NAFCU

National Association of
Federally-Insured Credit Unions

2019 NAFCU REPORT *on* CREDIT UNIONS

NAFCU REPORT ON CREDIT UNIONS

NOVEMBER 2019

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Abbreviations

ABA	American Bankers Association
ACET	Automated Cybersecurity Examination Toolbox
ACH	Automated Clearing House
ADA	Americans with Disabilities Act
AIRES	Automated Integrated Regulatory Examination System
AML	Anti-Money Laundering
ATM	Automated Teller Machine
ATR	Ability-to-Repay
BSA	Bank Secrecy Act
Bureau	Consumer Financial Protection Bureau
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity/Asset-Liability Management
CCPA	California Consumer Privacy Act
CECL	Current Expected Credit Loss
CFPB	Consumer Financial Protection Bureau
CSA	Controlled Substances Act
CSC	Critical Security Control
CU	Credit Union
CUMAA	Credit Union Membership Access Act
CUSO	Credit Union Service Organization
DoD	Department of Defense
DOJ	Department of Justice
DTI	Debt-to-Income Ratio
ESM	Enterprise Solution Modernization
FASB	Financial Accounting Standards Board
FBIIC	Financial and Banking Information Infrastructure Committee
FCC	Federal Communications Commission
FCU	Federal Credit Union
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FICU	Federally-Insured Credit Union
Fintech	Financial Technology
FISCU	Federally-Insured State Chartered Credit Union
FLEX	Flexible Examination Pilot Program
FOM	Field of Membership
FSOC	Financial Stability Oversight Council
FSSCC	Financial Services Sector Coordinating Council
FTE	Full-Time Equivalent
GAP	Guaranteed Acceptance Protection
GLBA	Gramm-Leach-Bliley Act
GSA	Glass-Steagall Act
GSE	Government-Sponsored Enterprise
HMDA	Home Mortgage Disclosure Act
ICBA	Independent Community Bankers of America
IT	Information Technology
MBL	Member Business Lending
MERIT	Modern Examination and Risk Identification Tool
MOU	Memorandum of Understanding
MRB	Marijuana-Related Business
NAFCU	National Association of Federally-Insured Credit Unions
NCUA	National Credit Union Administration
NDAA	National Defense Authorization Act
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
ONES	Office of National Examinations and Supervision
PAL	Payday Alternative Loan
QM	Qualified Mortgage
RBC	Risk-Based Capital
RFA	Regulatory Flexibility Act Review of 2009
RFI	Request for Information
ROA	Return on Assets
SAFE	Secure and Fair Enforcement
SBA	Small Business Administration
SEG	Select Employee Group
TCPA	Telephone Consumer Protection Act
TIP	Trade, Industry, or Profession
TSP	Technology Service Provider
UDAAP	Unfair, Deceptive, or Abusive Acts and Practices
USDA	U.S. Department of Agriculture

Board of Directors and President and CEO of NAFCU

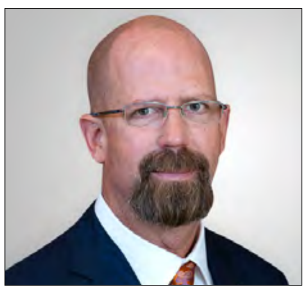
Jeanne Kucey | Chair
Southern Region Director
President/CEO
JetStream Federal Credit Union
Miami Lakes, FL
Asset Size: $213M
Members: 18,000
FOM: Community

Debra Schwartz | Vice Chair
Director-at-Large
President/CEO
Mission Federal Credit Union
San Diego, CA
Asset Size: $3.8B
Members: 247,000
FOM: Community

Thomas W. DeWitt | Treasurer
Western Region Director
President/CEO
State Farm Federal Credit Union
Bloomington, IL
Asset Size: $4.2B
Members: 125,000
FOM: Service

Gary Grinnell | Secretary
Eastern Region Director
President/CEO
Corning Federal Credit Union
Corning, NY
Asset Size: $1.5B
Members: 111,000
FOM: Multi-Occupational

Robert L. Fisher
Director-at-Large
President/CEO
Grow Financial Federal
Credit Union
Tampa, FL
Asset Size: $2.7B
Members: 204,000
FOM: Multi-Occupational



James A. Kenyon
Director-at-Large
President/CEO
Whitefish Credit Union
Whitefish, MT
Asset Size: $1.5B
Members: 57,000
FOM: Community

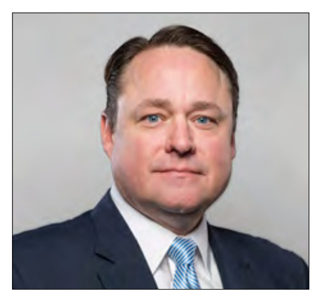
Lonnie Nicholson
Southern Region Director
President/CEO
EECU
Fort Worth, TX
Asset Size: $2.4B
Members: 212,000
FOM: Community

Jan N. Roche
Director-at-Large
President/CEO
State Department Federal
Credit Union
Alexandria, VA
Asset Size: $2.1B
Members: 87,000
FOM: Multi-Occupational

Brian T. Schools
Eastern Region Director
President/CEO
Chartway Federal Credit Union
Virginia Beach, VA
Asset Size: $2.2B
Members: 190,000
FOM: Multi-Occupational

Keith Sultemeier
Western Region Director
President/CEO
Kinecta Federal Credit Union
Manhattan Beach, CA
Asset Size: $4.5B
Members: 251,000
FOM: Multi-Occupational

Daniel Weickenand
Director-at-Large
CEO
Orion Federal Credit Union
Memphis, TN
Asset Size: $928M
Members: 74,000
FOM: Multi-Occupational



B. Dan Berger
President and CEO
NAFCU
Arlington, VA

FOM is Field of Membership

Board of Governors of the Federal Reserve System

Jerome H. Powell, Chairman of the Board of Governors. He was sworn in on February 5, 2018, for a four-year term. He also serves as Chairman of the Federal Open Market Committee. Mr. Powell has served as a member of the Board of Governors since taking office on May 25, 2012, to fill an unexpired term. He was reappointed to the Board and sworn in on June 16, 2014, for a term ending January 31, 2028. Prior to his appointment to the Board, Mr. Powell was a visiting scholar with the Bipartisan Policy Center, where he focused on federal and state fiscal issues. From 1997 through 2005, he was a partner at The Carlyle Group. Mr. Powell also served as Assistant Secretary and as Undersecretary to the Treasury under President George H.W. Bush.

Richard H. Clarida, Vice Chairman of the Board of Governors. He was sworn in on September 17, 2018, for a four-year term, and took office as Board member to fill an unexpired term ending January 31, 2022. Prior to his appointment to the Board, Dr. Clarida was the C. Lowell Harriss Professor of Economics and International Affairs at Columbia University, where he also served as chairman of the Department of Economics. Dr. Clarida is a former Assistant Secretary of the Treasury for Economic Policy, and served on the Council of Economic Advisers under President Reagan. He also served in multiple positions at PIMCO. Dr. Clarida is a member of the Council on Foreign Relations and a former member of the National Bureau of Economic Research.

Randal K. Quarles, Vice Chairman for Supervision. He was sworn in as a member of the Board of Governors on October 13, 2017. He was reappointed to a term ending January 31, 2032. He was sworn in as Vice Chair for Supervision on Oct 13, 2017. His term as Vice Chair for Supervision ends on October 13, 2021. Prior to his appointment to the Board, Mr. Quarles was founder and managing director of the Cynosure Group. Mr. Quarles served multiple positions in the Department of Treasury, most recently as the Under Secretary of the Treasury for Domestic Finance. He also served as the U.S. Executive Director of the International Monetary Fund.

Michelle W. Bowman, member of the Board of Governors. She took office on November 26, 2018, to fill an unexpired term ending January 31, 2020. Prior to her appointment to the Board, Ms. Bowman served as the state bank commissioner of Kansas. She also served as vice president of Farmers & Drovers Bank in Kansas from 2010 to 2017. In addition to her experience in the banking industry, Ms. Bowman worked for Senator Bob Dole of Kansas from 1995 to 1996. Ms. Bowman received a BS in advertising and journalism from the University of Kansas and a JD from the Washburn University School of Law. She is a member of the New York Bar.

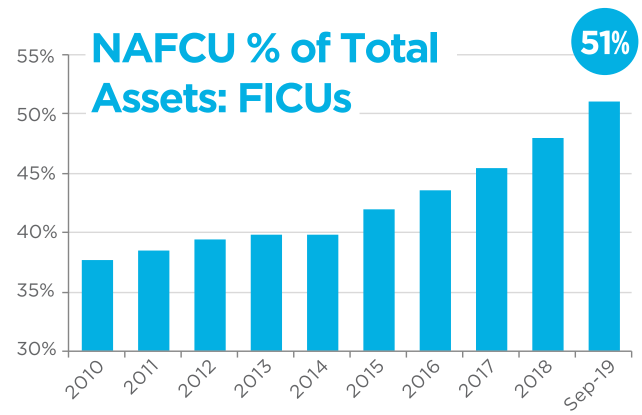
Lael Brainard, member of the Board of Governors. She took office on June 16, 2014, to fill an unexpired term ending January 31, 2026. Prior to her appointment, Dr. Brainard served as Undersecretary of the U.S. Department of Treasury and Counselor to the Secretary of the Treasury. Dr. Brainard also was previously the Vice President and Founding Director of the Global Economy and Development Program, and held the Bernard L. Schwartz Chair at the Brookings Institution. She also served in several staff positions in the Clinton Administration and was a professor of Applied Economics at the Massachusetts Institute of Technology (MIT).

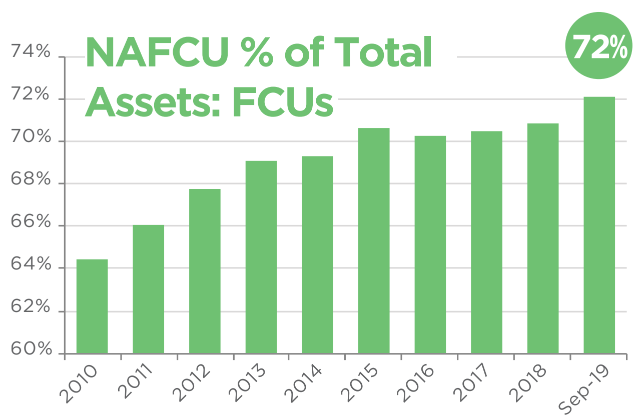
Background

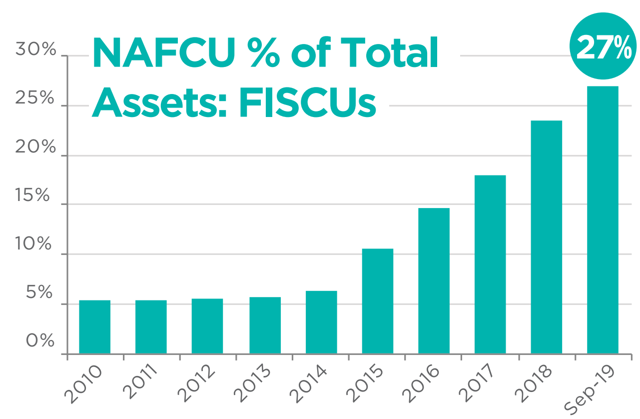
The National Association of Federally-Insured Credit Unions (NAFCU), founded in 1967, is the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions (FICUs). NAFCU provides its members with representation, information, education, and assistance to meet the constant challenges that cooperative financial institutions face in today's economic environment. Membership in NAFCU is direct; there are no state or local leagues, chapters or affiliations standing between NAFCU members and NAFCU's Arlington, Virginia headquarters.

NAFCU Membership

NAFCU's membership consists of the nation's most innovative and dynamic FICUs, having various and diverse membership bases and operations. NAFCU proudly represents many smaller credit unions with relatively limited operations, as well as some of the largest and most sophisticated credit unions in the nation. NAFCU represents 72 percent of total federal credit union (FCU) assets and 51 percent of all FICU assets. NAFCU's membership includes over 180 federally-insured state chartered credit unions (FISCUs).







THE CREDIT UNION UNIVERSE

Federally Chartered Credit Unions

Federally chartered credit unions obtain their charters from, and are regulated by, the National Credit Union Administration (NCUA). Their member shares (deposits) are insured by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the NCUA. As of June 2019, there were 3,335 FCUs, with assets of $784 billion and a membership base of 62 million.

Federally-Insured State Chartered Credit Unions

Federally-insured state chartered credit unions are chartered by their state, and their primarily regulator is the state supervisory authority. Their member shares are insured by the NCUSIF. As of June 2019, there were 1,973 FISCUs, with assets of $736 billion and a membership base of 56 million.

Federally-Insured Credit Unions

All FCUs are required to be insured by the NCUSIF. State chartered credit unions in some states are required to be federally insured, while others may elect to be insured by the NCUSIF. The term "federally-insured credit unions" refers to both federal and state chartered credit unions whose accounts are insured by the NCUSIF. Thus, FCUs and FISCUs are subsets of FICUs. As of June 2019, there were 5,308 FICUs, with assets of $1.5 trillion and a membership base of 118 million.

Privately Insured Credit Unions

Private primary share insurance for FISCUs has been authorized in several states. Currently there are privately insured credit unions operating in ten states (Alabama, California, Idaho, Illinois, Indiana, Maryland, Montana, Nevada, Ohio, and Texas). There is only one private insurance company (American Share Insurance of Dublin, Ohio) offering credit unions primary share insurance and excess deposit insurance. Another private insurer (Massachusetts Share Insurance Corporation) offers only excess deposit insurance coverage.

Corporate Credit Unions

Corporate credit unions are credit unions that serve other credit unions. Corporate credit unions provide services such as investment products, advisory services, item processing and loans to their members. As of June 2019, there were 11 corporate credit unions with assets of $23 billion.

NAFCU RESEARCH

NAFCU devotes a great deal of institutional resources to keeping its finger on the pulse of its members' operations by surveying its membership regularly. In this report, we reference several research instruments:

Economic & CU Monitor

NAFCU's *Economic & CU Monitor* is a monthly report based in part on survey responses by NAFCU member credit unions on a special topic. The report includes a review of the survey responses, along with commentary on economic and industry trends.

NAFCU Report on Credit Unions

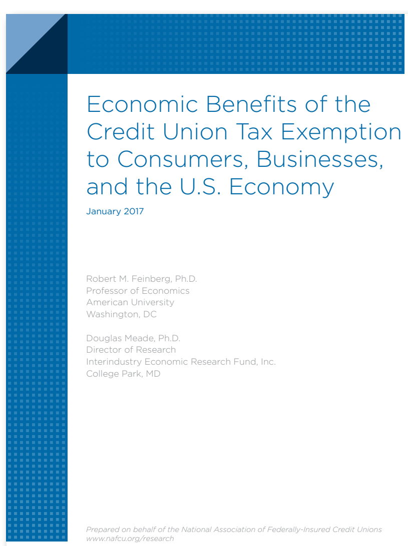
NAFCU's *Federal Reserve Meeting Survey* is an annual assessment of NAFCU members covering topics we discuss in the annual NAFCU Report on Credit Unions. Survey responses for the current report were collected between the dates of August 8 and August 31, 2019.

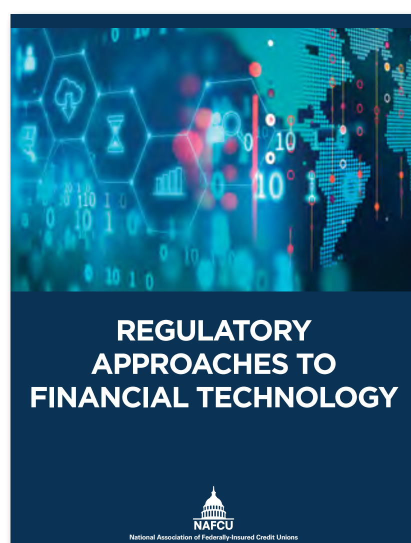
Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

NAFCU commissioned a special study to examine what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union federal tax exemption. The 2017 study quantifies the benefits to all consumers – both credit union members and bank customers – of having a strong credit union presence in financial markets. The study shows that reducing the number of credit unions would weaken competition for consumer financial services and lead to higher interest rates on consumer loans and lower interest rates on retail deposits. The study also estimates the broader economic impact of these lost consumer benefits.

