National Credit Union Administration (NCUA)

Issues:

Examination Modernization: In August 2018, the NCUA released a Letter to Credit Unions regarding its efforts to improve and modernize its examinations and supervision of credit unions. The agency outlined five initiatives to modernize its examination process:

- Flexible Examination Pilot Program (FLEX);
- Office of National Examinations and Supervision (ONES) Data Driven Supervision;
- Shared NCUA-State Regulator Federally Insured, State-Chartered Credit Union (FISCU) Program;
- Enterprise Solution Modernization Program (ESM); and
- Virtual Examination Program.

The goals of these initiatives are to replace outdated, end-of-life examination systems in order to achieve cost savings, minimize burdens on credit unions and improve adaptability to changes in the marketplace and credit union business models.

NAFCU has long advocated for more streamlined and efficient examination processes and is encouraged by the NCUA's pilot program for remote examinations under the Exam FLEX initiative, particularly from a cost savings perspective. NAFCU continues to monitor development of continuous supervision processes under ONES to ensure that credit unions can make management decisions with the necessary speed and efficiency to ensure long term financial health.

NAFCU has also advocated for several reforms to the examination process, including a return to an 18-month exam cycle for all healthy credit unions, not just those $1 billion and below. NAFCU is also supportive of bipartisan legislation to set standards for examination fairness for federal financial institution regulators (including the NCUA), including clear guidance from regulators, consistency from exam to exam, timeliness of reported exam results and an independent appeals process free of examiner retaliation.

Alternative Capital: On February 8, 2017, the NCUA published an Advance Notice of Proposed Rulemaking (ANPR) to solicit comments on potential alternative capital frameworks. The ANPR primarily sought comment on the utility and practicality of supplemental capital in the risk-based capital context. NAFCU submitted a comment letter on the proposal to the NCUA on May 8, 2017.

NAFCU's approach to alternative capital emphasizes the following general principles:

1. Preserve the not-for-profit, mutual, member-owned and cooperative structure of credit unions and ensure that ownership interest (including influence) remains with the members.
2. Ensure that the capital structure of credit unions is not fundamentally changed and that the safety and soundness of the credit union community as a whole is preserved.
3. Provide a degree of permanence such that a sudden outflow of capital will not occur.
4. Allow for a feasible means to augment supplemental capital.
5. Provide a solution with market viability.

NAFCU also believes that the NCUA should develop its alternative capital framework through a pilot program, similar to what the NCUA Board implemented for the derivatives rule. NAFCU understands that statutory amendments may be necessary to provide meaningful alternative capital options for all credit unions; however, a regulatory capital framework could offer increased flexibility to credit unions that must meet the NCUA's risk-based net worth requirement.

The NCUA's Spring 2018 rulemaking agenda indicates that the agency plans to issue a proposed rule on supplemental capital sometime in 2018.

Federal Credit Union Bylaws: Earlier this year, the NCUA released an advance notice of proposed rulemaking on ways to streamline, clarify, and improve the standard federal credit union (FCU) bylaws. NAFCU supports the NCUA's efforts to modernize the bylaws to reduce regulatory compliance burdens and provide increased operational flexibility to credit unions. In its comment letter, NAFCU urged the NCUA to make several changes to its bylaws, including: (1) adopt a set timeline for responding to credit unions' novel proposed bylaws amendments; (2) expand the definition of "nonparticipation" as it applies to member expulsion, to include individuals using credit union services for illegal purposes; (3) consider conducting NCUA-sponsored, voluntary educational sessions to facilitate the development of current and potential directors; and (4) remove portions of the bylaws that overlap with existing NCUA regulations.

Loan Maturities: On August 10, 2018, the NCUA published a notice of proposed rulemaking regarding loans and lines of credit to members. The proposed rule would identify the various maturity limits in one section, clarify that the maturity for a new loan under generally accepted accounting principles (GAAP) is calculated from the new date of origination, and clearly express the limits for loans to a single borrower or group of associated borrowers. The proposal also seeks comment on whether longer, more flexible maturity limits for certain loans are warranted. These loans include one-to-four family real estate, home improvement, mobile home, and second mortgage loans. NAFCU plans to comment on the proposed rule.