chairman  
The Honorable Rick Metsger, Board Member  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

RE: Extended Examination Cycle

Dear Chairman McWatters and Board Member Metsger:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing to recommend the National Credit Union Administration (NCUA) consider extending an 18-month examination cycle to low-risk, well-run credit unions greater than \$1 billion in assets.

**Background**

Examinations are a critical component of our members' relationship with NCUA. Often, it is the only time that credit unions have face-time with agency personnel. Conducted properly, examinations help individual credit unions identify potential problems, and provide assistance in addressing them. A good examination process is a critical component of a healthy credit union, and as a whole, a healthy credit union industry.

NAFCU greatly appreciates the agency's committed and sustained improvements to the exam process over the last several years. The Examination Flexibility Initiative, which took place under the current Board's leadership, has increased exam quality and reduced exam-related burden. Although there are still issues to be addressed and there likely will always be ways to achieve additional progress, the agency has worked tirelessly to address the most troublesome problems.

However, in the spirit of continual improvement, NAFCU recommends the agency consider extending the 18-month exam cycle – which is currently available to credit unions under \$1 billion in assets – to low-risk, well-run credit unions greater than \$1 million in assets. Such action would not only provide relief to more credit unions but also assist the agency in its efforts to increase efficacy and efficiency within the agency's operations and budget.

## **Low-Risk, Well-Run Credit Unions above \$1 Billion in Assets Should Benefit From an Extended Exam Cycle**

In November 2016, the Board approved its 2017 budget which included changes to the exam scheduling policy as recommended by NCUA's Exam Flexibility Initiative. Among the policy changes included an extended examination cycle for credit unions that meet certain eligibility criteria, including assets less than \$1 billion. In supplementary FAQs, NCUA partly justified maintaining the annual exam cycle for credit unions greater than \$1 billion in assets on the basis that such a policy would be consistent with thresholds set by the Federal Deposit Insurance Fund (FDIC), Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board.

However, as you know, Congress is currently in the process of considering regulatory reforms and relief for banks and credit unions. This includes a discussion of the thresholds to be eligible for an 18-month exam schedule. Specifically, the Small Bank Exam Cycle Improvement Act (H.R. 5076) introduced by Rep. Claudia Tenney (R-NY), which has bipartisan support, would seek to raise the 18-month exam threshold for banks from \$1 billion to \$3 billion. The legislation unanimously passed the House Financial Services Committee and advanced to the full House. It is also included in S. 2155, the *Economic Growth, Regulatory Relief, and Consumer Protection Act*, which passed the Senate earlier this month.

In her comments during the House Financial Service Committee mark-up, Rep. Tenney called on the NCUA to consider increasing the scope of its own extended exam cycle based on the current support of extending examination cycles for well-run financial institutions in Congress. The agency doing so would not only provide parity with the banking regulators but it would also be consistent the focus of the administration and the agency on finding ways to minimize regulatory and examination burden.

As NAFCU has consistently maintained, the size of a credit union alone does not determine its risk or need for regulatory relief. Rather, relief would be better hinged on multi-factor tests instead of arbitrary asset thresholds. That is why NAFCU strongly believes that all low-risk, well-run credit unions should be eligible for an extended examination cycle. However, at minimum, the agency should seek to maintain parity with the extended examination threshold used by the federal banking regulators.

### **Conclusion**

The NCUA Board has expended substantial effort to mitigate examination burden and proactively sought methods to improve the examination process. NAFCU and our members appreciate these efforts. However, in order to maintain competitiveness with banks, NAFCU urges NCUA to consider implementing an extended exam cycle that

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provides credit unions with comparable flexibility and increased cost-savings. Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2244 or [amonterrubio@nafcu.org](mailto:amonterrubio@nafcu.org).

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Monterrubio', with a long horizontal line extending to the right.

Alexander Monterrubio  
Director of Regulatory Affairs