Regulatory Approaches to Financial Technology

In September 2019 NAFCU released a white paper, *Regulatory Approaches to Financial Technology*, outlining some of the challenges facing credit unions as they partner with, and compete against, fintech firms. NAFCU makes recommendations for achieving a coordinated and coherent regulatory framework with respect to financial technology, with a goal of fostering innovation while promoting a level playing field.





KEY FINDINGS

Industry Trends

- The credit union industry occupies only a small share of the overall financial services landscape, but they provide a reliable source of credit to local communities in good times and bad.
- Credit unions are healthy and well-capitalized. However, compliance burdens have led to elevated merger rates among smaller credit unions.
- It is vital that credit unions retain reliable access to the secondary mortgage market.

Credit Union Product & Service Offerings

- The credit union industry provides millions of Americans with a robust set of financial products. Nevertheless, the rapid pace of technological change in the financial services industry presents a challenge.
- Credit unions are accelerating investments in financial technology, but it is imperative that regulators provide greater legal clarity and a level playing field for highly-regulated institutions like credit unions.

NAFCU Policy Priorities

- Credit unions provide over $16 billion annually in benefits to the economy, and preserving the credit union tax exemption remains NAFCU's top legislative priority.
- Maintaining access to a healthy and viable secondary mortgage market and fair pricing is critical in ensuring community-based lenders can continue to serve their members.
- A primary concern of credit unions and their members continues to be ensuring that our nation's retailers have data security standards to protect consumers' sensitive financial information.
- Modernized field of membership (FOM) rules are crucial to the future welfare of the credit union industry. NAFCU will continue to support and defend the NCUA's FOM rule.
- NAFCU is encouraged by the NCUA's pilot program for remote examinations. NAFCU continues to monitor development of continuous supervision processes to ensure that credit unions can make management decisions with the necessary speed and efficiency to ensure long-term financial health.
- Credit unions continue to labor under the immense cumulative regulatory burden in the post Dodd-Frank era. The number of employees devoted to regulatory compliance has more than doubled since 2010.
- While there are many technological challenges to overcome, NAFCU stands ready to work with the Federal Reserve to develop a faster payments system that is accessible to credit unions and their members.

Credit Union Cybersecurity

- As cyberattacks continue to grow in sophistication and frequency, credit unions once again report that maintaining a secure electronic environment is one of their greatest challenges.
- Approximately 52 percent of respondents indicated that they expected to increase the number of full-time equivalent employees devoted to IT compliance—the largest increase of any compliance-related employment function.
- The NCUA's Office of the Inspector General reported that the agency is working on a new cybersecurity tool. NCUA staff have also indicated that the agency is close to publishing new cyber guidance and resources.
- NAFCU continues to engage with government stakeholders and industry organizations to promote operational resilience and cyber preparedness within the credit union industry.

I. INDUSTRY PROFILE

The Credit Union Difference

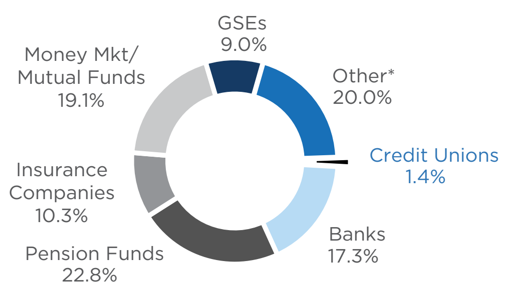
Credit unions are member-owned, not-for-profit cooperative financial institutions. They are democratically-run, led largely by volunteer directors, and exist to serve their field of membership. Strictly in terms of size, they occupy a small slice of the financial services industry, and yet they serve as a valuable partner for their members in good times and bad.

The vast majority of credit unions are small institutions struggling to find the resources to survive in the dynamic and highly-competitive field of financial services. The median credit union manages just $35 million in assets and has only 10 employees. By comparison, the median bank has over $225 million in assets and 46 full-time equivalent employees. The largest bank is over 22 times the size of the largest credit union. Each of the three largest banks controls more assets than all credit unions combined.

While for-profit competitors complain about their growth, the fact remains that the industry still occupies only a small share of the financial sector. As a share of total domestic financial assets, credit unions represent a scant 1.4 percent of the marketplace (Chart 1.1). Where many of the larger holders of financial assets are part of the unregulated shadow banking system which drew scrutiny in the aftermath of the Great Recession, credit unions remain committed to serving Main Street, and act as a source of credit for consumers and small businesses.

The growth which credit unions have experienced in recent years is a reflection of their commitment to responsible stewardship, inclusive leadership, and service to members. As compared to banks, more than 10 times as many credit union CEOs are female (Chart 1.2). There are over three times as many minority-led credit unions as there are banks. Where over $243 billion in fines have been levied against banks for a wide range of consumer abuses,[1] credit unions consistently score higher in consumer satisfaction surveys. A 2018 survey from *Consumer Reports* led the authors to conclude: "Credit unions are among the highest-rated services we've ever evaluated. . . . That satisfaction is driven by good customer service, not surprising when you consider that credit unions are owned and managed by their members."[2]

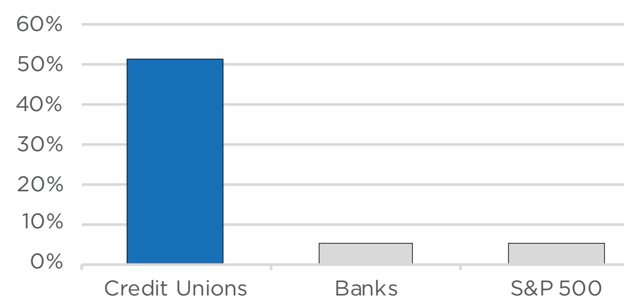
Chart 1.1: Share of Domestic Financial Assets



* includes finance companies, holding companies, private securitizers, securities brokers, REITs, closed-end and exchange-traded funds, funding companies and monetary authority

Source: Financial Accounts of the United States

Chart 1.2: Share of Organizations with Female CEOs

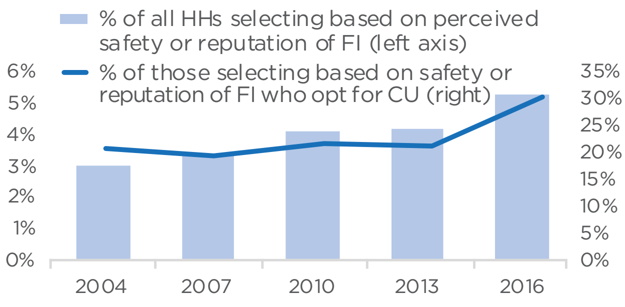


Sources: NAFCU analysis of credit union call report data; Palvia et al. (2018); Catalyst

1 MarketWatch.com, 'Here's the staggering amount banks have been fined since the financial crisis', https://www.marketwatch.com/story/banks-have-been-fined-a-staggering-243-billion-since-the-financial-crisis-2018-02-20/, (accessed September 25, 2019).

2 Consumer Reports, 'Best & Worst Banks According to Consumer Reports Members', https://www.consumerreports.org/banks/best-and-worst-banks-and-credit-unions/, (accessed September 21, 2019).

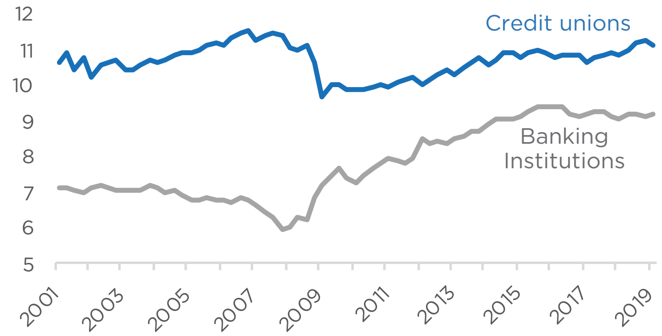
Chart 1.3: Household (HH) Choice of PrimaryFinancial Institution (FI)*



* used for checking account

Source: Federal Reserve *Survey of Consumer Finances*

Chart 1.4: Tier 1 Capital (Leverage) Ratio



Source: NCUA, Federal Reserve Bank of New York

Evolving consumer preferences and a greater awareness of the credit union difference are driving growth in credit union membership, which topped 118 million as of June 2019. A review of data from the Federal Reserve's *Survey of Consumer Finances* shows a rise in the share of households selecting their primary financial institution based not on products or rates, but rather on a perception of institutional safety or reputation (Chart 1.3, blue columns). Among households making their selection based on those criteria, an increasing share are opting for credit unions (as shown by the dark blue line).

Financial Conditions

Credit unions are conservatively run, well-capitalized institutions, which helps to explain their quick recovery from the financial crisis. After dropping during the crisis, FICUs' net worth ratio once again exceeds 11 percent (Chart 1.4). As of June 2019, year-over-year growth in net worth (8.9 percent) exceeded asset growth (6.3 percent). Since the onset of the Great Recession, credit unions have experienced a lower failure rate than banks. From 2008 through 2018, there were 529 bank failures compared to 194 credit union failures[3]. As of June 2019, NCUA reported that there were 204 problem credit unions with a CAMEL rating of 4 or 5. These credit unions constitute 0.8 percent of industry shares, which is down from 1 percent a year earlier and from a peak of 5.7 percent in 2009.

Year-over-year growth in credit union membership was 3.8 percent in June 2019. That is the slowest pace of growth in three years, although it is still above the long-run annual average. Despite the recent strength in membership growth, annual share growth remains near its historical average of around 6 percent. Recently, share growth peaked at 8.6 percent in late 2016, but has since moderated. As of June 2019, year-over-year share growth was 6 percent.

The extended period of low interest rates has resulted in a shift in liabilities as members have opted out of share certificates and into core deposits (share drafts and regular shares). From June 2007 to June 2019, the ratio of core deposits to total shares and deposits increased from 41 percent to 48 percent. This shift has played a role in lowering credit union cost of funds, but that trend has begun to reverse with recent increases in interest rates. From June 2018 to June 2019, the cost of funds ratio increased by 20 basis points to 0.8 percent.

The credit union industry's annualized return on average assets (ROA) through the first half of 2019 was 0.97 percent, which was seven basis points higher than a year prior. Despite a rise in cost of funds, FICUs' net interest margin rose by 11 basis points during that time. A reduction in the provision for loan loss expense ratio added another five basis points to the bottom line. The combination was enough to offset drags from increased operating expenses and lower fee income, which deducted six and five basis points, respectively, from ROA.

3 As of December 2007, there were 8,534 banks in existence and 8,101 FICUs.

Lending

Credit unions maintained strong loan growth for several years, but that has started to wane. From 2014 through 2017, loan balances grew by more than 10 percent annually, before slipping to 9 percent in 2018. For the 12 months ended June 20, 2019, loan growth slowed to 6.5 percent. Over 70 percent of that total is comprised of first-lien residential mortgages and auto loans (35 percent each). The remaining loan portfolio consists of junior-lien residential loans (8 percent), commercial loans (7 percent), credit card loans (6 percent), unsecured personal loans or lines of credit (4 percent), and all other loans (4 percent).

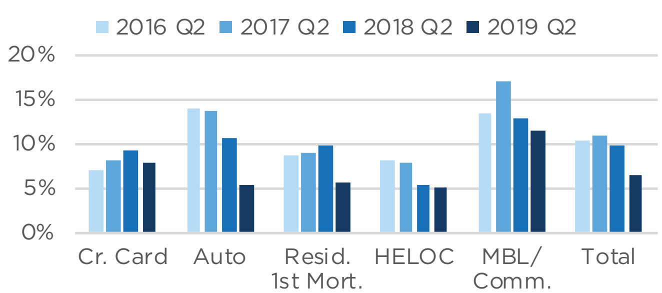
Auto lending has been a key segment for the industry in recent years. Outstanding auto loan balances held by credit unions have more than doubled since 2011. During that span the share of total auto debt held by credit unions increased from 22 percent to 32 percent.

All of that growth has driven up credit unions' loan-to-share ratio from a cyclical low of 66 percent in 2013 to 83 percent today. Tighter balance sheet liquidity serves as one constraint on loan growth for some credit unions. Auto loan growth has slowed noticeably over the past two years (Chart 1.5). Cash and investment balances, which fell 3.8 percent in the year ending June 30, 2018, increased by 4.6 percent over the subsequent 12 months.

Growth in first-lien residential mortgages is also down versus previous years. Year-over-year growth as of June 30, 2019 was 5.5 percent, which is markedly slower than a year earlier when the growth rate was 9.9 percent. Originations over the most recent 12 months are down 3.5 percent from the 12 months prior. The share of originations sold to the secondary market increased from 31 percent to 35 percent over that time.

Credit union loan performance remains strong. As of June 30, 2019, only 0.63 percent of total loans were delinquent (Chart 1.6). That represents a four-basis point improvement over the rate from a year earlier. By comparison, bank loan delinquencies totaled 0.93 percent of outstanding loans, and the community bank delinquency ratio was 0.75 percent. The net charge-off ratio for credit unions was 0.56 percent through the first six months of 2019. That is also four basis points lower than the previous year's figure. Credit unions' loan loss coverage ratio (loan loss reserves-to-delinquent loans) was 139 percent at the end of the second quarter. That is up from 137 percent a year earlier. The coverage ratio for banks is 131 percent.

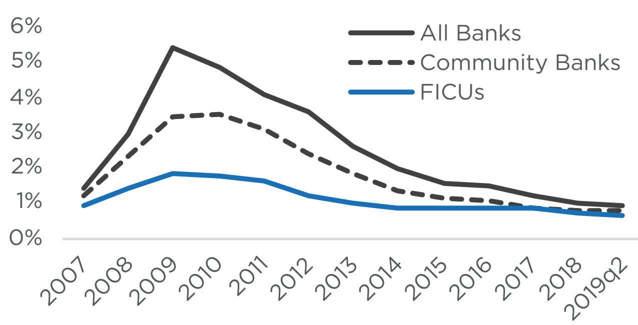
Chart 1.5: Loan Growth by Product Line



Note: Figures show year-over-year growth in outstanding loans. Beginning in 2017q3, NCUA reports commercial loans rather than MBLs. FICU figure for 2018 shows annualized growth over three quarters.

Source: NCUA

Chart 1.6: Delinquency Rates



Note: FICU loans are delinquent at 60 days past due; bank loans at 90 days past due.

Sources: NCUA, FDIC

Chart 1.7a: Net % of Respondents Tightening Loan Standards (Last 12 Months)

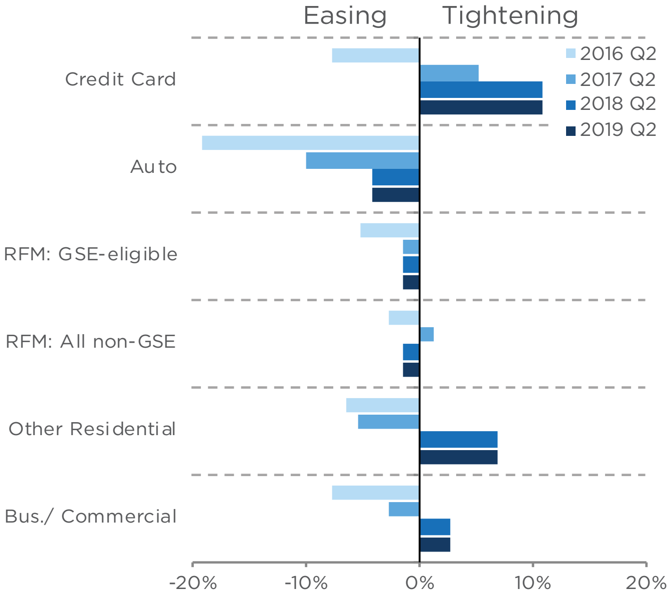
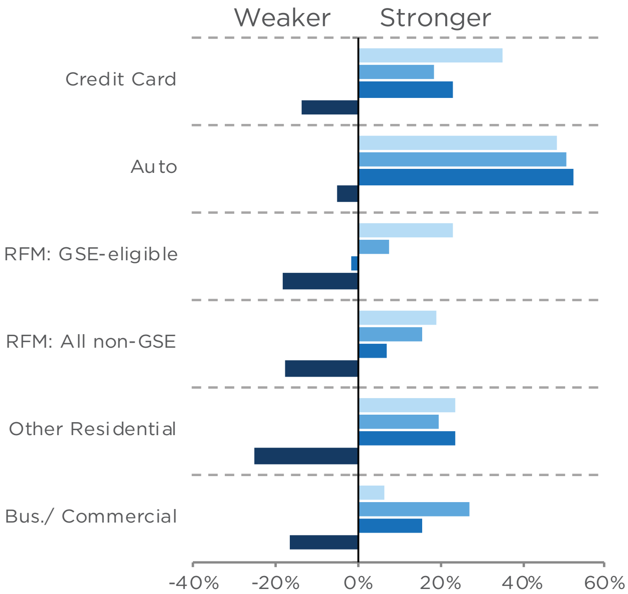


Chart 1.7b: Net % of Respondents Reporting Stronger Loan Demand (Last 12 Months)



"RM" = Residential First Mortgage

Source: NAFCU 2019 Federal Reserve Meeting Survey

NAFCU's annual *Federal Reserve Meeting Survey* includes a set of questions on lending standards. A comparison between the results of the 2019 survey with those from prior years shows that respondents are either tightening standards or, if they are easing them, they are doing so by smaller margins than in the past (Chart 1.7a). As compared to the year prior, a net majority of respondents indicated that they had tightened loan standards in 2019 for credit card loans, other (junior lien) residential loans, and commercial loans. A net majority of respondents reported further easing of auto loan standards, but the share was much smaller than in prior years. Credit unions have historically had excellent auto loan quality. A recent report from a large credit agency indicated that credit union auto loan 30-day delinquencies were less than half the industry average (1 percent versus 2.1 percent).[4]

For residential first mortgage loans, lending standards were little changed compared to a year prior. A slight easing was indicated for both GSE-eligible and non-eligible loans.

