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National Association of Federally-Insured Credit Unions

September 21, 2021

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable Rodney E. Hood, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Operating Fund Cash Balance

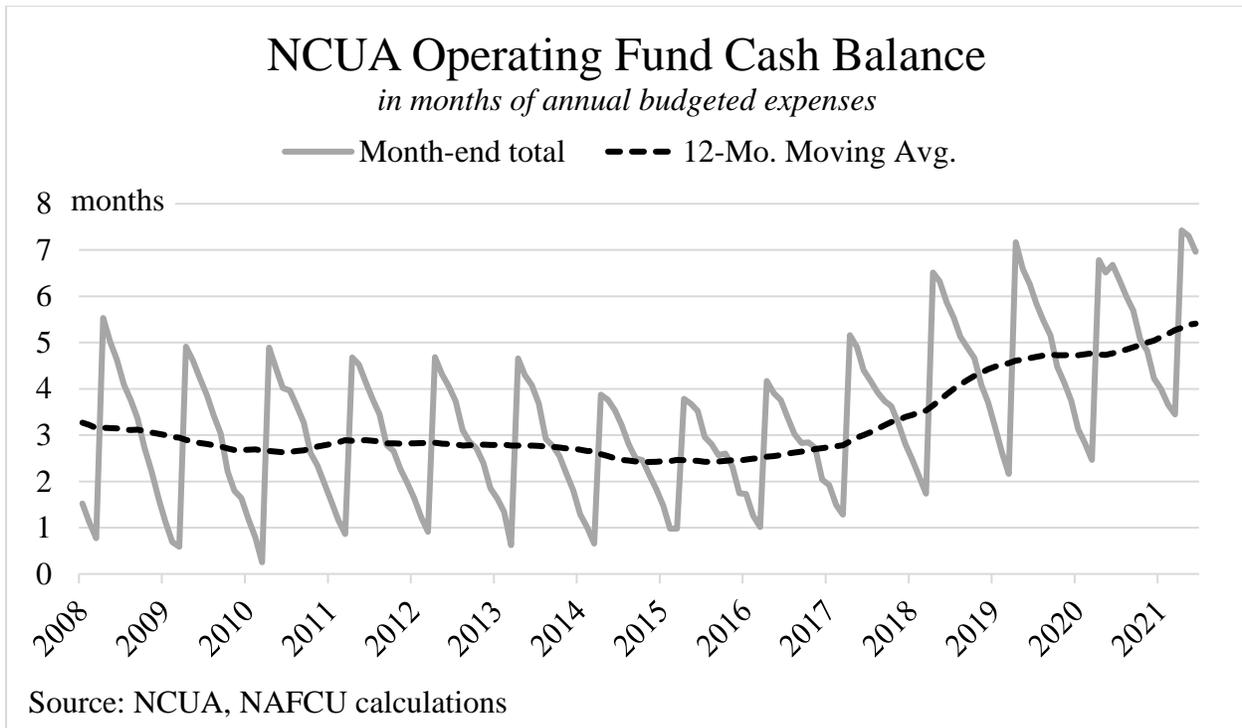
Dear Chairman Harper, Vice Chairman Hauptman and Board Member Hood:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to you regarding the cash balance of the NCUA Operating Fund. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 127 million consumers with personal and small business financial service products. NAFCU urges the NCUA to scrutinize its cash needs, provide greater transparency to credit unions on those needs, and return any surplus funds to credit unions directly or via a credit against 2022 budgeted expenses.

The NCUA Operating Fund is managed by the NCUA Board and provides for the administration and service of the federal credit union system.¹ Its primary revenue source is the annual operating fee charged to federal credit unions. The Operating Fund is also reimbursed by the NCUA Share Insurance Fund for insurance-related expenses according to the overhead transfer rate.

In recent years, the cash balance of the Operating Fund has risen dramatically. The chart below shows the cash balance in months of budgeted expenses as of the end of each month (solid gray line) and as a 12-month moving average (dashed black line). In general, the balance follows a seasonal pattern of peaking each April with the collection of the federal credit union operating fund and gradually declining in the months that follow before being replenished with the following year's operating fund.

¹ NCUA, FY 2020 Financial Statement Audits (Feb. 16, 2021), <https://www.ncua.gov/files/audit-reports/inspector-general-financial-statement-audit-fy-2020.pdf>.



The moving average tracks the trend in the cash balance. While it was consistently below three months of budgeted expenses in the middle of the prior decade, it has more than doubled to roughly 5.5 months of budgeted expenses. In dollar terms, this represents an increase of over \$70 million in credit union funds. Even when the cash balance was at its lowest point of the current cycle in March 2021, it was still above its average level prior to 2018. It should be noted that one month of budgeted expenses is itself a growing dollar amount. Over the past decade, annual growth in the Operating budget has averaged 4.2 percent. NAFCU has consistently stressed the importance of scrutinizing every aspect of the agency's budget in order to achieve cost savings.

NAFCU recognizes that the NCUA needs sufficient funds to pay for agency expenses and capital expenditures. However, the agency should provide additional transparency on the cash needs of the Operating Fund on an ongoing basis, and particularly during annual and mid-session budget presentations. Should it be determined that a surplus does exist, this would also provide the NCUA with a regular opportunity to reprogram monies toward the following year's budget or facilitate the return of those funds directly to credit unions.

NAFCU applauds the NCUA Board's recent strides toward providing greater budgetary transparency. Credit unions deserve to know how their members' funds are being spent. Furthermore, credit unions are still enduring the stress of recent economic turmoil, and so it is critical that the NCUA explore every option to reduce financial burdens associated with funding agency operations. Toward those ends, the NCUA should review the cash balance in the Operating Fund and provide a refund to credit unions in the amount of any surplus. If you have any questions

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or concerns, please do not hesitate to reach out to me directly, or Curtis Long, NAFCU's Chief Economist and Vice President of Research, at (703) 842-2276 or clong@nafcu.org.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger". The signature is stylized with a large initial "B" and a long, sweeping underline.

B. Dan Berger
President & CEO

cc: Eugene Schied