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Carrie R. Hunt
Executive Vice President of Government Affairs
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October 23, 2018

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

RE: 2019-2020 Proposed Budget

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 in response to the National Credit Union Administration's (NCUA) proposed 2019-2020 Budget. NAFCU and its members appreciate the NCUA's strong commitment to budget transparency, which predates the *Economic Growth, Regulatory Relief and Consumer Protection Act's* requirement to publish budget materials and hold public hearings. NAFCU also commends the agency for its diligent execution of long term reorganization and modernization initiatives to curb year-over-year budget growth.

NAFCU is particularly grateful to have received an invitation to testify at the budget briefing on October 17, 2018, and we appreciate the NCUA Board's thoughtful comments after our Chair, Jeanne Kucey, President and CEO of JetStream Federal Credit Union, delivered her presentation. NAFCU hopes that the NCUA will continue its current practice of encouraging stakeholder engagement, as well as providing detailed and accessible budget materials to facilitate public dialogue.

Enclosed with this letter are remarks delivered on behalf of NAFCU at the NCUA Budget Briefing. We ask that the NCUA consider the questions posed and explore additional ways to improve efficiency to match the footprint of a consolidating industry. We also ask that the NCUA focus on ways to provide additional refunds to credit unions and return the NOL to its customary, historic level of 1.30 percent as soon as possible given the low risks of a healthy and strong industry.

Sincerely,

Carrie R. Hunt
Executive Vice President of Government Affairs and General Counsel

ORAL REMARKS

Good morning.

My name is Jeanne Kucey and I am the President and CEO of JetStream Federal Credit Union in Miami Lakes, Florida and Chair of the National Association of Federally-Insured Credit Unions. I am speaking today on behalf of NAFCU.

Before I begin my remarks, I want to sincerely thank the NCUA Board for its unwavering leadership and continued commitment to examining the operating budget in a public and transparent manner. NAFCU urges the agency to continue to be the leader among all other federal banking agencies in this respect. NAFCU and the industry appreciate that Board Member Metsger initiated this transparency as Chairman, and that Chairman McWatters has continued this effort, even before the requirement to do so was passed as part of S. 2155 earlier this year.

In reviewing the 2019 and 2020 proposed budget and budget justification materials, NAFCU greatly appreciates the agency's continued trend toward a culture that values efficiency over the size of its footprint. The budget materials indicate that the Operating Fund Budget is $304 million for 2019. This figure represents a real dollar decrease of 0.2 percent, or $624,000, from the 2018 Board-approved budget. Despite a reduction in the rate of year-over-year budget growth, the credit union industry remains focused on the efficient use of resources and reminds the NCUA that it should make every effort to do so as well.

Unfortunately, the proposed budget includes several increases for 2019 and 2020, including a $3.1 million increase for contracted services. If approved, the proposed 2019 budget would represent yet another year that the NCUA has approved a spending increase in the overall budget. Although it is a statement often repeated, it is never more pertinent than at a meeting to discuss the NCUA's proposed budget: *every dollar spent by the agency is a dollar that credit unions are unable to put towards serving their members.*

As a credit union CEO, I am fully aware that the agency requires a sufficient budget to support its dual mandate of prudential regulator and insurer, a duty that includes the hiring of experienced personnel and investment in new technologies. The credit union industry is well-capitalized and strong, meaning credit unions can continue to provide their members with the highest-quality products and services in the market. But credit unions are also constantly under attack by the very institutions that precipitated the worst financial crisis since the Great Depression.

It is crucial that the NCUA evaluate all potential measures to ensure credit unions remain competitive because, short of the passage of a modern Glass-Steagall Act, the largest banks will continue to look for ways to stunt the growth of the credit union industry. I commend NCUA staff and the NCUA Board members that have played a role in the success of our industry; however, I caution you to stay vigilant for outside threats and to discover opportunities to promote sustained growth for credit unions.

The industry needs a strong NCUA, so I am not suggesting the budget be arbitrarily slashed. What I *am* suggesting though is that there be an ongoing, agency-wide commitment to eliminating duplicity and creating an efficient budget that can be maintained long-term without relying on annual increases. The NCUA appears to be working towards this goal through its reorganization plan and exam modernization initiatives, but the agency's conservative approach to supervision—

including its pursuit of third-party vendor authority and the increased costs it would entail—may significantly derail the goal of minimizing budget increases.

To that end, I would like to pose a series of questions for the Board to consider.

1. Considering the proposed 2019 Operating Budget represents a 71 percent increase in the NCUA's budget in only a decade, when does the NCUA envision its budget seeing a true long-term reduction?
2. In a consolidating industry that is moving towards a virtual supervision model, when, if ever, can the agency expect to return the Normal Operating Level of the Share Insurance Fund to 1.3 percent?
3. What impact would third-party vendor authority have on future budget projections if such authority is granted?