The survey results also show that if tight liquidity is a constraint on loan growth for some credit unions, falling demand is a broadly responsible, as well (Chart 1.7b). For each loan category, a net share of respondents reported softer demand over the past 12 months as compared to the year prior. It is worth noting that those comparisons are against exceptionally strong prior year loan demand in a number of categories, most especially auto.

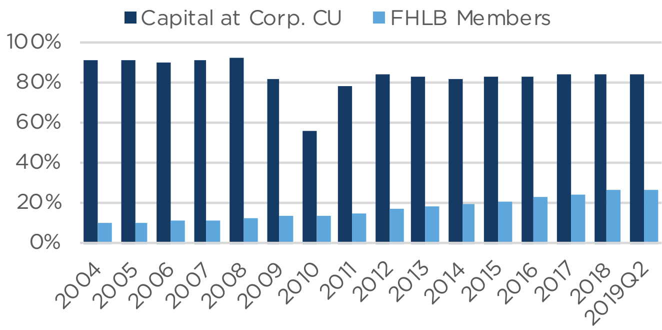
While loan demand may be sagging, there is no evidence that credit unions are easing underwriting standards to try to maintain growth in originations. The industry's loan performance continues to improve and remains stronger than that of other types of lenders.

4 Experian PLC, *State of the Automotive Finance Market (2019 Q2)*

Liquidity

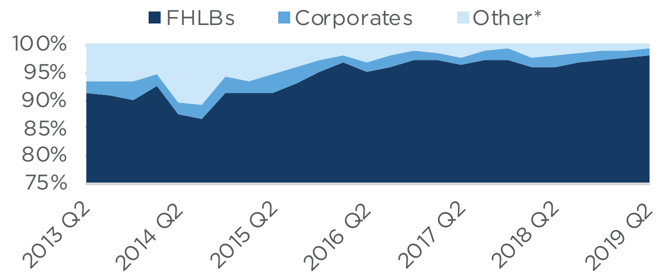
Given the strong loan growth of recent years, industry liquidity conditions have tightened somewhat. As of June 30, 2019, the loan-to-share ratio was 83 percent. Following a steep decline in the years following the Great Recession, that marks a return to pre-crisis levels.

Chart 1.8: Share of FICUs with Corporate CU Capital, FHLB Membership



Source: NCUA

Chart 1.9: Share of Total FICU Borrowings, by Source



* Includes natural-person CUs, Central Liquidity Facility, Federal Reserve, and other sources

Source: NCUA

Corporate credit unions are a key source of liquidity for many credit unions. A number of corporate credit unions failed following the financial crisis. This led to a sharp decline in 2010 in the share of credit unions holding membership accounts in a corporate (Chart 1.8), with a substantial recovery soon afterward, though not to previous levels.

Federal Home Loan Banks (FHLBs) now play a more prominent role within the credit union industry. The share of credit unions with FHLB membership increased from 11 percent in 2007 to 27 percent currently. FHLBs have long been an important borrowing source for credit unions. That relationship has only strengthened in recent years, to the point where FHLBs currently account for over 98 percent of total industry borrowings (Chart 1.9).

Secondary Mortgage Market

The secondary mortgage market is vital to many small financial institutions with mortgage loan portfolios, both as a source of liquidity and as a tool to manage interest rate and concentration risks. Through June credit unions sold 35 percent of first mortgage loans originated in 2019. This is up from 2018 when 33 percent of first mortgage originations were sold. Credit unions that participated in NAFCU's 2019 *Federal Reserve Meeting Survey* indicated that, on average, 60 percent of their outstanding first mortgage loans qualify to be sold on the secondary market (up from 59 percent in the prior year's survey). As compared to the most recent 12 months, 27 percent of respondents said that they expect to sell a larger share of mortgage originations over the next 12 months, while five percent expect to sell a smaller share.

Government-sponsored enterprises (GSEs) are another important partner for the industry, allowing credit unions to manage risks while still providing mortgage loans to their members. Based on data released under the Home Mortgage Disclosure Act (HMDA), 47 percent of mortgage loans that credit unions did not retain in portfolio were sold to Fannie Mae and Freddie Mac. Among survey participants that utilize the GSEs, pricing was the foremost consideration for 47 percent of respondents, followed by ease of access (34 percent). In conversations with policymakers, NAFCU has prioritized access and fair pricing for the credit union industry as critical and necessary elements of any housing finance reform package (see Housing Finance Reform, page 21).

Industry Consolidation

The post-recession environment has been a difficult one for small credit unions. The mounting regulatory burden and low rate environment has been hard on all credit unions, but particularly smaller ones, who lack the scale to manage additional regulations and who tend to rely on wider spreads between their loan and deposit rates.

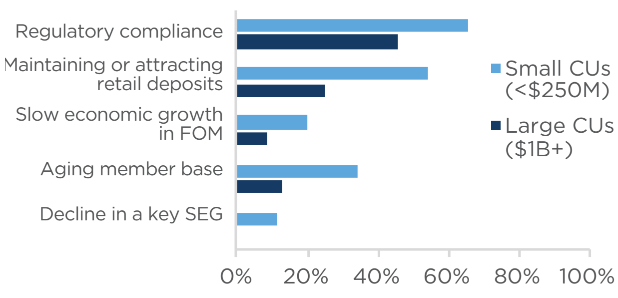
Respondents to NAFCU's 2019 *Federal Reserve Meeting Survey* were asked to anticipate the key strategic challenges that their credit unions will face over the next three years. For a number of potential challenges, there were stark differences between smaller credit unions (defined as those with less than $250 million in assets) and larger ones (those with over $1 billion in assets (Chart 1.10). While regulatory compliance was a key concern across all asset sizes, smaller credit unions cited it relatively more often as a significant challenge. The same is true for retail deposits, suggesting that smaller credit unions may be forced to choose between lower net interest margins or a flight of rate-sensitive deposits.

There were also a number of survey questions related to the health and viability of respondents' current field of membership. Small credit unions were more likely than large ones to identify as key challenges slow economic growth within the field of membership, an aging membership, and the potential decline in a key select employee group (SEG). These results suggest that enhanced abilities to expand field of membership would be particularly beneficial to small credit unions as they seek the membership diversity and scale they need to survive.

The stresses on small credit unions have led to a rise in merger activity within the industry. Since passage of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank) in 2010, the number of credit unions has declined by nearly 30 percent at a pace of roughly one per business day. The increase in merger activity is confined to credit unions below $250 million in assets (Chart 1.11). Larger credit unions experienced a mild rise in mergers during the financial crisis, but since 2011 the merger rate has returned to its low, pre-crisis level.

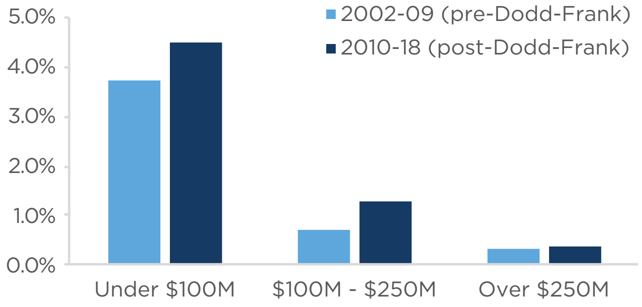
Another facet of industry consolidation has been a lack of de novo credit unions. From 2000 through 2009, NCUA chartered an average of eight new credit unions annually. However, from 2010 through 2018, that number has shrunk to just over two per year. Regulatory burden in the Dodd-Frank era is stifling the formation of credit unions, which already face a steep challenge in raising capital in order to provide credit union services to new fields of membership. In the process, many households are forced to seek financial services from predatory lenders and other alternative providers.

Chart 1.10: Strategic Challenges Rated as "Significant", by Asset Class



Source: NAFCU 2019 Federal Reserve Meeting Survey, selected responses

Chart 1.11: Average Annual Merger Rate by Asset Class



Source: NAFCU analysis of NCUA data

II. CREDIT UNION PRODUCT OFFERINGS & SERVICE TO MEMBERS

Credit unions are small institutions with limited resources, and yet they pride themselves on providing a broad range of products and services to their members at affordable prices. Despite legislation which constrains their ability to expand into underserved areas, credit unions serve a diverse membership. As a result, credit unions serve as strategic partners in many traditionally disadvantaged communities.

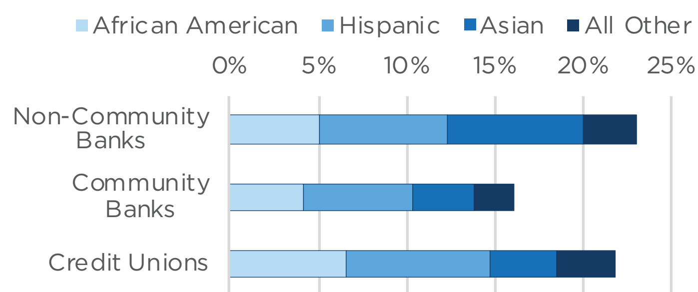
Nevertheless, the rapid pace of technological advances in the financial services industry presents a challenge. Looking ahead, credit union survival will be predicated on their ability to navigate the complex world of financial technology, with its dizzying array of products and possibilities, along with its regulatory vagaries and uncertainties. This is why it is incumbent upon policymakers to not only pave the way for institutions and technology companies to bring welfare-enhancing products to market, but also to provide a level playing field for all financial service providers.

Despite their consistent track record in providing loans to needy communities, credit unions could be doing more. Among federal credit unions, currently only those with multiple-common bond fields of membership are eligible to add underserved areas to their fields of membership. Efforts to expand access to these areas for other credit unions have met fierce resistance from banks. With growing interest in place-based economic initiatives, legislators should take heed of credit unions' track record and work to provide more opportunities for them to strengthen their presence in disadvantaged areas.

Evidence from the Home Mortgage Disclosure Act

The latest data released under the Home Mortgage Disclosure Act (HMDA) provides yet more evidence of the valuable work that credit unions are doing in delivering low-cost credit products to their members. Their efforts make credit unions indispensable to many communities. Without them, many borrowers would either be unable to access credit, or would do so at a higher cost. As a result, countless households are able to participate in the wealth-building opportunities afforded by homeownership.

Chart 2.1: Share of Total Mortgage Loans Made to Non-White or Hispanic Borrowers



Notes: Figures reflect approved 1- to 4-familty, owner-occupied, first-lien mortgage loans. "All Other" category includes American Indian or Alaska Native; Native Hawaiian or Other Pacific Islander; borrowers reporting two or more minority races; and applications where one borrower reported as White and another reported as non-White or Hispanic.

Source: 2018 Home Mortgage Disclosure Act (HMDA) data

Over 20 percent of credit unions' first-lien mortgage loans were made to non-White or Hispanic borrowers in 2018 (Chart 2.1). That figure is far higher than for community banks. Although non-community banks (generally regional and national banks) make a slightly higher share of mortgage loans to non-White borrowers overall, credit unions make a much higher share of loans to African-American and Hispanic borrowers, respectively. Consistent with this finding, as of March 2019 there were 526 minority-designated credit unions to just 148 bank designees (Chart 2.2).[5]

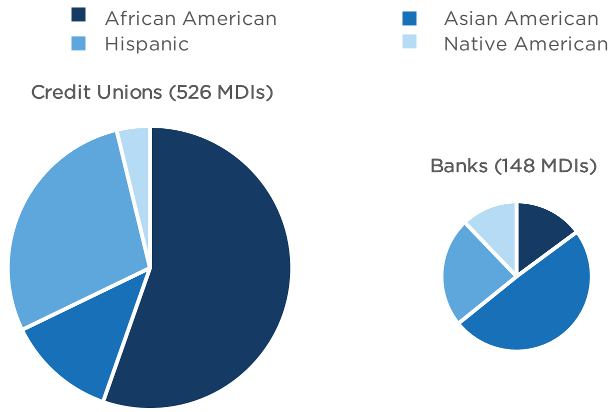
5 A minority depository institution is determined to be one where at least 51 percent of stock is owned by minority individuals, or where the majority of the Board of Directors and the community served are predominantly minority (for banks); or where the share of potential members, current members, and current members of the Board of Directors exceeds 50 percent (for credit unions).

Credit unions are not only providing credit to communities that are often neglected by other institutions, they are doing it at lower cost than other lenders. According to the 2018 HMDA data, mortgage loans originated by credit unions carry far fewer closing fees than those originated by either national or community banks (Chart 2.3). That result holds across the borrower income spectrum.

Furthermore, credit unions offer demonstrably better rates on mortgage loans than do community banks, as evidenced by their lower median rate spread (Chart 2.4). Generally, the rate spread on a covered mortgage loan measures the difference between the actual annual percentage rate (APR) on the loan and a benchmark rate for the particular type of loan at the time the loan was originated. For lower-income borrowers, credit union rate spreads are lower even than those of large, non-community banks. It is only for wealthier borrowers that non-community bank mortgage rate spreads are lower than those of credit unions.

The NCUA offers a low-income designation to credit unions. In order for a federal credit union to qualify, more than 50 percent of its membership must be low-income (defined as those with a family income that is 80% or less of the median family income for the metropolitan area where they live or national metropolitan area, whichever is greater). As of June 2019 there were over 2,600 low-income designated credit unions, representing 54 million members. Those credit unions combined to originate $51 billion in first-lien mortgage loans in 2018.

Chart 2.2: Minority Depository Institutions (MDIs)

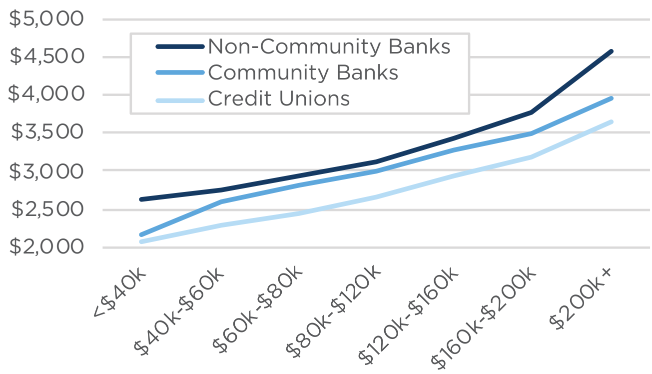


Charts sized to scale

Sources: NCUA, FDIC

JetStream Federal Credit Union VP of Marketing and Communications Mara Falero testified on behalf of NAFCU at a House Financial Services subcommittee hearing on minority depository institutions in October. Pictured with Rep. Gregory Meeks (D-NY).

