



National Association of  
Federally-Insured Credit Unions

# 2020

## NAFCU Report on Credit Unions



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## ABBREVIATIONS

<b>ACH</b>	Automated Clearing House	<b>GAAP</b>	Generally Accepted Accounting Principles
<b>AIRES</b>	Automated Integrated Regulatory Examination System	<b>GAP</b>	Guaranteed Acceptance Protection
<b>AML</b>	Anti-Money Laundering	<b>GDPR</b>	General Data Protection Regulation
<b>APOR</b>	Average Prime Offer Rate	<b>GLBA</b>	Gramm-Leach-Bliley Act
<b>APR</b>	Annual Percentage Rate	<b>GSA</b>	Glass-Steagall Act
<b>ATM</b>	Automated Teller Machine	<b>GSE</b>	Government-Sponsored Enterprise
<b>ATR</b>	Ability-to-Repay	<b>HMDA</b>	Home Mortgage Disclosure Act
<b>BHCA</b>	Bank Holding Company Act	<b>ICBA</b>	Independent Community Bankers of America
<b>BSA</b>	Bank Secrecy Act	<b>ILC</b>	Industrial Loan Company
<b>Bureau</b>	Consumer Financial Protection Bureau	<b>IRC</b>	Internal Revenue Code
<b>CAMEL</b>	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity/Asset-Liability Management	<b>IT</b>	Information Technology
<b>CARES Act</b>	Coronavirus Aid, Relief, and Economic Security Act	<b>LICU</b>	Low-Income Credit Union
<b>CBLR</b>	Community Bank Leverage Ratio	<b>LMI</b>	Low- and Moderate-Income
<b>CCPA</b>	California Consumer Privacy Act	<b>MBL</b>	Member Business Loan
<b>CECL</b>	Current Expected Credit Loss	<b>MERIT</b>	Modern Examination and Risk Identification Tool
<b>CFPB</b>	Consumer Financial Protection Bureau	<b>MLA</b>	Military Lending Act
<b>CLF</b>	Central Liquidity Facility	<b>NAFCU</b>	National Association of Federally-Insured Credit Unions
<b>CU</b>	Credit Union	<b>NCUA</b>	National Credit Union Administration
<b>CUMAA</b>	Credit Union Membership Access Act	<b>NCUSIF</b>	National Credit Union Share Insurance Fund
<b>CUSO</b>	Credit Union Service Organization	<b>NDAA</b>	National Defense Authorization Act
<b>DoD</b>	Department of Defense	<b>OCC</b>	Office of the Comptroller of the Currency
<b>DTI</b>	Debt-to-Income Ratio	<b>ONES</b>	Office of National Examinations and Supervision
<b>EFTA</b>	Electronic Funds Transfer Act	<b>PAL</b>	Payday Alternative Loan
<b>EIDL</b>	Economic Injury Disaster Loans	<b>PCA</b>	Prompt Corrective Action
<b>EIP</b>	Economic Impact Payment	<b>PPP</b>	Paycheck Protection Program
<b>ESM</b>	Enterprise Solution Modernization	<b>PPPLF</b>	Paycheck Protection Program Liquidity Facility
<b>FASB</b>	Financial Accounting Standards Board	<b>QM</b>	Qualified Mortgage
<b>FBIIC</b>	Finance and Banking Information Infrastructure Committee	<b>RBC</b>	Risk-Based Capital
<b>FCC</b>	Federal Communications Commission	<b>ROA</b>	Return on Average Assets
<b>FCU</b>	Federal Credit Union	<b>SBA</b>	Small Business Administration
<b>FFIEC</b>	Federal Financial Institutions Examination Council	<b>SBREFA</b>	Small Business Regulatory Enforcement Fairness Act
<b>FHFA</b>	Federal Housing Finance Agency	<b>SCF</b>	Survey of Consumer Finances
<b>FHLB</b>	Federal Home Loan Bank	<b>SEG</b>	Select Employee Group
<b>FICU</b>	Federally-Insured Credit Union	<b>SER</b>	Small Entity Representatives
<b>Fintech</b>	Financial Technology	<b>SOTI</b>	State of the Industry
<b>FISCU</b>	Federally-Insured State Chartered Credit Union	<b>TCJA</b>	Tax Cuts and Jobs Act
<b>FLEX</b>	Flexible Examination Pilot Program	<b>TIP</b>	Trade, Industry, and Professional
<b>FOM</b>	Field of Membership	<b>TRACED Act</b>	Telephone Robocall Abuse Criminal Enforcement and Deterrence Act
<b>FOMC</b>	Federal Open Markets Committee	<b>UDAAP</b>	Unfair, Deceptive, or Abusive Acts and Practices
<b>FRB</b>	Federal Reserve Board		

# BOARD OF DIRECTORS AND PRESIDENT AND CEO OF NAFCU



**DEBRA SCHWARTZ**  
**Chair**

Director-at-Large  
President/CEO  
Mission  
Federal Credit Union  
San Diego, CA  
Asset Size: \$4.5B  
Members: 262,000  
FOM: Community



