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NAFCU
National Association of Federally-Insured Credit Unions

June 17, 2021

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Temporary Regulatory Relief in Response to COVID-19 – Prompt Corrective Action (RIN: 3133-AF19)

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the interim final rule (IFR) issued by the National Credit Union Administration (NCUA) to temporarily amend Part 702, Subpart B (Subpart B) of its prompt corrective action (PCA) regulations. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 124 million consumers with personal and small business financial service products. NAFCU and its member credit unions appreciate the temporary regulatory relief offered by this IFR to federally-insured credit unions (FICUs). NAFCU urges the NCUA to extend the IFR's automatic expiration to December 31, 2022 to fully provide FICUs the financial planning and operational flexibilities necessary to meet compounding share growth stresses and faithfully serve their communities at this unprecedented time. NAFCU further encourages the NCUA to closely monitor and catalogue the streamlined net worth restoration plan (NWRP) model's results over the life of this IFR to determine whether such a streamlined NWRP model or a similar iteration may be permanently adopted.

Extend the IFR's Automatic Expiration

Credit union system assets grew nearly 18 percent in 2020, largely as a result of COVID-19 pandemic-related share growth. As recognized by the NCUA, the number of FICUs classified as adequately capitalized rose 274 percent between December 31, 2019 and December 31, 2020. The number of FICUs classified as undercapitalized rose 123 percent during the same period. The observable impacts of elevated member savings rates and direct-to-taxpayer federal stimulus policy strongly suggest that such share growth, while likely impermanent, will continue to depress FICUs' net worth ratios through at least the remainder of 2021 and perhaps much longer.

Federal stimulus payments provided for in the *American Rescue Plan* will be dispersed beginning this summer and will be distributed, at least in part, beyond the IFR's current automatic expiration date of March 31, 2022. For example, frontloaded child tax credits from the *American Rescue Plan* will be distributed to eligible American families on a monthly basis from July through December 2021. Over that six-month period, eligible American families may receive up to $1,800 per child in direct payments from the U.S. Department of the Treasury. Those families will receive additional child tax credits of an equal amount when they file their 2021 tax returns in 2022. If FICUs' members save these and other subsequently distributed federal stimulus payments at even half the rates observed following the U.S. Department of the Treasury's distribution of three prior rounds of federal stimulus payments, share growth's downward pressure on FICUs' net worth ratios may persist well into 2022.

Just as direct-to-taxpayer federal stimulus policy's negative impact on FICUs' net worth ratios is obvious, so too should be its potential to accelerate FICUs' community engagement and empowerment goals. The temporary regulatory relief currently offered by this IFR will provide many FICUs the opportunity to concentrate their resources more fully not only on serving present members but also engaging their communities' unbanked and underbanked. As the NCUA has recognized, while the broader economy is showing signs of normalizing, its reopening and recovery has not and will not equally or evenly impact all Americans. The economic recoveries of lower income, rural and majority-minority communities significantly lagged the broader economic recovery following the Great Recession, and similar trends are all but certain to prevail in the months and years immediately ahead.

America's unbanked and underbanked are predominant among those most in need of federal and state stimulus payments. However, without access to our traditional banking system's direct deposit capabilities, America's unbanked and underbanked often must wait months longer than comparatively well-off taxpayers to receive funds intended to offset income losses and prevent evictions and foreclosures. FICUs have proven they are uniquely well-positioned to and capable of stepping into this yawning breach and effectively engaging their communities' most economically vulnerable.

NAFCU appreciates the NCUA's continued commitment to the Advancing Communities through Credit, Education, Stability and Support (ACCESS) Initiative and the developing role it plays in empowering FICUs to more equitably serve their communities. As the NCUA has recognized, the credit union system's recent share growth, though it places obvious and significant downward pressure on FICUs' net worth ratios, is neither likely permanent nor a material threat to the credit union system's safety and soundness. Extending this IFR's temporary regulatory relief until such time as FICUs may accurately assess share growth's trajectory and stability is consistent with both the NCUA's core mission and its financial inclusion goals. Under this IFR, adequately capitalized FICUs have the flexibility to temporarily forego otherwise mandatory earnings retention schedules and may, instead, devote additional undivided earnings to fueling affordable access to high quality credit, funding robust and higher-touch financial empowerment resources, and bolstering more inclusive hiring practices.

Historically marginalized communities' economic recoveries from the COVID-19 pandemic will be neither immediate nor even but can and should be supported by the NCUA. The NCUA should provide FICUs with broader, longer-term operational flexibilities not only with respect to PCA regulations but also in terms of their fields of membership (FOM). NAFCU encourages the NCUA Board to continue to support an amendment to the *Federal Credit Union Act* (FCU Act) to permit all federally-chartered credit unions, irrespective of charter type, to expand their FOMs to include underserved areas. More specifically, the NCUA Board should support the *Expanding Financial*

Access for Underserved Communities Act, which would provide this much-needed modernization to the FCU Act.

By ensuring this and other regulatory relief is available beyond March 31, 2022, the NCUA would avoid a period of uncertainty like that observed between the automatic expiration of similar temporary relief on December 31, 2020 and this IFR's effective date of April 19, 2021 and enable FICUs to more confidently implement the more robust and sustainable community engagement campaigns necessary to deliver on the NCUA's long-term financial inclusion goals.

The NCUA Should Adopt Lessons Learned from the Streamlined NWRPs

With respect to the IFR permitting certain FICUs to submit streamlined NWRPs, the NCUA has expressly stated it is confident that such streamlined NWRPs will provide NCUA Regional Directors information sufficient to assess FICUs' safety and soundness during this particularly challenging economic environment. Assuming the NCUA's appraisal of streamlined NWRPs' efficacy and efficiency is borne out over the life of this IFR, NAFCU encourages the NCUA to carefully consider whether the streamlined NWRP model may be permanently adopted, in whole or in part, to apply in more normal, less challenging economic environments.

As the NCUA points out in the IFR, more extensive information otherwise required to be included in an NWRP can, at times, be impracticable for FICUs to provide and not useful for an NCUA Regional Director to review. A streamlined NWRP model that enables FICUs to comply with PCA requirements more quickly and cost-effectively while ensuring NCUA Regional Directors retain authority to require additional disclosures when necessary drives two key efficiencies. First, by permitting FICUs to submit a streamlined NWRP, the NCUA encourages more timely disclosure of information it requires to protect the credit union system's safety and soundness. Second, by not requiring FICUs expend financial and operational resources gathering, researching, and providing information that does not help an NCUA Regional Director evaluate an NWRP, the NCUA ensures FICUs are able to more fully serve their communities. If these efficiencies can be driven during times of unprecedented challenge, they should be maintained throughout and beyond the current economic recovery.

NAFCU appreciates the opportunity to comment on this IFR and supports the temporary regulatory relief provided by it. NAFCU encourages the NCUA to extend the life of this IFR to December 31, 2022 to better support FICUs as they navigate unprecedented challenges and dutifully work to strengthen their communities. NAFCU further encourages the NCUA to consider whether this IFR's streamlined NWRP model or a similar iteration may be permanently adopted.

If you have any questions or concerns, please do not hesitate to contact me at dbaker@nafcu.org or 703-842-2203.

Sincerely,

Dale Ross Baker

Dale Ross Baker
Regulatory Affairs Counsel