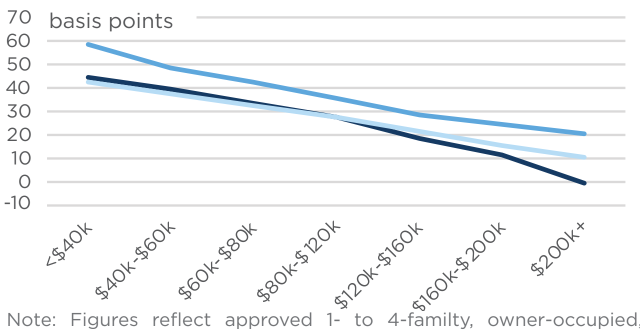
Chart 2.3: Median Total Cost of a Mortgage Loan, by Borrower Income



Note: Figures reflect approved 1- to 4-familty, owner-occupied, first-lien conventional mortgage loans.

Source: 2018 Home Mortgage Disclosure Act (HMDA) data

Chart 2.4: Median Rate Spread on a Mortgage Loan, by Borrower Income



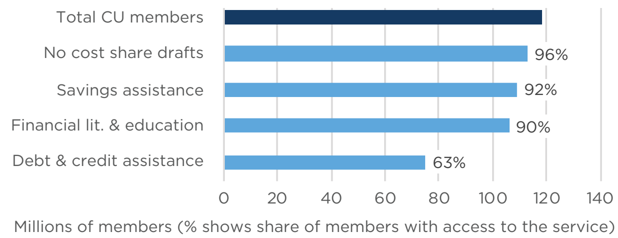
Note: Figures reflect approved 1- to 4-familty, owner-occupied, first-lien conventional mortgage loans. "Rate spread" refers to the difference between the loan's annual percentage rate (APR) and the average prime offer rate for a comparable transaction. For more on rate spread calculation, go to ffiec.cfpb.gov/tools/rate-spread.

Source: 2018 Home Mortgage Disclosure Act (HMDA) data

Trends in Industry Offerings

The credit union industry provides millions of Americans with a robust set of financial products and services. In doing so, credit unions are doing their part to educate members and help them plot a path toward financial independence and enrichment. The industry's financial education programs extend to 90 percent of its overall membership, or 106 million total members (Chart 2.5). No cost share drafts (i.e., free checking) are available to 96 percent of credit union members. A recent survey from Bankrate.com concluded that "free checking might seem elusive in banking, but it's rather abundant among credit unions."[6]

Chart 2.5: Credit Unions Service Offerings



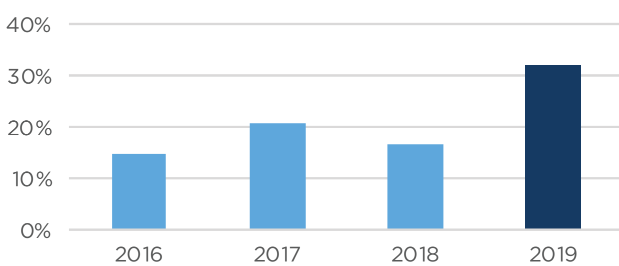
Notes: (1) "Savings assistance" includes individual development accounts and low minimum-balance share certificates; (2) "Financial lit. & education" includes financial counseling, financial education, finantial literacy workshops, and in-school branches; (3) "Debt & credit assistance" includes credit builder and debt cancellation.

Source: NCUA

Despite their demonstrated commitment to affordable financial services, respondents to NAFCU's annual *Federal Reserve Meeting Survey* indicated increasing concerns about their ability to continue doing so. When asked about the challenge of providing affordable payments, 32 percent labelled it a "significant" one (Chart 2.6). This was substantially higher than previous years.

With a growing list of faster payment providers, credit unions are clearly prioritizing investments in that area. For the first time, more than half of respondents to NAFCU's survey expect to invest in payments processing over the next three years (Chart 2.7). NAFCU has led the industry's engagement with the Federal Reserve during its investigation and stakeholder outreach of a system of faster payments, culminating in the recent announcement that the Federal Reserve will move forward with plans for a real-time gross settlements service, called FedNow (see Payments, page 30). As the Federal Reserve builds out its faster payments infrastructure, pricing will be critical in achieving the goal of ubiquity across financial institutions while still allowing credit unions to continue offering robust, affordable services to their members.

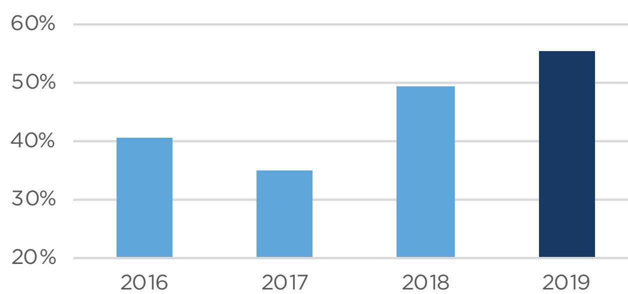
Chart 2.6: Share of Respondents Identifying Maintaining Access to Affordable Payments as a "Significant" Challenge*



* over next three years

Source: NAFCU 2019 Federal Reserve Meeting Survey

Chart 2.7: Share of Respondents Planning to Invest in Payments Processing*

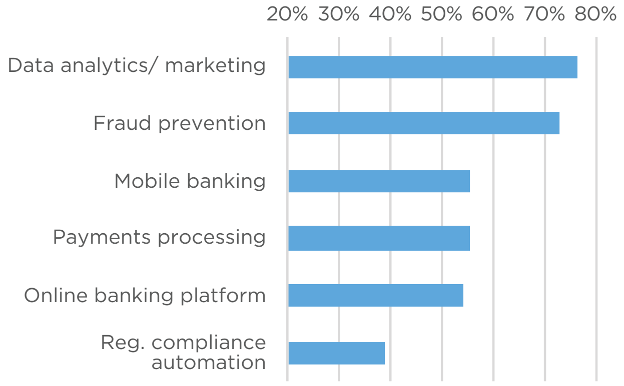


* over next three years

Source: NAFCU 2019 Federal Reserve Meeting Survey

6 Bankrate.com, 'Credit Union Checking Survey', https://www.bankrate.com/banking/checking/survey-free-checking-largest-credit-unions/, (accessed September 23, 2019).

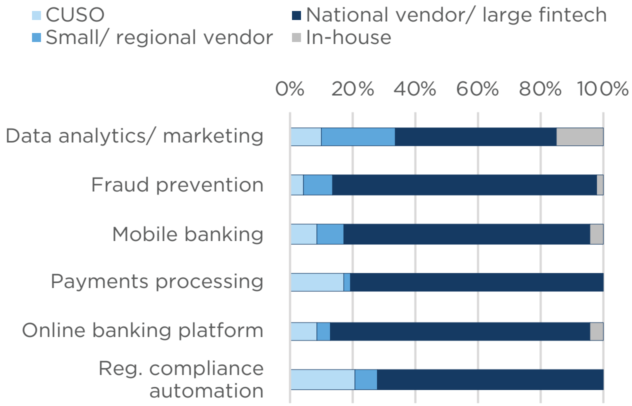
Chart 2.8: IT Areas where CUs Plan to Invest*



* over next three years

Source: NAFCU 2019 Federal Reserve Meeting Survey

Chart 2.9: Most Likely Provider for Planned Investment Projects*



* over next three years

Source: NAFCU 2019 Federal Reserve Meeting Survey

Investments in Financial Technology

Credit union interest in expanding investments in payments services is one chapter in a larger story. Over 94 percent of NAFCU's survey respondents indicated that information technology is an area that will drive spending over the next three years. That was by far the highest of any category in the survey, outdistancing employee compensation (83 percent), regulatory compliance (64 percent), and new products and services (47 percent). When asked which IT-related areas they plan to invest in, respondents identified data analytics and marketing, fraud prevention, mobile banking, and payments processing (Chart 2.8).

While the rapid evolution of financial technology (fintech) presents credit unions with opportunities to bring new product and service offerings to their membership, regulatory expectations are in a state of flux. For many of those projects with near-term investment plans, credit unions are enlisting the assistance of fintech firms (Chart 2.9). However, fintech firms are also direct competitors with credit unions across a growing number of areas. In fact, when asked how the competitive pressures facing their credit unions had grown in recent years, NAFCU survey respondents singled out fintech firms, with 44 percent describing the increase in pressure from that sector as "significant." That was the highest figure in the survey, which also included other types of institutions that are far more tightly regulated (large banks, community banks, other credit unions). The lack of regulatory oversight of fintech companies has played a role in their rapid ascent within the financial services industry.

In a recently released white paper titled *Regulatory Approaches to Financial Technology*, NAFCU outlines several recommendations that would provide for greater legal clarity and a more level playing field for highly-regulated institutions such as credit unions, which often compete with fintech firms. Those recommendations include the formation by the Federal Financial Institutions Examination Council (FFIEC) of a subcommittee on emerging technology to monitor risks posed by fintech companies and to develop a joint approach for facilitating innovation within the financial sector. The subcommittee should also recommend to Congress ways to improve financial laws to allow FFIEC regulated institutions to adopt new technologies more easily and with greater legal certainty.

Table 2.1: Which Intermediaries Does Your Credit Union Use for Transaction Services?

	Corporate Credit Unions		Banks		Federal Reserve		Outside Vendors	
	2019	2018	2019	2018	2019	2018	2019	2018
None	26%	29%	66%	63%	18%	24%	21%	33%
Some	39%	22%	31%	35%	49%	46%	54%	55%
Most	28%	24%	3%	2%	26%	24%	23%	10%
All	7%	26%	0%	0%	7%	6%	2%	2%

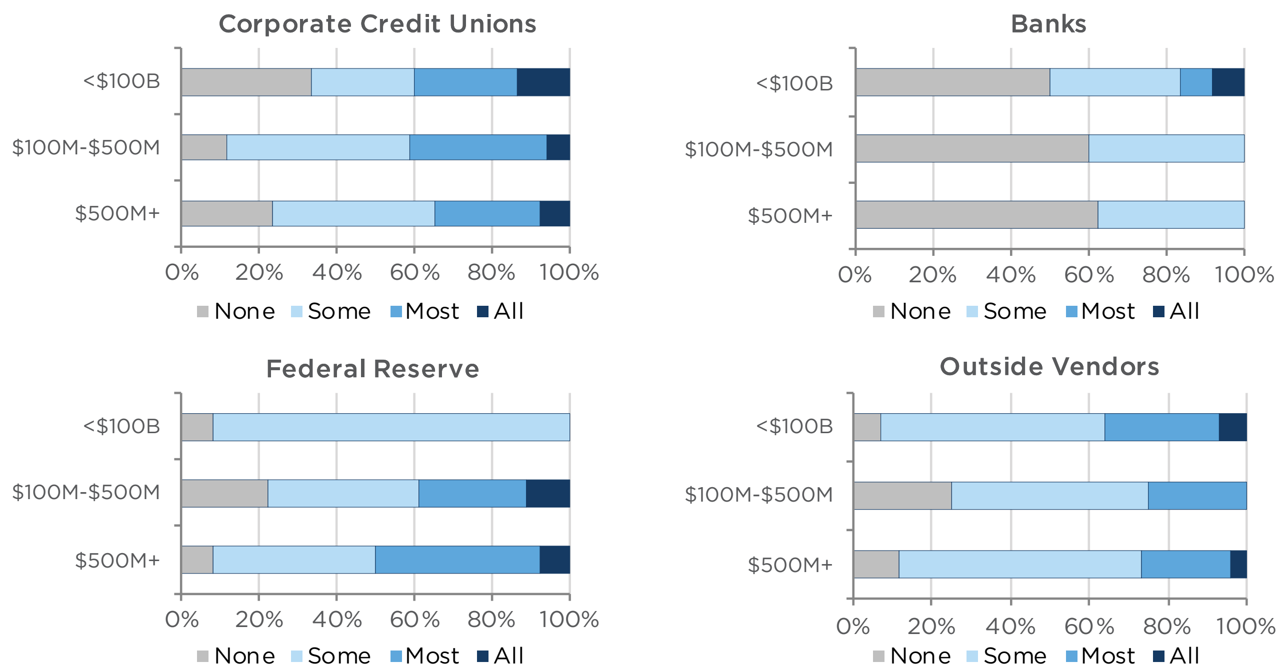
Source: NAFCU 2019 & 2018 *Federal Reserve Meeting Surveys*

Transaction Services

In NAFCU's 2019 *Federal Reserve Meeting Survey*, participants were asked to indicate their use of intermediaries for transaction services (Table 2.1). Corporate credit unions play an important role in the credit union industry in terms of delivering transaction services to natural-person institutions. According to the 2019 survey, a growing share of credit unions used a corporate credit union for at least some of their transaction services (71 percent in 2018; 74 percent in 2019). However, the share of respondents indicating that a corporate credit union fulfilled all of its needs dropped from 26 percent to just 7 percent. Meanwhile, 82 percent of respondents utilized the Federal Reserve for at least some of their transaction services and 79 percent of credit unions partnered with outside vendors.

Unlike in previous years, this year's survey showed relative uniformity across asset classes in terms of the utilization rates of corporate credit unions (Chart 2.10). In prior years, smaller credit unions were far more likely to use corporate credit unions for at least some of their transaction services, and among those that did, many used corporate credit unions for all of their transaction needs. On the other hand, usage of the Federal Reserve's transaction services did increase with asset size, which is consistent with prior year survey results.

Chart 2.10: Use of Intermediaries by Asset Class



III. NAFCU POLICY PRIORITIES

A. A Regulatory Environment that Allows Credit Unions to Grow

Credit unions provide low-cost financial services to 118 million Americans. Their record of providing mortgage loans and small business loans during the Great Recession aided scores of communities as they recovered from the financial crisis.[7] Given what they bring to their communities, credit unions' growth should be promoted and celebrated. This is particularly true when viewed through the lens of countless betrayals of public trust by large banks, which have netted over $243 billion in fines since the financial crisis.[8]

Yet credit union growth is stifled by significant regulatory burdens and growing compliance costs. While credit unions continue to look for ways to provide forward-thinking products and services to better serve their members, regulatory overreach thwarts that innovation. Ultimately, regulators must work to strike a balance between industry safety and market growth.

Preserving the Credit Union Tax Exemption

The Federal Credit Union Act grants credit unions a tax exemption because they operate on a not-for-profit basis, are cooperative organizations, and are operated entirely by and for their members. These defining characteristics, no matter the size, persist today just as they did when the Federal Credit Union Act was first enacted in 1934. The *Tax Cuts* and *Jobs Act*, signed into law in December 2017, preserved the credit union tax exemption.

Preservation of the credit union tax exemption remains to be a top legislative priority. NAFCU remains vigilant as credit unions' tax exempt status continues to face attacks from bankers. In July 2019, the Independent Community Bankers of America (ICBA) challenged credit unions' federal tax exemption and the NCUA's actions as an independent regulator. In the wake of attacks from bankers, House Financial Services Committee Chairwoman Maxine Waters (D-CA), and several key members from the committee pledged to stand by credit unions in the fight to keep the industry's tax exemption intact.

According to a 2017 NAFCU study on the benefit of tax exemption, the presence of credit unions provided an average of $16 billion in economic growth each year. As a result, the removal of the credit union tax exemption would result in Americans losing $38 billion in low income tax revenue, $142 billion in GDP, and 900,000 jobs over the next 10 years.

NAFCU continues to advocate for credit unions by informing lawmakers about the value of the credit union tax exemption and ensuring broader tax reform efforts preserve credit unions' tax-exempt status.

Housing Finance Reform

NAFCU is engaged with both lawmakers and the Trump administration to identify the best path forward on housing finance reform. As Congress considers legislation to reform the housing finance system, NAFCU has led advocacy efforts to inform the administration and relevant government agencies of credit union concerns. On March 27, 2019, Carrie Hunt, Executive Vice President of Government Affairs and General Counsel of NAFCU, testified before the Senate

NAFCU EVP of Government Affairs and General Counsel Carrie Hunt testifies before the Senate Banking Committee on housing reform in March 2019. Photo credit: Scott Henrichsen Photography

7 See NAFCU 2018 *Annual Report on Credit Unions,* https://www.nafcu.org/data-tools/nafcu-annual-report-credit-unions.

8 www.Marketwatch.com

Banking Committee for a hearing entitled "Chairman's Housing Reform Outline: Part 2." Hunt emphasized that credit unions need fair access, fair pricing and a government guarantee from any housing finance reform effort.

Maintaining access to a healthy and viable secondary mortgage market and fair pricing is critical in ensuring community-based lenders can continue to serve their members. Credit unions serve varying communities – the GSEs, including Fannie Mae and Freddie Mac should continue to do the same and not discriminate against a financial institution based on the type of institution, an institution's asset size, or any other factors. As lawmakers continue their deliberation on the disposition of the GSEs, NAFCU will keep advocating for GSE pricing that is based on loan quality and not quantity. The securitization processes of the GSEs remains a key component of the safety and soundness of credit unions nationwide.