**THOMAS W. DEWITT**  
**Vice Chair**

Western Reg. Director  
President/CEO  
State Farm  
Federal Credit Union  
Bloomington, IL  
Asset Size: \$5.0B  
Members: 123,000  
FOM: Service



**GARY GRINNELL**  
**Treasurer**

Eastern Reg. Director  
President/CEO  
Corning  
Federal Credit Union  
Corning, NY  
Asset Size: \$1.8B  
Members: 118,000  
FOM: Multi-Occupational



**BRIAN T. SCHOOLS**  
**Secretary**

Eastern Reg. Director  
President/CEO  
Chartway  
Federal Credit Union  
Virginia Beach, VA  
Asset Size: \$2.4B  
Members: 194,000  
FOM: Multi-Occupational



**KAREN C. HARBIN**  
**Director-At-Large**

President/CEO  
Commonwealth  
Credit Union  
Frankfort, KY  
Asset Size: \$1.6B  
Members: 109,000  
FOM: Community



**MELANIE KENNEDY**  
**Southern Reg. Director**

President/CEO  
Southwest Financial  
Federal Credit Union  
Dallas, TX  
Asset Size: \$75M  
Members: 10,000  
FOM: Multi-Occupational



**JAMES A. KENYON**  
**Director-At-Large**

President/CEO  
Whitefish  
Credit Union  
Whitefish, MT  
Asset Size: \$1.8B  
Members: 59,000  
FOM: Community



**LONNIE NICHOLSON**  
**Southern Reg. Director**

President/CEO  
EECU  
Fort Worth, TX  
Asset Size: \$2.8B  
Members: 236,000  
FOM: Community



**JAN N. ROCHE**  
**Director-At-Large**

President/CEO  
State Department  
Federal Credit Union  
Alexandria, VA  
Asset Size: \$2.4B  
Members: 90,000  
FOM: Multi-Occupational



**LISA A. SCHLEHUBER**  
**Director-At-Large**

CEO  
Elements Financial  
Federal Credit Union  
Indianapolis, IN  
Asset Size: \$2.0B  
Members: 116,000  
FOM: Multi-Occupational



**KEITH SULTEMEIER**  
**Western Reg. Director**

President/CEO  
Kinecta  
Federal Credit Union  
Manhattan Beach, CA  
Asset Size: \$5.1B  
Members: 236,000  
FOM: Multi-Occupational



**B. DAN BERGER**  
**President and CEO**

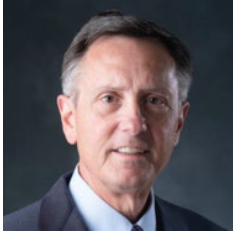
NAFCU  
Arlington, VA

FOM is Field of Membership

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



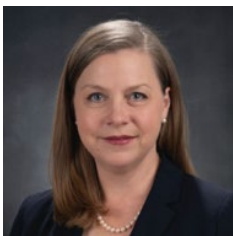
**Jerome H. Powell**, Chair of the Board of Governors. He was sworn in on February 5, 2018, for a four-year term. He also serves as Chairman of the Federal Open Market Committee. Mr. Powell has served as a member of the Board of Governors since taking office on May 25, 2012, to fill an unexpired term. He was reappointed to the Board and sworn in on June 16, 2014, for a term ending in 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 of the Treasury under President George H.W. Bush.



**Richard H. Clarida**, Vice Chair of the Board of Governors. He was sworn in on September 17, 2018, for a four-year term as Vice Chair, and took office as Board member to fill an unexpired term ending in 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 Chair 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 in 2032. He was sworn in as Vice Chair for Supervision on Oct 13, 2017. Mr. Quarles is also chair of the Financial Stability Board. 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 and was reappointed to the Board on January 23, 2020 for a term ending in 2034. 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. In 2002, Ms. Bowman became director of congressional and intergovernmental affairs at the Federal Emergency Management Agency. From 2003 to 2004, she served as Deputy Assistant Secretary and policy advisor to Homeland Security Secretary Tom Ridge.



**Lael Brainard**, member of the Board of Governors. She took office on June 16, 2014, to fill an unexpired term ending in 2026. Prior to her appointment, Dr. Brainard served as Undersecretary of the 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.

# 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 75 percent of total federal credit union (FCU) assets and 54 percent of all FICU assets. NAFCU's membership includes over 220 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 2020, there were 3,232 FCUs, with assets of \$889 billion and a membership base of 64 million.

## ***Federally-Insured State Chartered Credit Unions***

Federally-insured state chartered credit unions are chartered by their state, and their primary regulator is the state supervisory authority. Their member shares are insured by the NCUSIF. As of June 2020, there were 1,932 FISCUs, with assets of \$861 billion and a membership base of 58 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 2020, there were 5,164 FICUs, with assets of \$1.7 trillion and a membership base of 122 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. 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 2020, there were 11 corporate credit unions with assets of \$39 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 25 and September 16, 2020.