The NCUA continues to cite the growth of credit union assets as a reason for year-over-year increases to its operating budget, while pointing out that the overall budget has decreased relative to federal credit union balance sheets. However, the *NCUA examines and supervises credit unions, not assets.*

Although the consolidation of the industry has led to growth in the number of larger credit unions, balance sheet complexity has not reached a level that necessitates an artificially low tolerance for risk. The NCUA cannot realistically eliminate all risks as credit unions accumulate more assets. Accordingly, NAFCU urges the NCUA to moderate supervision based on objective indicators, as opposed to the specter of cybersecurity risk or future competition from fintech companies.

The NCUA's budget documents reference initiatives which we agree will benefit the entire industry and support long term reduction in operating expenses. For example, we strongly support the NCUA's ongoing reorganization and restructuring plan, which will continue to strengthen agency operations while increasing efficiency. NAFCU also supports the NCUA's commitment to modernizing the examination process. We hope the agency can keep credit unions updated on the progress of these initiatives.

Regarding the details of the budget, NAFCU believes that the NCUA has once again demonstrated its commitment to improving transparency and facilitating meaningful stakeholder engagement. In order to continue this trend into 2020 and promote future efficiency, I am pleased to offer the following recommendations:

First, I would like to draw attention to a recommendation that NAFCU made at last year's budget briefing, which is relevant today. In 2017, we asked the NCUA to expand eligibility for an extended 18-month exam cycle for <u>all</u> well-run, low-risk credit unions to reduce burdens and achieve additional savings. The benefits of an 18-month exam cycle, which began in 2017, appear to have positively influenced the agency's 2019 proposed staffing levels and proposed travel budget. The NCUA should take this process one step further and evaluate and report upon the estimated cost savings of extending an 18-month exam cycle to all well-run, low-risk credit unions above $1 billion. Expanding eligibility for extended exams could materially decrease the agency's operating budget. It also must be noted that Congress recently expanded extended exam cycles to more banks above $1 billion as part of S. 2155. The NCUA should follow suit and take action to do so for credit unions.

We also ask that the NCUA consider ways to reduce expenses related to contracted services. Besides administrative expenses, contracted services for 2019 have seen the largest percentage increase relative to the 2018 budget. While it is understandable that the NCUA must obtain new services and subject matter experts to ensure that staff are equipped to carry out the agency's core functions, we worry that cybersecurity related expenditures—which have no clearly articulated limits—may be driving costs disproportionately and will continue to result in yearly budget increases. We ask that the NCUA delineate a clear standard for measuring the impact of cybersecurity investments relative to risk reduction to ensure that such investments are serving their intended purpose.

We also encourage the NCUA to leverage the cybersecurity expertise of other regulators, including the FFIEC, to find a collaborative means of reducing cybersecurity related expenditures. To a large extent, the NCUA has already followed this path, and we appreciate the agency's desire to harmonize standards and adopt proven tools. The NCUA should continue to coordinate with other regulators to eliminate overlap and duplication of effort.

NAFCU supports the NCUA's investments in technologies that can achieve long term cost reduction and improved efficiency. We expect that these capabilities will enhance the NCUA's ability to identify troubled or stressed credit unions more often and earlier, thus reducing the risk to the Share Insurance Fund. Investments in new services and data tools can also facilitate expanded use of remote examinations. However, based on surveys NAFCU has conducted this year, many credit unions have yet to see a meaningful reduction in the number of examiners that come on-site. NAFCU encourages the agency to assess whether its exam modernization initiatives are meaningfully reducing onsite examiner presence.

As the NCUA considers transforming the examination and supervision program into a predominately virtual program, NAFCU asks the NCUA to be particularly mindful of the need to balance enhanced monitoring with respect for credit union autonomy. Future development of the ONES' data-driven, continuous supervision model should aim to achieve a similar balance. As the NCUA acknowledges, increased communication between examiners and credit union management to support virtual supervision should not interfere with day-to-day operations.

Before I close my remarks, I want to take this opportunity to briefly address the Board's decision to raise the NOL to 1.39 percent. Even though we believe the 2018 rebate to credit unions was a good first step, we ask that the NCUA focus on ways to provide additional refunds to credit unions and return the NOL to its customary, historic level of 1.30 percent as soon as possible. Returning additional funds to credit unions will allow us to put those dollars to work, helping our members. Furthermore, a reduction in the NOL would be appropriate given overall improvements to the supervisory process, which is reflected in steadily decreasing personnel levels for the past three years. Reduction in staff levels is the result of several factors, such as industry consolidation, improvements in examination efficiency, and greater use of data analytics to conduct continuous monitoring. Together, these factors indicate that industry risk is trending lower and should support a quick return of the NOL to its customary level.

In conclusion, we believe that today's briefing reflects the NCUA's continued, strong commitment to improving budget transparency and stakeholder engagement. I commend Chairman McWatters and Board Member Metsger, as well as NCUA staff, for the many hours spent preparing budget materials, while still seeking ways to curb budget inflation.

Thank you for the opportunity to appear before you today.