The GSEs enable credit unions to obtain the necessary liquidity to provide new mortgages for their member-owners by utilizing the secondary market. In addition, the Federal Home Loan Banks (FHLBs) allow credit unions to meet their liquidity needs through timely loans. The availability of these stable and reliable sources of funding has facilitated credit unions' ability to offer new mortgage loans and related credit to their members, many of whom have been denied access to homeownership by other lenders. The GSEs and FHLBs continue to serve as valuable partners in credit unions' efforts to meet their members' mortgage needs.

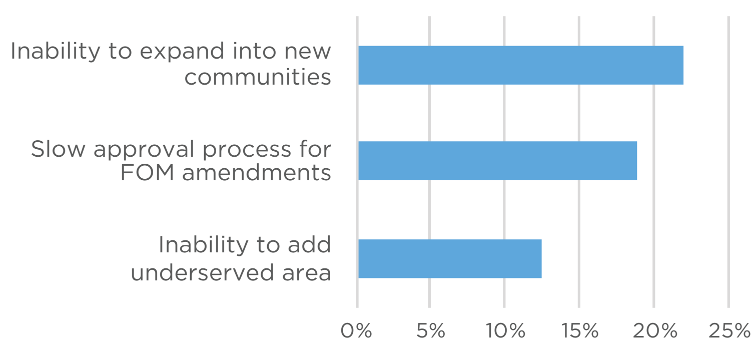
It has been 10 years since the federal government took Fannie Mae and Freddie Mac under conservatorship. In September 2019, the Trump administration released plans from Treasury and HUD to reform the housing finance system. The plans propose the release of the GSEs, Fannie Mae and Freddie Mac, from federal control. Following the release of the housing reform plans, a Senate Banking Committee hearing on housing finance reform efforts revealed a commitment to ensuring credit unions' access to the secondary mortgage market.

Speaking at NAFCU's 2019 Congressional Caucus, Federal Housing Finance Agency (FHFA) Director Mark Calabria agreed that final housing finance reform plans need to ensure fair pricing and equal access to lenders of all size. The Treasury's recently released housing finance reform plan supports legislation to do that.

Field of Membership

The credit union industry's dual chartering system is most effective when the state and federal charters complement each other. However, several states have been much more progressive in modernizing their field of membership (FOM) rules to recognize today's dynamic marketplace. As a result, the industry has seen multiple credit unions convert to state charters because of their inability to grow under the federal charter. The federal charter must keep pace with changes in state laws, technology, and the financial services industry.

Chart 3.1: FOM Constraints that Are Largest Obstacles to Growth



Source: NAFCU 2019 Federal Reserve Meeting Survey

NAFCU continues to hear from our members that NCUA's FOM rules and regulations have unreasonably inhibited their ability to grow and serve their communities. According to NAFCU's 2019 *Federal Reserve Meeting Survey*, over 34 percent of respondents answered that they are currently pursuing an expansion of their FOM. However, a number of impediments are hampering those efforts (Chart 3.1). NAFCU continues to advocate for legislation that would relax aspects of the limitations on chartering found in the Federal Credit Union Act. At the same time, NAFCU urges the NCUA to continue efforts to modernize its chartering and FOM procedures and remove all non-statutory constraints on FOM chartering and expansion; particularly, to allow for credit unions to provide services to underserved areas.

In October 2016, in the most comprehensive FOM reform initiative seen by the industry in over a decade, the NCUA finalized amendments to the FOM rule and issued additional changes in a second proposal. On December 7, 2016, the American Bankers Association (ABA) filed a lawsuit against the NCUA in the U.S. District Court for the District of Columbia over the agency's rule. On March 29, 2018, the D.C. District Court issued a split decision, striking down two of the four provisions challenged by the ABA. Subsequently, the NCUA appealed and on August 20, 2019, the court issued its decision, mostly in favor of the NCUA's interpretations. More specifically, the court held that the 2016 FOM rule's population limit for rural districts is valid. The court also said that the NCUA acted within its authority in defining "local community" as it applies to Combined Statistical Areas with a population under 2.5 million. However, the court asked the agency for further explanation of its reasoning for eliminating the urban core requirement for local communities. On October 4, 2019, the ABA filed a petition for an en banc re-hearing of the case in the U.S. Court of Appeals for the District of Columbia. Specifically, the ABA is asking the court to review the definitions of "local community" and "rural district." The NCUA Board approved issuance of a proposed rule to make changes to the chartering and FOM rules with respect to applicants for a community charter approval, expansion, or conversion. This proposed rule is consistent with the court's August 2019 decision.

NAFCU continues to support the NCUA's FOM rule and strongly believes the FOM amendments are well within the agency's legal authority and allowed by the Federal Credit Union Act. FOM reform will help federal credit unions reach potential members who need affordable financial services as well as provide much needed regulatory relief by streamlining the FOM process for community, multiple common bond, and TIP charters.

Capital Reform

NAFCU advocates for modern capital standards for credit unions which address the realities and challenges of the 21st century financial marketplace. NAFCU remains concerned about the impact that risk-based capital (RBC) rulemaking will have on the credit union industry, including regulatory burden and increased costs. To create a fair RBC system for credit unions, NAFCU fundamentally believes that legislative reforms are necessary.

On June 26, 2019, the National Credit Union Administration (NCUA) published a proposal to delay the effective date of the NCUA's October 2015 final rule regarding RBC, along with its November 2018 supplemental final rule regarding RBC, by two years until January 1, 2022. The NCUA intends to utilize the two-year delay to consider whether asset securitization and subordinated debt should be addressed before the RBC rule takes effect, and whether a community bank leverage ratio analog should be adopted as a mechanism for additional relief. NAFCU submitted a comment letter to the NCUA reiterating its long-standing support for alternative capital frameworks, so long as they do not jeopardize the cooperative, mutual structure of credit unions.

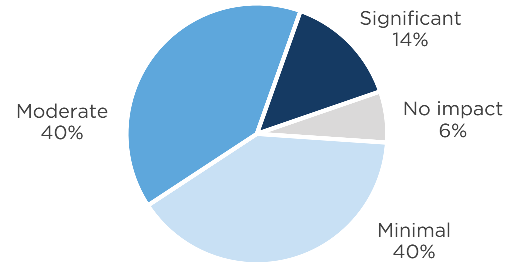
In addition to a legislative solution to RBC, NAFCU is also seeking access to supplemental capital for credit unions. Currently, most credit unions rely entirely on retained earnings to satisfy regulatory capital requirements. Because retained earnings accumulate slowly, they often cannot keep pace with asset growth and as a result can dilute a credit union's regulatory capital ratio. Additionally, in times of economic stress, a credit union's capital position may deteriorate in the absence of access to supplemental capital. Allowing all credit unions access to supplemental capital, in addition to retained earning sources, would ensure credit unions have the ability to quickly raise capital and, in turn, allow them to pursue longer-term, growth-oriented plans to better serve their members throughout the business cycle.

NAFCU continues to advocate for capital reform for credit unions and believes legislative action is necessary to design a true risk-based capital system for credit unions, including allowing credit unions to have access to supplemental capital sources.

Current Expected Credit Loss (CECL) Standard

In 2016 the Financial Accounting Standards Board (FASB) finalized an accounting standard update with the goal of improving recognition and measurement of credit losses on loans and debt securities. The result was the CECL standard, which has been called by many the most significant accounting change in the banking industry in decades. FASB believes that CECL will provide a forward-looking estimate of credit losses which more closely aligns loss estimates with current and expected future economic conditions. However, because losses will be estimated over the entire life of a loan, this will likely result in higher loan loss reserves and a commensurate reduction to capital for many institutions. When asked about the projected impact of the CECL standard, combined with that of the risk-based capital rule, over half of survey respondents indicated that the combination of the two will have a moderate or significant impact on their ability to serve their members (Chart 3.2).

Chart 3.2: Impact of RBC/CECL on Credit Union Ability to Serve its Members



Source: NAFCU 2019 Federal Reserve Meeting Survey

From the outset, NAFCU has opposed the inclusion of credit unions as targets of FASB's standard. One of the stated purposes of the new credit loss standard was to provide investors with greater transparency about a lenders' credit loss exposures. But credit unions do not have outside investors. Furthermore, credit union loans performed far better during and immediately after the financial crisis than did those of other lenders (refer to Chart 1.8). The Great Recession demonstrated the strength of the credit union industry in the face of historic stresses.

In October FASB finalized a delay of the standard for credit unions and community banks. The result of the decision means that the effective date for credit unions will be fiscal years beginning after December 15, 2022. NAFCU continues to advocate for an exemption from the CECL standard for the credit union industry.

Telephone Consumer Protection Act

In July 2015, the Federal Communications Commission (FCC) issued a Declaratory Ruling and Order clarifying its interpretations of the *Telephone Consumer Protection Act* (TCPA). The order provided an expansive treatment of the term "automatic telephone dialing system" (auto-dialers), to broadly include any equipment even if it lacks the "present ability" to dial randomly or sequentially but can be modified to provide those capabilities. As a result, many credit unions ceased important communications with members over fear of inadvertently violating the rule.

This interpretation was challenged in *ACA International v. FCC*. On March 16, 2018, the U.S. Court of Appeals for the District of Columbia Circut held: (1) the FCC's interpretation of the definition of "auto-dialer" is invalid, bringing the FCC back to the limited definition in the TCPA; (2) the FCC's one-call safe harbor for reassigned numbers is arbitrary and invalid, but a "called party" is the consumer currently assigned to the number, not the intended recipient; and (3) the FCC's standard for revoking consent by "any reasonable means" is a permissible interpretation of the TCPA. There is a split between the Second and Third Circuits' adoption of an auto-dialer definition and the Ninth Circuit.

This provides some relief for credit unions, but NAFCU supports a definition of "called party" as the intended recipient of a communication and believes that consumers should not be allowed to revoke consent by "any reasonable means." Credit unions should be able to dictate clear opt-out methods for consumers to provide consistency and limit their potential TCPA liability. NAFCU has urged the FCC to create a single, FCC-designated reassigned numbers database that allows credit unions to access reassigned numbers data at little or no cost.

The TCPA authorizes the FCC to create exemptions for calls "that are not made for a commercial purpose" or "do not include the transmission of any unsolicited advertisement" to residential lines. The TCPA also provides the FCC with exemption authority on autodialed or prerecorded calls to wireless numbers so long as the calls are free to the consumer and may be subject to conditions prescribed by the FCC to protect consumers' privacy rights. NAFCU has urged the FCC to expand its existing exemption (from the 2015 Order) for financial institutions to contact consumers regarding fraud or data breaches. Sometimes consumers are difficult to reach and more than three communications (both calls and text messages) over a three-day period immediately following the fraud or data breach event may be necessary.

Small Business Lending

Access to small business lending ensures our local communities continue to thrive, promotes innovation, and provides jobs. NAFCU has been supportive of various rulemaking efforts by the *Small Business Administration* (SBA) aimed at streamlining, and reducing burdens. This includes proposed rulemakings on the express loan and 504 loan programs. According to NAFCU's February 2019 *Economic & CU Monitor Survey,* roughly 63 percent of business loans originated in 2018 were in the amount of $250,000 or less. Credit unions continue to provide vital business lending to members, and fill lending gaps where members might not otherwise receive a small business loan. Since 2007, credit union SBA loans have grown by an average of 16 percent annually.

NAFCU witness Gail Jansen, vice president of business services and operations at Kinecta Federal Credit Union, testifying before a House Small Business subcommittee in April on the SBA's 7(a) loan program. Photo Credit: Alex Edelman Photography

NAFCU remains engaged with the SBA to encourage credit unions to support small business lending efforts through SBA programs. In March 2019, NAFCU met with former SBA Administrator Linda McMahon to discuss SBA standard operating procedures, SBA One platform, and express loan proposed rulemaking. In September 2019, NAFCU met with Acting SBA Administrator Chris Pilkerton, entering into a Strategic Alliance Memorandum with the SBA aimed at expanding access to small business loans. NAFCU previously signed Memorandums of Understanding (MOU) in 2015 and 2017.

B. Appropriate, Tailored Regulation for Credit Unions and Relief from Growing Regulatory Burdens

Credit unions continue to face a mountain of regulatory burdens. Those compliance burdens are not attributable to any single regulation or agency, but rather to the cumulative layers of duplicative, conflicting, and onerous regulations that create an overwhelming burden for credit unions. These regulatory burdens are resulting in further consolidation among credit unions. Over 2,000 credit unions have disappeared since the passage of the Dodd Frank Act in 2010—a rate of approximately one credit union loss per day—and over 95% of those were small institutions with under $100 million in assets. Many smaller institutions simply cannot keep up with the new regulatory tide.

Meanwhile, surviving credit unions must divert resources in order to meet all of the compliance requirements. According to the 2019 *Federal Reserve Meeting Survey*, 57 percent of respondents rated meeting regulatory compliance requirements as a significant challenge over the next three years. Comparing the amount of resources devoted to the compliance function today compared with prior to the *Dodd-Frank Act*, respondents reported a 129 percent increase in full-time equivalent employees (FTEs) and a 215 percent increase in total costs.

An appropriate and tailored regulatory environment is crucial for credit unions to thrive, and continues to be a top priority for NAFCU and its members. History can attest that a robust and thriving credit union industry benefits our nation's economy, as credit unions often fill a need for consumers and small businesses in the financial services marketplace not otherwise met by other institutions. Moreover, 82 percent of respondents reported that a healthy and appropriately tailored regulatory environment is the most critical to their credit union's continued growth and success.

Some regulatory relief was provided to credit unions by the May 2018, *Economic Growth, Regulatory Relief and Consumer Protection Act* (S. 2155). The NAFCU-backed S. 2155 contained several provisions rolling back *Dodd-Frank* regulations, but more needs to be done to ensure that they are able to thrive in a hypercompetitive marketplace.

NAFCU continues to work with regulators and lawmakers in creating a tailored regulatory environment that provides relief for credit unions.

Examination Modernization

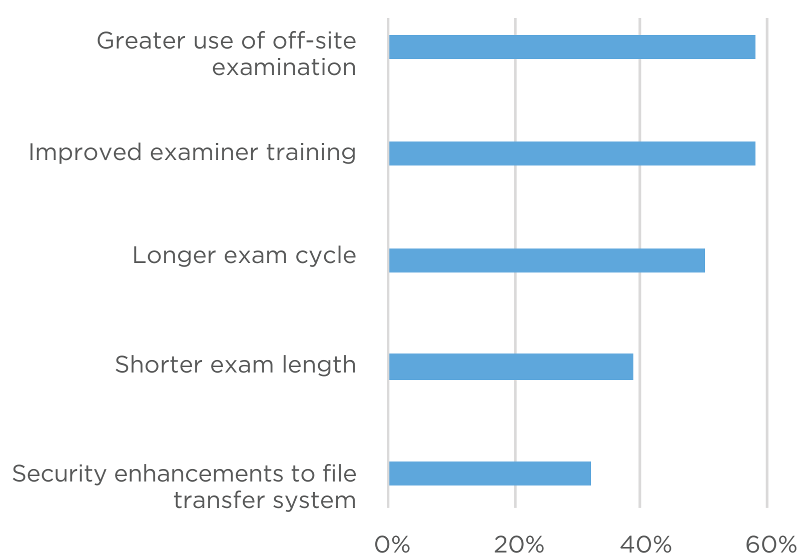
The NCUA has emphasized the need to improve and modernize its examinations and supervision of credit unions, including participating in an examination modernization project with the other agencies on the Federal Financial Institutions Examination Council to identify and assess ways to improve the effectiveness, efficiency, and quality of safety and soundness examination procedures. As part of the process, the NCUA Board approved five initiatives to modernize the agency's exam processes:

- 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.

Collectively, these modernization initiatives aspire to reduce burdens on credit unions, enhance coordination with State Supervisory Authorities, produce more consistent and accurate supervisory determinations, and support a more secure file transfer environment. The NCUA has been actively working on these initiatives this year. In particular, the NCUA has been working on replacing their legacy examination program, Automated Integrated Regulatory Examination System (AIRES) with the Modern Examination and Risk Identification Tool (MERIT). The agency's stated goal for MERIT is to improve the current system and streamline the examination process for credit unions and examiners. MERIT is rolling out to the ONES now, and for all credit unions later in 2020.