## 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.

**ECONOMIC & CU MONITOR**  
National Association of Federally-insured Credit Unions

**Special Topic: Economic Outlook**

As the calendar winds to a close, many credit unions are entering budget season. Thinking ahead to next year and beyond presents no shortage of concerns. Here's the latest for every credit union will be the economy, the outlook for interest rates and further Fed actions, and the risk that the largest economic expansion in this country's history could be on its last legs. How you view the current economic situation depends largely on your own personal disposition, since whether you are an optimist or a pessimist, there is plenty of ground for the fall.

**Glass Half Full**  
Whether it is *gross domestic product* (GDP), economic indicators are spreading. Yet even as fears grow—and may themselves create the conditions to become self-fulfilling prophecies—we should not ignore some key areas of strength in the economy. And if you want to be optimistic about this economy, there is one obvious place to start: the labor market.

Job growth has been strong throughout the recovery, consistently topping expectations of policymakers. Nevertheless, one feature of the labor market has consistently puzzled observers. With unemployment at historic lows, why is wage growth so weak? Although normal wages are increasing at their fastest pace of the recovery, the growth rate remains below the levels seen in most recent unemployment troughs in the late-1990s and in 2007.

One explanation that ties together a number of loose threads is illustrated in the chart below. It shows the unemployment rate (in red, inverted) alongside the employment-to-population ratio for workers ages 25 to 54, or prime age (EPOR) (in blue). Those tend to move together, but there was a divergence after the crisis as many in their prime working years dropped out of the labor force. As a result, readings of the unemployment rate consistently underestimated the amount of slack in the labor market. If this is correct, that explains why wage growth has been so stubbornly slow. It would also help explain the shift in the stance of the Federal Reserve from one that tightened steadily through 2007 and 2013 to one which soon recognized that the labor market is not as tight as it may have previously seemed. This now out dates both 2010. But the good news for the broader economy is that the Fed now seems wiser to support further job gains.

A related source of strength has been consumer spending. Even with wobbly readings on consumer confidence recently, retail spending picked up during the summer months. Despite their concerns, households have a lot to feel good about at the moment: they are working, their wages are finally picking up, and inflation remains low. Some reports have suggested that a consumer credit bubble is emerging in areas like auto or credit card lending. Although there may be developing problems for riskier borrowers, this does not appear to be a widespread issue. Debt as a percent of disposable income is low and falling, and that debt is financed at historically low rates. Households have the scope to continue to drive the expansion.

Another area of the economy which is picking up steam is housing. When the economy was scuffling toward the end of last year and into January of 2019, housing sales had increased 10 percent versus the end of 2018.

The biggest constraint for the housing market has been a lack of equity, but construction activity is beginning to perk up, as well. Home starts in August reached their highest level of the recovery, and home builder stock prices are soaring. This is not to suggest that housing is booming, of course. But any improvement would provide a welcome contrast with years past, as housing has weighed down economic growth.

**Glass Half Empty**  
On the other hand, if you want to feel pessimistic about the economy, there are plenty of places you could start. While there is no overwhelmingly obvious candidate to singlehandedly bring the economic recovery to an end, there are scores of small- to mid-sized concerns which, working in concert, may do the job. The one which has received the most media attention has been the trade war with China. Hopes that tensions might be defused have been repeatedly dashed, as each temporary truce gave way to yet more brinkmanship. Now there are discussions of limiting Chinese access to U.S. capital markets.

**Employment Measures**

Year	Unemployment Rate (%)	Prime Age EPOR (%)
2007	4.6	78.5
2008	4.6	78.5
2009	10.0	77.5
2010	9.7	77.5
2011	9.1	77.5
2012	8.1	77.5
2013	7.4	77.5
2014	6.7	77.5
2015	5.3	77.5
2016	4.7	77.5
2017	4.4	77.5
2018	4.2	77.5
2019	10.1	77.5

*Economic & CU Monitor, October 2019* Page 1

**REGULATORY APPROACHES TO FINANCIAL TECHNOLOGY**

National Association of Federally-insured Credit Unions

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

January 2017

Robert M. Fairbrink, Ph.D.  
Professor of Economics  
American University  
Washington, DC

Douglas Meade, Ph.D.  
Director of Research  
Interindustry Economic Research Fund, Inc.  
College Park, MD

Prepared on behalf of the National Association of Federally-insured Credit Unions  
[www.nafcuc.org/research/](http://www.nafcuc.org/research/)



# KEY FINDINGS

## *Industry Trends*

- › The vast majority of credit unions are small institutions with limited resources. The median credit union manages only \$40 million in assets and has just 10 employees.
- › Credit unions are 10 times more likely than banks to have a female CEO. Among minority depository institutions, there are over three times as many credit unions as banks. Credit unions serve more low- and moderate-income households than banks do, with better pricing and lower fees.
- › Standing on the cusp of another extended period of low interest rates, it is critical that regulators reduce compliance burdens on credit unions.

## *Credit Union Product & Service Offerings*

- › Data from the Federal Reserve and from the Home Mortgage Disclosure Act show that credit unions are serving a high proportion of minority communities and low- and moderate-income households.
- › Mortgage data indicate that credit union loans carry lower costs and lower rates than those of other lenders.
- › Bank branch networks are eroding at a troubling rate, but the growth of credit union branches, particularly in rural areas, provides an important counterbalance.
- › Credit unions offer abundant access to products like free checking, and they are ramping up investments in financial technology.

## *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 with fair pricing is critical to ensuring community-based lenders can continue to serve their members.
- › The COVID-19 pandemic provides more evidence that credit union capital rules need to be updated to provide a more flexible regime with expanded access to capital.
- › Modernized field of membership rules are crucial to the future welfare of the credit union industry. The NCUA won a critical court decision validating its final rule granting certain credit unions a measure of FOM relief, but NAFCU urges the agency to do more.
- › NAFCU is encouraged by the NCUA's pilot program for remote examinations. Further refinements, such as lengthening the exam cycle, would make the examination process less burdensome for credit unions.
- › 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.

## *Credit Unions Respond to the Pandemic*

- › Credit unions have been successfully adjusting their operations during COVID-19. Reports from NAFCU members reveal that remote work arrangements have exceeded expectations.
- › As life ground to a halt, credit unions worked diligently to meet their members' needs, adding staff to call centers, extending loan forbearance, and, for many, taking part in the Small Business Administration's Paycheck Protection Program with little past experience working with the SBA.
- › Virtually every financial regulator produced some measure of COVID-related relief to help ease economic and operational shocks within the financial sector.

# 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 122 million Americans.

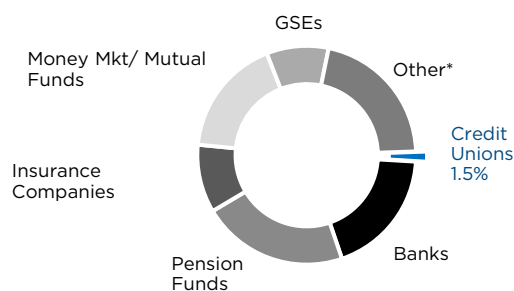
The vast majority of credit unions are small institutions with limited resources, operating in the dynamic, competitive, and highly-regulated field of financial services. The median credit union manages only \$40 million in assets and has just 10 employees. By comparison, the median bank has over \$270 million in assets and 47 full-time equivalent employees. The largest bank is 22 times the size of the largest credit union. Each of the three largest banks controls more assets than the entire credit union industry combined.

Overall, credit unions occupy a small and stable share of the marketplace. They represent a scant 1.5 percent of total domestic financial assets (Chart 1.1), a number that has remained steady for decades. 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. Credit unions are 10 times more likely than banks to have a female CEO (Chart 1.2). Among minority depository institutions, there are over three times as many credit unions as banks. Credit unions serve more low- and moderate-income households than banks do, with better pricing and lower fees. Credit unions are extending branching networks into rural areas, where banks are pulling back sharply. Credit unions consistently score higher in consumer satisfaction surveys. A recent 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.”<sup>1</sup>

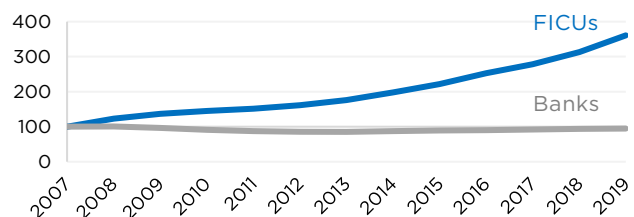
While the credit union difference plays an important role in the economy in normal times, it is especially conspicuous in crisis. During the Great Recession, credit unions were making small business loans at a time when they were not available at banks (Chart 1.2). A recent study found that credit unions provided 15 percentage points more mortgage credit during the Great Recession than banks did, while banks shrunk in size to maintain profit margins.<sup>2</sup> In 2020, credit unions have demonstrated once again that they are indispensable in times of peril, and they will hasten the recovery efforts of the communities they serve in the years to come.

**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: Small Business Loan Growth, cumulative (index: 2007=100)**

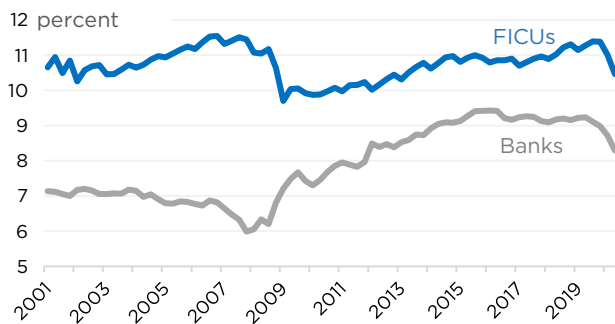


Notes: (1) Beginning in 2017q3, NCUA reports commercial loans. FICU figures for 2017/8 show annualized growth rates in comm. loans; (2) All FICU comm. loans/MBLs are assumed to be small business loans; (3) Prior to 2011 FDIC data only collected in June. Growth rates for prior years are interyear averages of June-to-June growth.  
Sources: NCUA, FDIC

<sup>1</sup> Consumer Reports, *Best & Worst Banks According to Consumer Reports Members*, <https://www.consumerreports.org/banks/best-and-worst-banks-and-credit-unions/>.