NAFCU continues to advocate for more streamlined and efficient examination processes and supports the NCUA's pilot program for remote examinations under the Exam FLEX initiative. At a conceptual level, the prospect of fewer onsite examiners and a faster exam process is compelling. Over 58% of respondents of NAFCU's 2019 *Federal Reserve Meeting Survey* stated that greater utilization of off-site examination would be among their most desired examination reforms (Chart 3.3). However, NAFCU has drawn attention to the need to balance efficient, remote exam capabilities with respect for credit union autonomy and managerial discretion. Exams are meant to be periodic reviews—not a continuous inquiry regarding day-to-day operations.

Chart 3.3: Most Desirable NCUA Examination Reforms (top 5 responses)



Source: NAFCU 2019 Federal Reserve Meeting Survey

A similar concern applies to the NCUA's other exam modernization projects—including ONES data-driven supervision and the Virtual Examination Program—which appear heavily reliant on advanced analytic capabilities. It remains unclear to what extent this reliance will translate into additional data collections or require credit unions to develop new reporting capabilities, but NCUA staff have been receptive to concerns regarding IT requirements. NAFCU has advised the NCUA that increasing data reporting burdens without a corresponding reduction in exam length would be counterproductive. While the Virtual Exam Program has yet to complete its initial report to the NCUA Board, the proposed changes are meant to be incremental and take place over a period of five to ten years. So far, NAFCU surveys have not observed a material decrease in average examination length. NAFCU remains optimistic that as the modernization programs advance, they will succeed in delivering future cost savings and improvements in efficiency without compromising credit unions' ability to exercise sound business judgement.

To help improve exam reform efforts, NAFCU recently met with the NCUA to discuss the agency's examination modernization initiative and ask for more examination guidance for credit unions. NAFCU continues to monitor development of continuous supervision processes under ONES and the impact of the rollout of MERIT to ensure that credit unions can make management decisions with the necessary speed and efficiency to ensure long-term financial health.

NAFCU has asked for greater transparency from the NCUA on examination modernization efforts so that credit unions can be well equipped under a new examination environment. Moreover, NAFCU advocates for a return to an 18-month exam cycle for all healthy credit unions, not just those $1 billion and below. Legislatively, NAFCU supports bipartisan legislation to set standards for examination fairness for federal financial institution regulators, including clear guidance from regulators, consistency from exam to exam, timeliness of reported exam results, and an independent appeals process free of examiner retaliation.

Member Business Lending

NAFCU has long advocated for member business lending (MBL) reform, both through legislation and regulatory relief from the NCUA. NAFCU remains supportive of increased flexibility for MBLs made by credit unions. When Congress passed the *Credit Union Membership Access Act* (CUMAA) in 1998, it put in place unnecessary restrictions on the ability of credit unions to offer business loans to their members. CUMAA codified the definition of an MBL and limited a credit union's MBLs to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets, and set the threshold for a member business loan at $50,000 and above.

Some regulatory relief regarding MBLs has been provided. On June 1, 2018, the NCUA approved a final rule amending the definition of an MBL to implement changes made by S. 2155, removing a one-to-four family dwelling that is not the primary residence of a member from the MBL cap. Additional modifications to the MBL cap will provide vital lending to members. In April 2019, Representatives Gonzalez, Cook, Gabbard, and Young reintroduced the *Veterans Members Business Loan Act* (H.R. 2305) which would exclude loans made to veterans from the statutory MBL cap, removing a barrier to meet veterans' needs.

In addition to the MBL cap, credit unions face restrictions on loan maturity limits. The FCU Act prescribes a general 15-year maturity limit with certain exceptions. On May 25, 2019, the NCUA approved a final rule amending its regulations regarding loans and lines of credit to members, but was unable to make changes to the maturity limits due to the FCU Act. Expansion of the maturity limits set will provide parity between credit unions and other lenders. In March 2019, Representatives Zeldin and Gonzalez introduced H.R. 1661 to provide the NCUA flexibility to increase loan maturity limits.

NAFCU continues to advocate for further regulatory relief, including further modifications or removal of the MBL cap and expanded maturity limits.

Unfair, Deceptive, or Abusive Acts and Practices

In June 2019, the Consumer Financial Protection Bureau (CFPB or Bureau) hosted a symposium on unfair, deceptive, or abusive acts and practices (UDAAP), specifically addressing the "abusive" prong of the standard. Unlike the "unfair" and "deceptive" standards, there is no precedent on what constitutes an abusive act or practice. Meanwhile, the Bureau continues to regulate through enforcement action in this area. NAFCU continues to advocate for clear, transparent guidance from the Bureau regarding UDAAP, including defining "abusive."

According to NAFCU's January 2019 *Economic & CU Monitor*, 56 percent of respondents reported that they are very concerned about UDAAP issues. Significant resources are necessary to monitor and track the Bureau's consent orders in order to determine how best to design or modify internal practices and procedures to avoid a UDAAP violation. NAFCU has urged the Bureau to provide additional guidance—articulating clear supervisory expectations—to ensure credit unions have the necessary information they need to ensure their operations are safe, sound, and reflective of the spirit and letter of the law.

Qualified Mortgages

The Bureau's ability-to-repay (ATR)/qualified mortgage (QM) rule requires credit unions to make a reasonable and good faith determination, based on verified and documented information, that a borrower can repay a mortgage before extending the loan. In that same rule, the Bureau defined a QM and created a second category, termed the temporary government sponsored entity (GSE) loan or the "GSE Patch." The GSE Patch is set to expire on January 10, 2021, or upon the GSEs exiting conservatorship, whichever occurs first. This GSE Patch provides credit unions with continued and robust participation in the secondary mortgage market. In addition, the GSE Patch allows credit unions to lend to members in underserved markets who may not meet the requirements for a QM loan. Alternatives to the GSE Patch should be adopted that allow credit unions the same protections and benefits, including access to the secondary market, and the ability to provide credit to members. According to NAFCU's January 2019 *Economic & CU Monitor* member survey, every respondent indicated that they are concerned about the ATR/QM rule, with 56 percent of respondents reporting that they were "very concerned."

On July 31, 2019, the Bureau published an ANPR regarding potential revisions to the QM definition in light of the expiration of the GSE Patch. NAFCU believes the definition of qualified mortgage must be revised in a number of ways to reduce the enormous negative impact the rule will undoubtedly have on credit unions and their members, and to mitigate market disruptions upon expiration of the GSE Patch. Of primary concern is the debt-to-income (DTI) threshold (43% of the total loan), which currently excludes many otherwise creditworthy borrowers from the market. NAFCU recommends an increase along with the allowance of compensating factors such as residual income. These changes would allow for a viable alternative to the GSE Patch. In addition, concerns remain regarding the inclusion of affiliate fees in the calculation of points and fees, which hinder the ability of credit unions to find cost savings for their members.

NAFCU remains concerned about the increasing costs of mortgage lending due to the ATR/QM rule, as well as adverse effects on origination volume, profitability, and member satisfaction.

Remittances

NAFCU members consistently voice concerns regarding the effects of the remittance rule. According to NAFCU's January 2019 *Economic & CU Monitor* member survey, 44 percent of respondents reported they are very concerned about the remittance rule. The rule has resulted in increased confusion and costs to consumers, resulting in fewer credit unions offering remittance services.

The Bureau's final rule governing remittance transfers became effective in October 2013, and the Bureau completed its required assessment of the rule in October 2018. Subsequently, the Bureau published a request for information (RFI) on April 29, 2019, soliciting comments on possible revisions to the rule. NAFCU recommends the Bureau reconstitute the temporary exception that expires on July 21, 2020, using the Bureau's authority under the *Electronic Fund Transfers Act*. In addition, the Bureau should increase the safe harbor threshold to at least 1,000 transfers, and consider excluding credit unions as a small entity exception.

Overall, the remittance rule has not promoted access to the market, has created inefficiencies, and has caused significant market disruption.

Home Mortgage Disclosure Act

Covered financial institutions were required for the first time to report 2018 HMDA data in March 2019. This loan-level data was made public on August 30, 2019. The HMDA data is the most comprehensive publicly available information on mortgage market activity and is intended to assess how financial institutions are serving the housing needs of their local communities and to facilitate federal financial regulators' fair lending, consumer compliance, and Community Reinvestment Act examinations. According to NAFCU's March 2019 *Economic & CU Monitor* member survey, 49 percent of respondents reported that HMDA-related compliance costs exceeded their initial estimates. The increase in costs ranged from 10 to 50 percent more than expected and budgeted. Respondents also reported several issues with submitting data by the March 2019 deadline, as 30 percent reported having to resubmit HMDA data.

On May 8, 2019, the Bureau published a notice of proposed rulemaking addressing both the open-end and closed-end threshold levels for HMDA reporting, and implementation of S. 2155's provisions related to HMDA. In addition, the Bureau published an advanced notice of proposed rulemaking on May 8th, to solicit comments on potential revisions to the HMDA data points. The Bureau's goal is to ensure that the data points required balance the benefits and burdens of reporting. To reduce regulatory burdens on credit unions, NAFCU recommends the Bureau raise the open-end and closed-end thresholds, and eliminate all data points adopted pursuant to the Bureau's discretionary authority and require only those mandated by Dodd-Frank.

Credit unions support the role HMDA plays in ensuring fair lending and detecting anti-discriminatory practices; however, NAFCU remains concerned that additional reporting requirements do not achieve these goals and only serve to impose significant additional compliance and reporting burdens.

Overdrafts

For the past several years, the Bureau has consistently placed overdraft reform on its rulemaking agenda. On May 15, 2019, the Bureau published a request for comments in connection with its required review of the 2009 Overdraft Rule under the *Regulatory Flexibility Act Review of 2009* (RFA). The overdraft rule is the first that the Bureau is reviewing under the RFA. NAFCU recommended several ways to relieve burdens imposed by the overdraft rule on credit unions. NAFCU suggested that the Bureau should facilitate consumer choice by identifying opportunities for relief, not infringe on overdraft options; encourage development of new products and mechanisms for compliance; not rely on outdated overdraft studies to inform future rulemaking efforts; permit financial institutions to supplement Model Form A-9 with additional information; and improve the safe harbor under Regulation E. According to NAFCU's 2019 *Federal Reserve Meeting Survey*, respondents reported that 50 percent of their members have opted into overdraft protection, on average. That figure is up consistent with last year's reported opt-in rate of 48 percent.

Small Business Data Collection

Section 1071 of the Dodd-Frank assigns responsibility to issue implementing regulations for collection of small business loan data to the Bureau. The goal is to facilitate enforcement of fair lending laws and enable communities, businesses, and other entities to better identify the needs of women-owned, minority owned, and small businesses. Section 1071 requires financial institutions to collect and report information to the Bureau using similar systems and procedures to those currently used with HMDA reporting. Section 1071 gives the Bureau broad discretion to establish the requirements, define the scope, provide exemptions, and protect the privacy of individuals. According to NAFCU's January 2019 *Economic & CU Monitor* member survey, two-thirds of respondents said that they had concerns about the small business data collections, with 22 percent indicating that they were "very concerned."

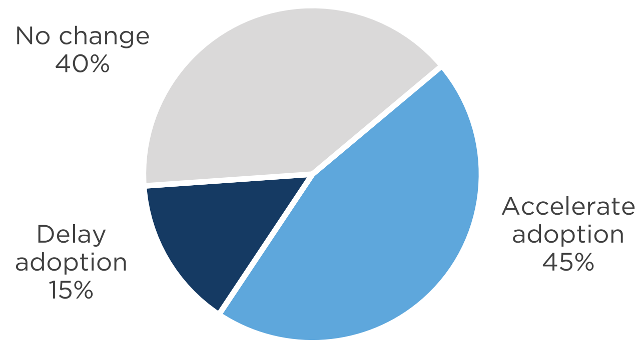
On September 28, 2018, the Bureau published a request for information (RFI) soliciting input on data collection practices. Given credit unions' field of membership constraints, NAFCU believes that the information collected from credit unions will be misleading and unhelpful in achieving the statutory purpose. The data will be skewed in relation to other lenders, due to unique limitations imposed by the *Federal Credit Union Act*. Although the purpose is well intentioned, the RFI not only burdens credit unions with additional compliance, but could also have adverse effects on credit union small business lending.

NAFCU will continue to urge the Bureau to exempt credit unions from any future rulemaking under section 1071 of the Dodd-Frank in order to reduce regulatory burdens and preserve lending growth. Further, NAFCU advocates for a definition of "small business" as a business having $1 million or less in gross annual revenue.

Payments

NAFCU and its members appreciate the Federal Reserve Board's continued engagement with credit unions and other industry stakeholders as it pursues its evolving Strategies for Improving the U.S. Payment System initiative. NAFCU has long supported efforts to improve the payments system and provide credit unions with more tools to serve their unique fields of membership. NAFCU previously served as a member of the Federal Reserve's two payments task forces: the Faster Payments Task Force and the Secure Payments Task Force. In addition, NAFCU is a current member of the Federal Reserve's FedPayments Improvement Community. NAFCU staff and members have met with Federal Reserve Bank Presidents and staff throughout 2019 to discuss faster payment systems and security.

Chart 3.4: How Will FedNOW Affect your Pace of Adoption of Faster Payments?



Source: NAFCU 2019 Federal Reserve Meeting Survey

NAFCU's goal is to ensure that any future payment system will be cost-effective, operationally effective, and scalable for credit unions of all sizes. To achieve these objectives, NAFCU has been an active contributor to the Federal Reserve's efforts in gathering industry stakeholders' input on potential payment solutions that could benefit both financial services providers and their customers. NAFCU and our members have worked to educate and inform members about the Federal Reserve's adoption of faster payment technologies, the output of industry work groups, and enhancements to existing payment systems such same-day automated clearing house (ACH) services.

NAFCU supports the Federal Reserve's FedNow Service proposal. Nearly half of the respondents to NAFCU's 2019 *Federal Reserve Meeting Survey* reported that the recently announced FedNow Service will accelerate their adoption for faster payments (Chart 3.4). Over 55 percent of respondents anticipate investing in an IT-related project for payment processing over the next three years.

As the Federal Reserve has acknowledged, today's systems clearing and settlement systems are not designed to work in a 24/7, real-time world. While there are many technological challenges to overcome in terms of achieving security, reliability, and interoperability, NAFCU stands ready to work with the Federal Reserve and industry partners to develop a faster payments system that is affordable and accessible to credit unions and their members.

Regulation D

Today's consumers expect to have the ability to transfer their funds with ease to and from particular accounts. Regulation D's outdated restrictions on "convenience transfers" presents an ongoing concern for NAFCU and its members. The current law is burdensome, confusing, and prevents credit union members from enjoying unfettered access to their funds. Consumers are often unaware or do not understand and remember the arbitrary limits on the number and types of transfers the regulations permit them to make from their savings account. Over 68 percent of respondents to NAFCU's 2019 *Federal Reserve Meeting Survey* indicated that Regulation D transaction limits generate confusion and questions among their members. Over 69 percent of respondents do not believe it is necessary to limit the number of monthly transfers on accounts that fall under Regulation D. The regulation is antiquated given current technology and modern realities. According to NAFCU's 2019 *Federal Reserve Meeting Survey*, over 55 percent of respondents reported investing in mobile banking platforms, and 45 percent reported investing in online banking platforms. This illustrates credit union's commitment to providing transfer abilities to meet members' demands.

Regulation D's transfer limitations from savings accounts creates an undue burden for both consumers and financial institutions. NAFCU believes that the Federal Reserve should update and increase this six-transfer limitation, while maintaining the distinction between savings and transaction accounts.

Regulation CC

In general, NAFCU encourages the Federal Reserve Board to modernize the language of Regulation CC in order to bring it in line with the rest of the Board's current regulatory framework and applicable requirements under Dodd-Frank and other legislation. The outdated terminology and requirements still found in Regulation CC are confusing and misleading for financial institutions and pose serious compliance and safety and soundness concerns. According to NAFCU's January 2019 *Economic & CU Monitor* member survey, 50 percent of respondents reported being very concerned regarding Regulation CC and funds availability amendments.