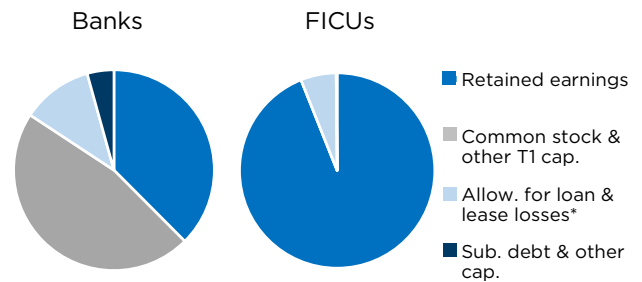
<sup>2</sup> Anna Cororaton, “Banking on the Firm Objective” (October 2019).

**Chart 1.3: Tier 1 Capital (Leverage) Ratio**



Source: NCUA, Federal Reserve Bank of New York

**Chart 1.4: Shares of Total Capital**



\* Entire ALLL balances are included  
Sources: NCUA, FDIC

## Financial Conditions

Credit unions are conservatively run, well-capitalized institutions, which helps to explain their resiliency during economic crises. Following a drop after the Great Recession, FICUs' net worth ratio exceeded 11 percent prior to the COVID-19 pandemic (Chart 1.3). As of June 2020, the net worth ratio declined to 10.5 percent as a result of extraordinary asset growth during the first half of the year. The same phenomenon impacted bank capital, although banks were not as well capitalized as credit unions entering the pandemic. Following the Great Recession, banks faced heightened capital standards which led to a narrower gap with credit unions, but credit unions still hold roughly 2 percentage points of additional capital, as a share of total assets, than banks do.

In addition to holding high levels of capital, credit unions hold high quality capital. A comparison with banks shows that a far higher share of credit union capital is in the form of retained earnings. Credit unions do not issue stock, and most credit unions cannot currently offer subordinated debt, although the NCUA has proposed to allow more credit unions to do so. NAFCU supports granting credit unions access to other forms of capital, since many credit unions' growth options are capital constrained.

Since the onset of the Great Recession, credit unions have experienced a lower failure rate than banks. From 2008 through 2019, there were 534 bank failures compared to 195 credit union failures.<sup>3</sup> As of June 2020, NCUA reported that there were 166 problem credit unions with a CAMEL rating of 4 or 5. These credit unions constitute 0.68 percent of industry shares, which is down by 14 basis points from a year earlier and from a peak of 5.7 percent in 2009.

Year-over-year growth in credit union membership was 3.4 percent in June 2020. That is the slowest pace of growth since 2015, although it is still above the industry's long-run average growth rate. Credit unions experienced a flood of deposits connected with the *Coronavirus Aid, Relief, and Economic Security (CARES)* Act stimulus. As of June 30, shares and deposits were up 16.5 percent from a year prior, compared with a long-run average of roughly 6 percent.

Interest rate fluctuations led to some rebalancing of liabilities. From 2007 through 2018, the ratio of core deposits (share drafts and regular shares) to total shares and deposits increased from 41 percent to 51 percent. However, in 2019 that trend began to reverse, and the core deposit ratio dropped to 49 percent as members shifted funds into higher-yielding alternatives like share certificates. But the deposit surge in 2020, along with a stronger liquidity preference from members, led to a rise in the core deposit ratio to 52 percent as of June 30, 2020. Over the first six months of the year, the cost of funds ratio dropped by 11 basis points to 0.79 percent.

The credit union industry's annualized return on average assets (ROA) through the first half of 2020 was 0.57 percent, which was 36 basis points lower than 2020. Net interest margins declined by 28 basis points over that period. Other contributors to the ROA decline included a drop in the fee income ratio (down 12 basis points) and a higher provision for loan and lease loss expense ratio (up 16 basis points). The operating expense ratio improved by 16 basis points over that period, while the net charge-off ratio improved by 3 basis points.

<sup>3</sup> 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 was waning a bit coming into 2020. From 2014 through 2017, loan balances grew by more than 10 percent annually, before slipping to 9 percent in 2018 and 6.2 percent in 2019. Auto lending was a key factor, both in the acceleration up through 2017 and in the slowdown since. Chart 1.5 shows the sharp decline in auto lending over those years, from 13.6 percent year over year in 2017 to just 1.1 percent in 2020. To a degree, that tracks with the overall market, as total vehicle sales enjoyed firm growth through 2015 but have been essentially flat since. Still, credit unions have continued to make inroads with consumers even after the market stagnated. In 2011, auto loans represented 22 percent of total credit union loans; as of June 30, 2020, that number had grown to 33 percent.

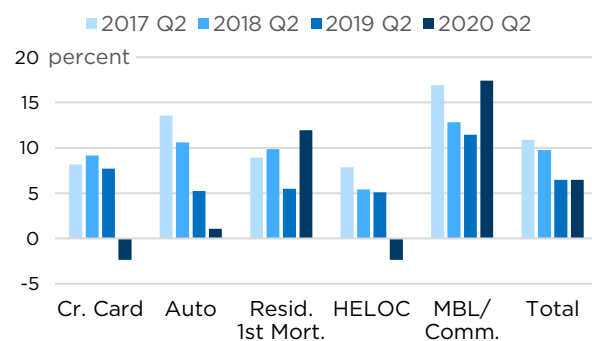
With the onset of the pandemic, lending has shifted dramatically. Growth in credit card loans, auto loans, and HELOCs was essentially flat or negative over the 12-month period ending on June 30, 2020. First mortgage lending has been a different matter altogether. The drop in mortgage rates spurred renewed refinance activity, but more recently purchase originations have taken hold. Total first mortgage originations in the four quarters through June 2020 were up 76 percent versus the prior four quarters. Credit unions now represent 8.4 percent of the overall market for first mortgage originations.<sup>4</sup> As an industry, credit unions accounted for just 2.6 percent of total mortgage loan originations in 2007.

Credit unions' loan-to-share ratio rose from a cyclical low of 66 percent in 2013 to 84 percent at the end of 2019. However, the extraordinary share growth during the first six months of 2020 pushed that number down to 76 percent as of June 30. With consumer loan demand still relatively weak overall, this has prompted a surge in investments. Total cash and investments were up 36.7 percent over the first half of the year. Nearly three-quarters of that increase has a maturity of one year or less, and while that leaves the industry with plenty of liquidity at the moment, it also sent investment yields plunging by over 80 basis points to just 1.53 percent.

Credit union loan performance remains strong. As of June 30, 2020, only 0.58 percent of total loans were delinquent (Chart 1.6). That represents a five-basis point improvement from a year earlier. By comparison, bank loan delinquencies totaled 1.08 percent of outstanding loans, and the community bank delinquency ratio was 0.8 percent. Among loan types, the biggest drop was in credit card loan delinquencies, which fell by 36 basis points in the second quarter to 1.01 percent. That is the lowest rate for credit card delinquencies in four years. Auto delinquencies also dropped by 11 basis points in the second quarter to just 0.47 percent. That is the lowest mark on record since the NCUA began collecting auto loan delinquency data in 2013. First mortgage delinquency rates increased in the second quarter but were up by just one basis point from a year earlier.

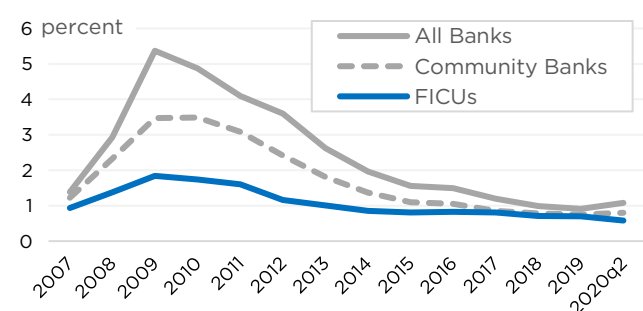
Credit unions' loan loss coverage ratio (loan loss reserves divided by delinquent loans) was 173 percent at the end of the second quarter. That is up from 139 percent a year earlier. The net charge-off ratio for credit unions was 0.56 percent over the four quarters ending June 30, 2020, which is unchanged from the prior year.

**Chart 1.5: Loan Growth (y/y) by Type**



Source: NCUA

**Chart 1.6: Delinquency Rates**

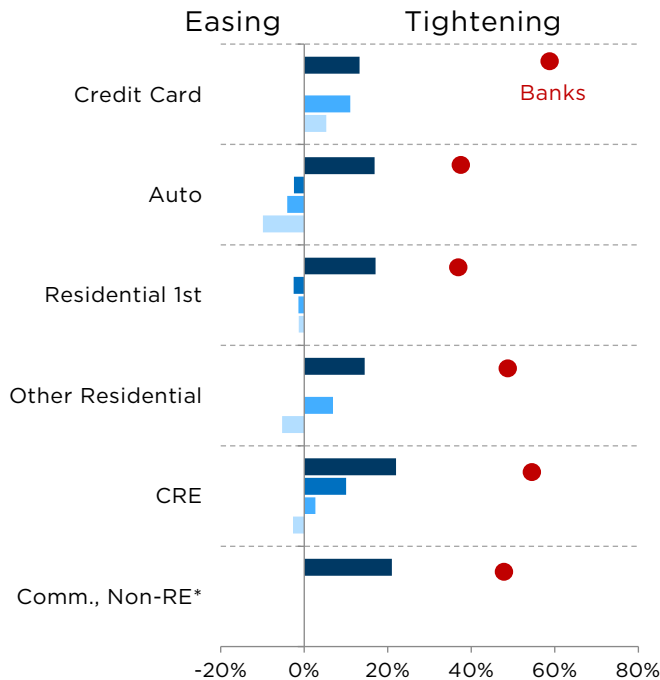


Note: FICU loans are delinquent at 60 days past due; bank loans at 90 days past due