On July 3, 2019, the CFPB and Federal Reserve issued a final rule implementing statutory adjustments to the *Expedited Funds Availability Act*. The first set of adjustments will be effective July 1, 2020. In the proposal the agencies provided an opportunity to comment on certain aspects of the funds-availability provisions proposed in 2011; however, the final rule did not address these provisions.

NAFCU recommends that further regulatory relief can be provided to credit unions with an increase in the timeframe for making personal checks available from two business days to three business days. In addition, NAFCU urges the Federal Reserve to allow a credit union greater ability to hold a cashier's check or money order, rather than requiring next day availability. The current requirement creates undue risk for both the credit union and the member because the rule does not allow sufficient time to determine if a check could be counterfeit or there are insufficient funds. Among respondents to NAFCU's 2019 *Federal Reserve Meeting Survey*, 85 percent reported seeing an increase in check fraud attempts in recent years, with a five percent increase from 2018, and nearly as many reported seeing an increase in the dollar amount of check fraud attempts in recent years.

Additionally, NAFCU does not support eliminating provisions regarding case-by-case holds, or eliminating the notice in lieu of return as this service is the best method available in certain situations. NAFCU will continue to work with the Federal Reserve to improve regulation of funds availability.

Hemp Banking

The *Hemp Farming Act* that was included as part of the *Agricultural Improvement Act of 2018* removed hemp-derived products from the Schedule I substance category under the *Controlled Substances Act* (CSA). Hemp will remain regulated, with states possessing the power over licensing and regulation with the assistance of the United States Department of Agriculture (USDA). The USDA is planning to issue implementing regulations before 2020. On August 19, 2019, the NCUA issued interim guidance on banking hemp and hemp-related businesses. The guidance will be updated once the USDA's regulations are published. The interim guidance notes that providing services and accounts is a business decision, and credit unions must ensure their BSA/AML programs are commensurate with the complexity and risks involved. NAFCU will continue to seek guidance on providing services to both marijuana and hemp-related businesses.

Marijuana Banking

Despite varying levels of legalization at the state level, marijuana continues to be illegal at the federal level. Marijuana is categorized as a Schedule I substance under the CSA. Conflicts between current state and federal laws leave credit unions uncertain whether they should provide banking services to marijuana-related businesses (MRBs). NAFCU supports legislatives steps that provide clarity and legal certainty on the question of whether credit unions may safely allow state-authorized MRBs to have access to services. NAFCU has urged Congress to examine legislation such as the *Secure and Fair Enforcement (SAFE) Banking Act*, which prohibits federal banking regulators from engaging in adverse actions against financial institutions for providing services to MRBs.

NAFCU attended a July 2019 Senate Banking Committee hearing on providing financial services to marijuana-related businesses.

C. A Fair Playing Field

NAFCU believes that credit unions should have as many opportunities as other financial institutions and non-regulated entities to provide provident credit to their members. We also want to ensure that all similarly situated depositories and lenders follow the same rules of the road and do not escape oversight.

Data Privacy and Data Security

Data privacy and security are important issues for credit unions. Over 84 percent of respondents of NAFCU's 2019 *Federal Reserve Meeting Survey* indicated a financial marketplace with appropriate safeguards against fraud and data breaches is critical to their credit union's continued growth and success. On June 28, 2018, California Governor Jerry Brown signed the California Consumer Privacy Act (CCPA) into law. The CCPA is the most comprehensive state legislation regarding consumer data privacy. Since being signed into law, numerous other states have introduced legislation, some similar to the CCPA. In early September, the California State Legislature passed a number of amendments to the CCPA that will reduce compliance burdens, but left the overall scope of the law generally intact and did not delay its effective date of January 1, 2020.

NAFCU joined with the U.S. Chamber of Commerce and other organizations representing every sector of the economy to urge the California governor, attorney general and members of the state senate and assembly to delay the CCPA's effective date by two years to provide for a reasonable time for compliance. NAFCU continues to advocate for a national data privacy standard.

Payday Lending

On June 6, 2019, the CFPB delayed the compliance date for the mandatory ability-to-repay (ATR) provisions of its payday lending rule to November 19, 2020. The U.S. District Court for the Western District of Texas recently issued a stay of the mandatory compliance deadline of the payday lending rule, including the payment transfer restrictions and recordkeeping requirements. As a result, the rule may not go into effect before the underlying lawsuit is resolved or the stay is lifted. NAFCU will continue to ask the Bureau to expand the rule's safe harbor as the NCUA seeks to enhance its payday alternative loans (PALs) program.

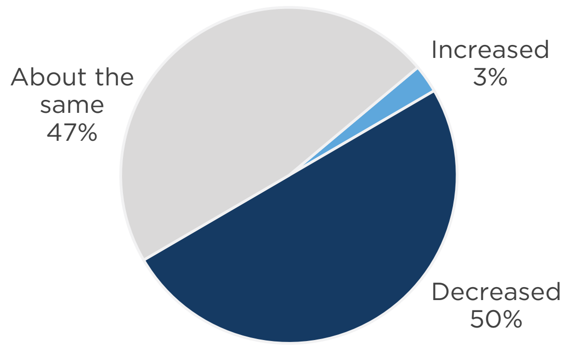
In September 2019, the NCUA finalized a second PALs option – PALs II. This option would not replace the existing PALs rule but would expand the allowable features for affordable short-term, small-dollar loan products which provide an alternative to the kinds of predatory lending that can entrap borrowers. The PALs II option would set the maximum loan amount at $2,000 with no minimum; the maximum maturity term of the loan at 12 months;

no minimum length of credit union membership requirement; and no time restriction on the number of loans to a borrower in a six-month period so long as only one loan is outstanding at a time.

Interchange Fees

NAFCU continues to push for repeal of the Dodd-Frank Act's amendment on interchange fees (Durbin amendment). NAFCU is also opposed to any efforts to expand interchange price caps to credit products. The evidence is growing that promised price reductions from merchants have not materialized, and consumers are no better off as a result. In fact, one recent study concluded that "the greater competitiveness in retail banking compared to general retail has ensured that Durbin's debit card interchange fee caps have caused significant net harm to consumers."[9]

Chart 3.5: Change in Per-Transaction Interchange Rates since Durbin Amendment



Source: NAFCU 2019 Federal Reserve Meeting Survey

The loss of interchange revenue has contributed to a decline in fee income for credit unions in recent years. Unlike other institutions, credit unions cannot raise capital simply by going to the open market. NAFCU's *Federal Reserve Meeting Survey* revealed half of the credit unions surveyed answered that their credit union's per-transaction debit interchange rate decreased since the Durbin amendment, with a scant 3 percent reporting an increase (Chart 3.5). NAFCU will continue to work on behalf of our members to preserve a reasonable return for credit unions from interchange fee income.

Military Lending Act

Credit unions have always protected servicemembers and their families from the types of predatory lending practices which motivated Congress to enact the Military Lending Act (MLA). NAFCU has urged the Department of Defense (DoD) to provide clear rules, that do not unduly restrict access to financial products or services. However, uncertainties in the MLA rule remain and threaten access to credit for servicemembers.

DoD's August 2010 interpretive rule containing a series of Questions and Answers raised more questions than it answered, particularly with respect to guaranteed acceptance protection (GAP) insurance under the MLA. On May 15, 2018, the DoD submitted amendments for OMB review that are widely believed to address the GAP insurance issue raised in the interpretive rule. The amendments will not be final until OMB completes its review.

NAFCU has been monitoring reports about future changes to the CFPB's supervisory policy in relation to the MLA. In January 2019, the CFPB submitted draft legislation to Congress as part of a formal request to supervise MLA-related compliance. This request likely confirms earlier reports[10] that the CFPB would no longer conduct routine examinations for MLA compliance until Congress clarified the Bureau's authority to engage in such supervisory activity. The NCUA has told NAFCU that its supervisory priorities will remain consistent, but has not indicated whether the CFPB's rumored policy shift might impact future credit union examinations. The NCUA's Office of National Examinations and Supervision (ONES) has also indicated that it is preparing for MLA-related exams of large credit unions.

9 Zywicki, Todd J. and Manne, Geoffrey and Morris, Julian, Price Controls on Payment Card Interchange Fees: The U.S. Experience (June 4, 2014). George Mason Law & Economics Research Paper No. 14-18. Available at SSRN: https://ssrn.com/abstract=2446080

10 See NPR.org, 'White House Takes Aim at Financial Protections for Military', https://www.npr.org/2018/08/13/637992389/white-house-takes-aim-at-financial-protections-for-military/, (accessed September 25, 2019).

National Defense Authorization Act

NAFCU continues to advocate for the Department of Defense to continue to offer rent to credit unions, and not banks, at a nominal rate. Credit unions have long proven their commitment to provide military members, veterans and their families with safe, affordable financial products and services. In June 2019, the Senate passed its version of the 2020 National Defense Authorization Act (NDAA), which includes a NAFCU-opposed provision that would require big banks to be treated the same as a military installation's local not-for-profit defense credit union. Section 2821 of the Senate bill would require the DoD to treat all banks the same as credit unions, regardless of their size. If the provision were enacted, it could open the door for the DoD to reconsider its entire policy. NAFCU continues to maintain its advocacy efforts to prevent this provision from being included in the final version of the NDAA that is ultimately passed by both chambers. The DoD should not be required to provide 'free rent' for big banks like Wells Fargo just because it offers that to not-for-profit credit unions. The DoD already has discretionary authority in this area for banks under the Military Leasing Act. NAFCU fought to have this provision removed in last year's final bill. In addition to NAFCU's legislative advocacy efforts, NAFCU launched a grassroots advocacy campaign to urge senators to strike the banker-sought provision from the NDAA. Credit unions heeded NAFCU's call to action to advocate against the provision while lawmakers worked toward a final version of the bill. As a result, NAFCU successfully worked with House and Senate conferees to exclude the provision this year.

D. Government Transparency and Accountability

NAFCU believes regulators need to be transparent in their actions, with the opportunity for public input, and should respect different viewpoints. In addition, a bipartisan commission structure is the best form of regulatory governance for independent agencies, and all stakeholders should be able to provide feedback as part of the regulatory process.

NCUA Budget

NAFCU continues to advocate for transparent actions by regulators. Section 212 of S. 2155 amended section 209(b) of the Federal Credit Union Act requiring the NCUA to publish a draft of its annual budget in the *Federal Register*, hold a public hearing on the draft, and address comments submitted by the public. Prior to the passage of S. 2155, the NCUA committed to budget transparency. In November 2019 the NCUA published a draft budget and held a budget briefing hearing where NAFCU testified and made recommendations. NAFCU appreciates the NCUA's commitment to examining its budget in a public and transparent manner, but still requires more accountability from the agency in its management of credit union funds.

Americans with Disabilities Act Reform

Credit unions across the country continue to face litigation regarding website inaccessibility under the *Americans with Disabilities Act* (ADA). A regulatory void exists due to ambiguities in the law regarding website accessibility requirements, and opportunistic plaintiffs' attorneys are exploiting well-intentioned credit unions. Moreover, NAFCU remains troubled by the split among courts regarding the applicability of the ADA to websites and whether a website constitutes a place of public accommodation.

Both the ADA and Department of Justice (DOJ) regulations are silent on required standards for website accessibility. Title III of the ADA stipulates that places of "public accommodation" such as credit unions, banks and other "service establishments" are generally prohibited from discriminating on the basis of a disability in the activities of that place of public accommodation, but it does not address website accessibility. The DOJ began gathering information on setting website accessibility standards, but has not adopted any technical requirements. This issue was removed from the DOJ's rulemaking agenda, and two advanced notices of proposed rulemaking on the issue were withdrawn as the DOJ wanted to evaluate whether regulations were necessary and appropriate.

In January 2019, the U.S. Courts of Appeals for the Ninth Circuit issued its decision in *Robles v. Domino's Pizza, LLC*. Subsequently, on June 13, 2019, Dominos filed a petition for a writ of certiorari to the U.S. Supreme Court seeking interpretation of Title III of the ADA. The question presented before the court is whether Title III of the ADA requires a website or mobile phone application that offers goods or services to the public to satisfy discrete accessibility requirements with respect to individuals with disabilities. The respondent, Guillermo Robles, filed a response on August 14, 2019 arguing that the case does not meet the standards for certiorari.

Members of Congress have reiterated their concerns to the DOJ over the regulatory ambiguities. NAFCU continues to engage with lawmakers and the DOJ for clear ADA website accessibility guidelines.

Modern Glass-Steagall Act

Since the financial crisis, the credit union industry has experienced substantial consolidation while the largest banks have reaped record profits and grown in both size and scope. *The Glass-Steagall Act* (GSA) was established in response to the depression and imposed rules on Federal Reserve member banks to require the separation of commercial and investment banking activities. However, in 1999 the *Gramm-Leach-Bliley Act* (GLBA) effectively repealed several key sections of the GSA, resulting in an under-regulated environment that benefited large institutions by incentivizing megamergers. This resulted in the creation of institutions that are able to engage in virtually unlimited activities, sometimes outside the reach of federal and state regulators. The consolidation of the commercial and investment banks into large financial conglomerates gave rise to the "too big to fail" institutions whose losses accounted for three-fifths of the total losses recorded from mid-2007 to 2010.

Congress has acknowledged that a degree of separation between commercial and investment banks should exist to promote financial stability. In July 2019, Senator Warren introduced, the *"Stop Wall Street Looting Act,"* which re-enacts provisions of the GSA, including separating commercial banks from investment banks. Previous legislation was introduced in the 113th, 114th, and 115th congresses. In April 2019, the U.S. House Committee on Financial Services held a hearing titled, "Holding Megabanks Accountable: A Review of Global Systemically Important Banks 10 years after the Financial Crisis."

Big banks must be encouraged to discover more innovative, yet honest, ways of accessing liquidity that do not put the American taxpayer at risk. Shifting the focus of our banking system from acquiring profits to helping local communities is the first step. In September 2018, NAFCU released a white paper calling on members of Congress to discuss creating a modernized GSA, which is available at www.stilltoobigtofail.org.

E. A Strong, Independent NCUA as the Primary Regulator for Credit Unions

NAFCU believes that the NCUA is best situated with the knowledge and expertise to regulate credit unions due to their unique nature.

Bureau Reform

The Bureau has rulemaking authority over all credit unions, regardless of asset size, and examination and enforcement authority over credit unions with more than $10 billion in assets. In the wake of Dodd-Frank, NAFCU was the only credit union trade association to oppose the creation of the Bureau. NAFCU remains opposed to the Bureau's authority over credit unions, given that credit unions were not responsible for the financial crisis and are more regulated than any other financial depository institution. NAFCU has consistently taken the position that the Bureau should exercise its authority under section 1022 of Dodd-Frank to exempt credit unions from rulemakings, recognizing their unique structure and mission.

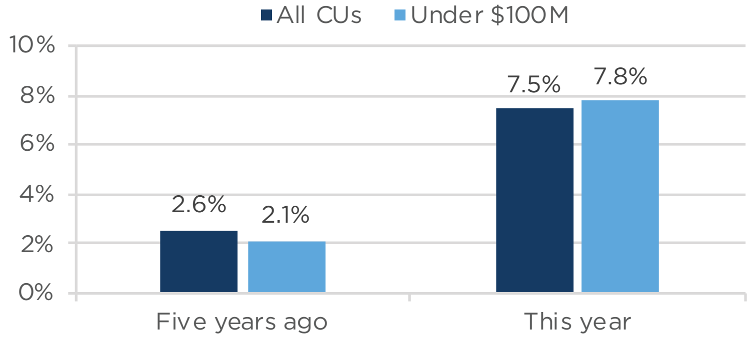
Bureau reform has always been a top priority for NAFCU advocacy. In March 2019, the *Financial Product Safety Commission Act* (H.R. 5266) was introduced which would create a five-person commission, appointed by the President, and serve a staggered five-year term to lead the Bureau. NAFCU is supportive of legislation to reform the Bureau's structure to a bipartisan commission. Given the transition between administrations, a single director structure can dramatically shift the bureau's philosophy and approach to financial regulations, supervision, and examinations.

Recent litigation has called into question the constitutionality of a single-director structure. In May 2019, the U.S. Court of Appeals for the Ninth Circuit held in *CFPB v. Selia Law LLC*, that the single-director structure was unconstitutional. *Selia* filed a writ of certiorari for the Supreme Court to consider the constitutionality of the Bureau's structure.