Sources: NCUA, FDIC

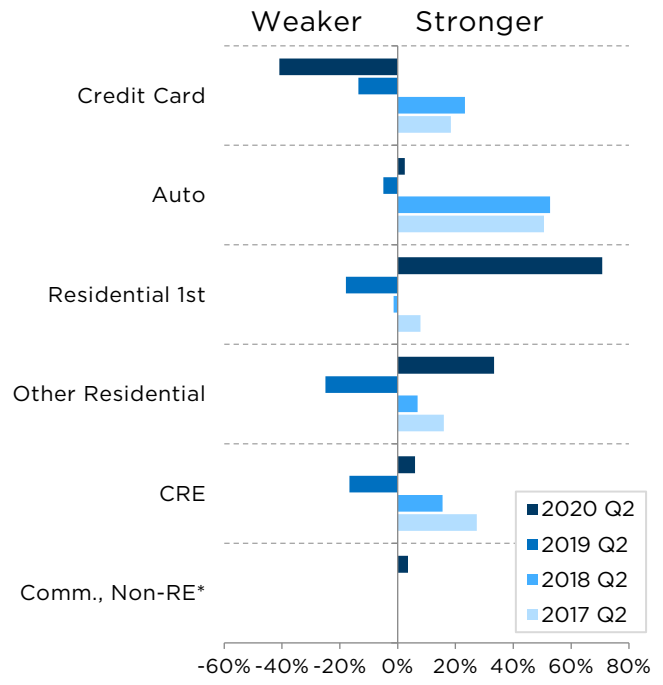
<sup>4</sup> Based on origination totals published by Mortgage Bankers Association

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



\* Added in 2020  
Bank figures from Federal Reserve Board's Senior Loan Officer Opinion Survey (July 2020)

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



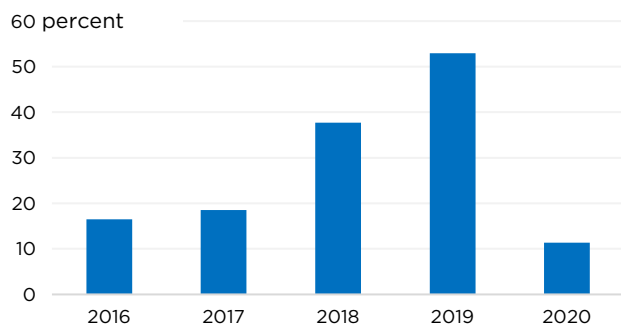
Sources: NAFCU 2020 Federal Reserve Meeting Survey, Federal Reserve Board of Governors

NAFCU's annual *Federal Reserve Meeting Survey* includes a set of questions on lending standards.<sup>5</sup> A comparison between the results of the 2020 survey with those from prior years shows that, on net, respondents tightened standards more than in prior years (Chart 1.7a). The prevalence of this tightening is fairly uniform across loan types, with a low of 13.3 percent of respondents tightening standards for credit cards and a high of 22 percent tightening commercial real estate loan standards. However, in order to place these results in the proper context, we show them alongside the most recent results from the Federal Reserve's *Senior Loan Officer Opinion Survey* (the red dots in 1.7a).<sup>6</sup> This is a survey of roughly eighty banks conducted quarterly, covering changes in bank lending terms and standards. The comparison reveals that in each category, credit unions are tightening loan standards far less than banks. This is similar to what happened during and after the Great Recession, when banks reduced credit provision to households and small businesses, while credit unions were relatively more active lenders. The fact that credit union asset quality is so high during normal times allows them to maintain more steady lending standards during and after an economic downturn.

NAFCU's survey also assesses current levels of loan demand relative to the prior year (Chart 1.7b). The results are not surprising and show demand is highly uneven across product types. Forty-one percent of respondents reported that credit card loan demand had declined from a year ago. Auto and business loan demand were reported as being relatively stable. However, NAFCU's survey results confirm that residential real estate loan demand is surging. Over 70 percent of respondents said that first mortgage loan demand had strengthened, while 33 percent said junior lien demand had increased. On the whole, *Federal Reserve Meeting Survey* respondents did not differ demonstrably in their assessment of loan demand from respondents to NAFCU's *State of the Industry* survey, which was conducted three months earlier in June.