IV. CREDIT UNION CYBERSECURITY

As cyberattacks continue to grow in sophistication and frequency, credit unions once again report that maintaining a secure electronic environment is one of their greatest challenges. In this year's *Federal Reserve Meeting Survey*, the proportion of credit unions that rank this challenge as significant remained unchanged from a year ago at 72 percent; however respondents reported that the share of their overall budget devoted to cybersecurity has more than doubled over the past five years, growing on average from 2.6 percent to 7.5 percent (Chart 4.1). Not surprisingly, for smaller credit unions, growth in cybersecurity spending has been even more dramatic. For credit union respondents with under $100 million in total assets, the share of their budget devoted to cybersecurity grew from 2.1 percent to 7.8 percent. While information security programs should generally be tailored to avoid ballooning costs year over year, greater resource allocation in this area does reflect how seriously the credit union industry takes its responsibility to protect members' personal information.

Chart 4.1: Share of Operating Budget Devoted to Cybersecurity



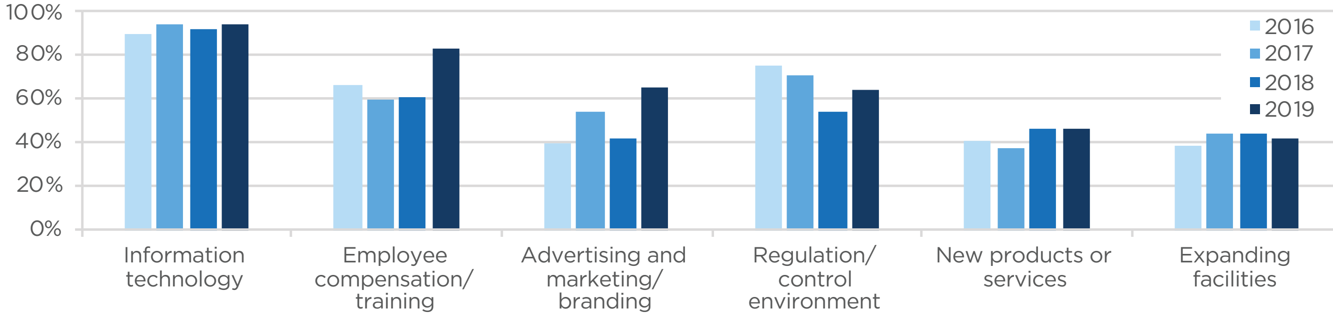
Source: NAFCU 2019 Federal Reserve Meeting Survey

Cybersecurity expenditures are also beginning to outpace the costs associated with traditional consumer compliance activities. Approximately 52 percent of respondents indicated that they expected to increase the number of full-time equivalent employees devoted to IT compliance—the most significant increase for any compliance-related employment function. An even greater share—85 percent—said that they planned to invest in fraud prevention technology. While anti-fraud services are often distinct from a credit union's cybersecurity program, they are necessary to address merchant data breaches which represent a contagion affecting the financial sector's overall security. The same share of respondents (85 percent) said that they regarded maintaining appropriate safeguards to protect against fraud and data breaches as critical to their institution's continued success. While credit unions face multiple sources of cyber risk, the most worrisome threat vectors continue to be merchants and criminal actors.

This year's survey also affirms the credit union industry's vigilance in addressing cybersecurity risks now and in the future. Approximately 81 percent of respondents indicated that IT or cyber risk would be a significant concern over the next three years and 94 percent said that information technology upgrades would drive spending increases over the same period (Chart 4.2). This proactive approach is not surprising given the rising toll of cybercrime across the broader economy, which cost Americans $2.7 billion in 2018 according to the FBI's Internet Crime Complaint Center.

The magnitude of credit union investments in response to cyber risk mirrors the NCUA's own, substantial modernization of its cybersecurity examination program. In 2018, the NCUA formally began using its Automated Cybersecurity Examination Toolbox (ACET) to evaluate credit unions with over $1 billion in total assets, and

Chart 4.2: Areas Credit Unions Expect to Drive Greatest Spending Increases*



* over the next three years

Source: NAFCU 2019 Federal Reserve Meeting Survey

in 2019 expanded deployment to credit unions with assets over $250 million. The ACET closely resembles the Federal Financial Institutions Examination Council (FFIEC) Cybersecurity Assessment Tool, which was released as a voluntary diagnostic for measuring cybersecurity maturity and inherent risk. While the ACET represents the most tangible shift in the agency's approach to cybersecurity, it is just one component of the NCUA's overall approach to enhancing the security and resilience of the credit union industry.

NCUA's Focus on Cybersecurity

The NCUA has listed cybersecurity as a supervisory priority each year since 2015, and Chairman Hood has described it as a top priority for the agency during his chairmanship. At NAFCU's 2019 Congressional Caucus, Chairman Hood noted that while the agency is working to harden credit union systems against the threat of a costly data breach, technology should not be regarded solely as a source of risk. In this regard, Chairman Hood has drawn attention to the challenges and opportunities associated with a rapidly evolving fintech market. In September 2019, NAFCU published a whitepaper on "Regulatory Approaches to Financial Technology" which discusses this intersection of cybersecurity and fintech in detail.

In July 2019, the NCUA's Office of the Inspector General (OIG) reported that the agency was working with the Idaho National Laboratory to build a new "ACET Solution" which leverages tools developed by the Department of Homeland Security. The new ACET Solution would incorporate alternate year reduced question sets based on the size and complexity of credit unions that are based on the Center for Internet Security 20 Critical Security Controls (CSCs). The NCUA describes these controls as a prioritized set of actions that collectively form a defense-in-depth set of best practices that mitigate the most common attacks against systems and networks. The agency expects to pilot the use of the CSCs in risk-focused IT examinations beginning next year, with broader implementation scheduled for 2021.

The Office of National Examinations and Supervision (ONES) has also developed a rigorous cybersecurity examination process for the credit unions it supervises, which include corporate credit unions and large natural-person credit unions (those with over $10 billion in assets). ONES's examination program for large credit unions incorporates the ACET along with a supplementary program, which offers its credit unions a selection of voluntary cybersecurity assessments at no cost. Corporate credit unions are also subject to ACET assessments. The OIG reported that ONES had completed required ACET assessments of its credit unions during 2018 and plans to complete its remaining ACET assessments during the remainder of 2019. Among surveyed NAFCU members, 37 percent reported that they underwent an ACET assessment during their most recent exam. The NCUA continues to refine the ACET to appropriately balance expectations for small, non-complex credit unions, and the agency ultimately plans to evaluate FICUs using the ACET on a rolling basis over a four-year cycle. At the NCUA's October 2019 Board Meeting, agency staff suggested that the ACET would likely not be used to conduct cyber maturity assessments at credit unions with less than $100 million in total assets; however, a formal decision has yet to be made. In 2020, the NCUA expects to use the ACET to conduct maturity assessments at credit unions with $100-250 million in total assets.

Cyber Exam Modernization

In June 2019, Chairman Hood appointed Johnny E. Davis Jr. as Special Advisor to the Chairman for Cybersecurity. Davis continues to serve as Division Director for Critical Infrastructure at NCUA, which oversees development of the ACET. At NAFCU's 2019 Congressional Caucus, Davis provided an update on the agency's current efforts to improve its cybersecurity knowledge and review capabilities. In general, the agency has four high level priorities:

- Advance consistency, transparency and accountability within the cybersecurity examination program;
- Encourage due diligence for supply chain and third-party service provider management at credit unions;
- Assist institutions with resources to improve operational hygiene and resilience; and
- Ensure the NCUA's systems and collected controlled unclassified information is secure.

The NCUA is currently in the process of adopting a tailored cyber exam process and, consistent with past briefings to the NCUA Board, is working to improve the cybersecurity knowledge of its examiners. While capacity building on this scale will take time, it does represent a promising goal. Furthermore, improved training could help address credit union concerns regarding exam consistency. When this year's survey respondents were asked to identify their most desired examination reforms, their second-most sought after option was improved examiner subject matter expertise (58 percent). The top response, desired by 59 percent of respondents, was an improved approach for IT and data security reviews.

New Cyber Guidance

In October 2019, Chairman Hood indicated that the agency is "always seeking to share information on best practices for cybersecurity" and remarked that "hardening our IT infrastructure and systems is definitely a public-private partnership."[11] The NCUA currently maintains a cybersecurity resources page on its website and Chairman Hood has said that he anticipates the NCUA will have "more news on cybersecurity in the next few months."[12] In October, which is designated as National Cybersecurity Awareness Month, the agency committed to sharing information about recognizing and preventing identity theft and what consumers can do if they fall victim to cybercrime. At the NCUA's October 2019 Board Meeting, agency staff indicated that a list of state law enforcement points of contact for cybercrime was one of the contemplated resources.

NCUA Chairman Rodney Hood at NAFCU's 2019 Congressional Caucus.

The FFIEC also issued a statement this year recognizing the benefits of using a standardized approach to assess and improve cybersecurity preparedness. While the FFIEC has not announced new policy or guidance, it has validated the use of tools such as the FFIEC Cybersecurity Assessment Tool, the National Institute of Standards and Technology Cybersecurity Framework, the Financial Services Sector Coordinating Council (FSSCC) Cybersecurity Profile, and the Center for Internet Security Critical Security Controls.

11 NCUA Chairman Rodney E. Hood Remarks - National Council of Firefighter Credit Unions 2019 Annual Conference, available at https://www.ncua.gov/newsroom/speech/2019/ncua-chairman-rodney-e-hood-remarks-national-council-firefighter-credit-unions-2019-annual

12 Id.

Third Party Risk

The NCUA's supervisory priorities for 2019 list supply chain management and oversight of service providers as components of the agency's program for assessing credit union information systems. Credit unions are currently required to perform vendor due diligence when working with third parties, and this process is already the subject of extensive NCUA guidance. As credit unions incorporate third party technology to improve efficiency, offer new products and services, and maintain competitive footing with fintech companies, due diligence has assumed greater importance. This year, the NCUA has indicated that it will continue to work collaboratively with other regulators to address operational risks that are linked to third parties.

In May 2019, Chairman Hood told the Senate Banking Committee that the NCUA was committed to working with its partners on the Financial Stability Oversight Council (FSOC) "to ensure that various threats to financial markets are properly monitored and mitigated." These remarks referenced a proposal issued by the FSOC in March 2019 that would revise guidance regarding how the Council designates nonbank financial companies for enhanced supervision by the Federal Reserve. The proposed guidance incorporated a wider range of activities-based considerations, including operational and cybersecurity risks, and stated that the FSOC may consider risks arising from "new or evolving financial product activities, and practices."

To address third party risks, the FFIEC agencies currently work together to monitor the most interconnected and critical technology service providers (TSPs) operating within the financial sector. In general, core providers and firms serving financial institutions supervised by more than one regulator are jointly examined based on the guidelines contained in the FFIEC's Information Technology Examination Handbook. In general, FFIEC exams of TSPs are broad in scope, covering data integrity, confidentiality, resiliency and availability of services, and compliance with applicable rules and regulations—among other things. According to the FFIEC's own guidance, "[a] serviced financial institution can request a copy of the [report of examination] from the institution's primary regulator and must demonstrate that it had a valid and current contract with the TSP as of the date of the examination."[13] However, the NCUA has indicated that the process for sharing examination reports with customer credit unions has proven challenging.[14]

In this year's survey, most respondents who anticipated making technology investments over the next three years indicated that they planned to use a large, national vendor, core provider or fintech for these future projects. In 2019, NAFCU established a special task force to identify opportunities to improve third party risk management processes and explore ways the NCUA can reinforce, rather than frustrate, partnerships with technology providers.

13 FFIEC, Supervision of Technology Service Providers, 10 (October 2012), available at https://ithandbook.ffiec.gov/media/274876/ffiec_itbooklet_supervisionoftechnologyserviceproviders.pdf

14 NCUA, NCUA Chairman Rodney E. Hood Congressional Testimony - Hearing on Oversight of Financial Regulators (May 2019), available at https://www.ncua.gov/newsroom/testimony/2019/ncua-chairman-rodney-e-hood-congressional-testimony-hearing-oversight-financial-regulators.

NAFCU Engagement

Director of the National Counterintelligence and Security Center Bill Evanina shared insights into cyber and national security at NAFCU's 2019 Congressional Caucus.

NAFCU continues to engage with government stakeholders and industry organizations to promote operational resilience and cyber preparedness within the credit union industry. In 2019, NAFCU met with Treasury's Office of Cybersecurity and Critical Infrastructure Protection to discuss resources and technical assistance that would be beneficial to credit unions both large and small. At NAFCU's 2019 Congressional Caucus, members heard directly from OCIP Director Brian Peretti and William R. Evanina, director of the National Counterintelligence Center, about the threats and challenges credit unions face in an increasingly hostile cyber environment. NAFCU's Cybersecurity and Payments Committee discussed efforts to improve the safety of U.S. payments systems with representatives from the Federal Reserve Bank of Chicago and these discussions have helped inform a series of ongoing meetings with individual Reserve Banks.

NAFCU has also represented the credit union industry through the Financial Sector Coordinating Council (FSSCC). As a member of the FSSCC, NAFCU has helped improve stakeholder understanding of the credit union's industry's unique characteristics, interconnections, and strong cyber posture. In 2019, NAFCU engaged with the FSSCC through cybersecurity exercises, joint meetings with the FBIIC, and continues to support this valuable, private-public partnership and its promotion of cybersecurity regulatory harmonization.

In meetings with NCUA staff, NAFCU has sought to clarify how the agency will manage the scope and length of cybersecurity exams in the future. While cybersecurity should be given the attention it deserves as a critical priority, it should not dominate the exam process or demand one-size-fits-all solutions.

APPENDIX: CREDIT UNION RATINGS OF FEDERAL RESERVE SERVICES

NAFCU's 2019 *Federal Reserve Meeting Survey* asked participants to rate the services provided by the Federal Reserve on a scale of one to five, with five indicating an "excellent" rating (Table A.1). Credit unions participating in the survey were generally pleased with the quality of Federal Reserve services. All 29 of the services included in the survey received a rating above three, or "average." Top rated services this year include ACH originations and receipts, FedLine Command, FedLine Web Services, and FedLine Advantage. FedComplete Packages received the lowest rating of 3.1.

Of the 22 services in the survey, four received higher average ratings compared to 2018, while 12 received lower user scores than last year. FedGlobal ACH Payments and FedComplete Packages saw the largest improvement and decline, respectively, in their ratings.

Survey participants were also asked to rate the overall competitiveness of Federal Reserve services. As compared to a year ago, a large majority (63 percent) felt that the Federal Reserve services were either "competitively" or "very competitively" priced. No respondents rated Federal Reserve services as "not competitively" priced. ACH and wire services were identified as the most competitively priced services. Coin and currency services were viewed as the least competitively priced.

Table A.1: Credit Union Rating of *Federal Reserve Services*

Federal Reserve Service	Average Rating: 1 to 5 (5=excellent) 2019	2018	Change in Rating
Accounting Services	3.3	3.6	-0.3
ACH Origination & Receipt	3.7	3.7	0.0
Check 21 Enabled Service	3.5	3.6	-0.1
Coin and Currency Services	3.5	3.7	-0.2
Educational Seminars	3.3	3.5	-0.2
Fed Discount Window	3.6	3.4	+0.2
FedACH SameDay Service	3.5	3.6	-0.1
FedComplete Packages	3.1	3.6	-0.5
FedGlobal ACH Payments	3.6	3.2	+0.4
FedImage Services	3.5	3.5	0.0
FedLine Advantage	3.6	3.7	-0.1
FedLine Command	3.7	3.7	0.0
FedLine Direct	3.6	3.7	-0.1
FedLine Web Services	3.6	3.5	+0.1
FedPayments Reporter Service	3.4	3.5	-0.1
FedReceipt Services	3.4	n.a.	n.a.
FedTransaction Analyzer Service	3.3	3.3	0.0
Fedwire Funds Service	3.5	3.6	-0.1
Fedwire Securities Service	3.5	3.7	-0.2
Foreign and Canadian Check Svcs.	3.5	3.3	+0.2
National Settlement Service	3.4	3.5	-0.1
Paper Check Clearing	3.5	3.5	0.0

Source: NAFCU's 2019 & 2018 *Federal Reserve Meeting Surveys*

The National Association of Federally-Insured Credit Unions (NAFCU) is a direct membership association for federally-insured credit unions. We are committed to representing, assisting, educating and informing our member credit unions to help them grow, and help grow the credit union industry.

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