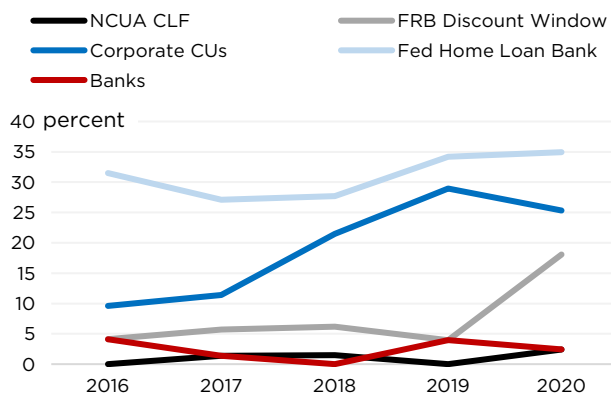
<sup>5</sup> In this analysis, we measure the net share tightening loan standards as the percent of respondents tightening minus the percent easing.  
<sup>6</sup> The categories used in the Federal Reserve's survey differ slightly from NAFCU's. We make the following analogies: GSE-eligible residential mortgages (FRB) = Residential 1<sup>st</sup> (NAFCU); HELOC (FRB) = Other Residential (NAFCU); Nonfarm, nonresidential (FRB) = CRE (NAFCU); Small firm C&I (FRB) = Commercial, non-real estate (NAFCU). The Federal Reserve survey can be accessed here: <https://www.federalreserve.gov/data/sloos/sloos-202007.htm>.

**Chart 1.8: Share of Respondents Identifying "Maintaining Retail Deposit Volume" as Significant Challenge**



Source: NAFCU Federal Reserve Meeting Surveys

**Chart 1.9: Liquidity Sources Accessed**



Source: NAFCU 2020 Federal Reserve Meeting Survey

## Liquidity

As loan-to-share ratios climbed across the industry, finally peaking in 2018 at 86 percent, balance sheet liquidity became an issue for many credit unions. As part of NAFCU's *Federal Reserve Meeting Survey*, respondents were asked to rate how challenging it is to attract shares and deposits. Chart 1.8 reflects the runup in liquidity issues, culminating in 2019 when more than half of respondents identified lack of share growth as a significant challenge. The chart also conveys how thoroughly those concerns have evaporated in light of the incredible surge in share growth in 2020. This has shifted concerns to capital levels, which have been diluted by the associated asset growth. In last year's survey, 21 percent of respondents listed capital as a significant concern, but that number rose to 32 percent in this year's version.

For its part, the NCUA has been active in trying to alleviate some of credit unions' capital concerns (see *Capital Reform and Liquidity*, pages 22-24). The agency provided some additional leeway for credit unions which fall below prompt corrective action thresholds. In an April letter to the Senate Banking Committee, NCUA Chairman Hood also asked for a temporary reduction in those thresholds. NAFCU continues to push the NCUA and Congress to do more for healthy credit unions whose capital ratios are temporarily depressed due to a surge in asset growth.

Chart 1.9 shows which liquidity sources credit union respondents have accessed in recent years. In the initial throes of the pandemic and before the full extent of Congressional action was clear, industry concerns centered around liquidity. As a result, NAFCU survey respondents accessed the Federal Reserve Discount Window and the NCUA Central Liquidity Facility at higher rates than normal. The chart also shows the importance of corporate credit unions and Federal Home Loan Banks (FHLBs) in helping credit unions address regular liquidity needs. Both have also played an important role in 2020 even though early concerns about liquidity have not materialized.

NAFCU asked survey respondents specifically about their relationship with FHLBs. Forty percent of respondents said that FHLBs are "very important" to their regular liquidity needs, while another 27 percent said they were "somewhat important." Only 19 percent said they were not members of a FHLB. These numbers are nearly identical to responses from 2019.

## 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 40 percent of first mortgage loans originated in 2020. This is up from 2019 when 36 percent of first mortgage originations were sold. Credit unions that participated in NAFCU's 2020 *Federal Reserve Meeting Survey* indicated that, on average, 61 percent of their outstanding first mortgage loans qualify to be sold on the secondary market (up from 60 percent in the prior year's survey). As compared to the most recent 12 months, 23 percent of respondents said that they expect to sell a larger share of mortgage originations over the next 12 months, while 21 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 HMDA, 48 percent of mortgage loans that credit unions did not retain in portfolio in 2019 were sold to Fannie Mae and Freddie Mac. Among survey participants that utilize the GSEs, 42 percent indicated that pricing was their foremost consideration, followed by ease of access (40 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*, page 21).

## Industry Consolidation

The pandemic has made two things abundantly clear: small businesses are vital threads in the fabric of communities, and they face immense economic hurdles even in the best of times. The same is true of financial institutions in general and especially credit unions, which are far smaller than for-profit banks. Since the Great Recession, the combination of heightened regulatory requirements and low interest rates has been particularly hard on small credit unions.

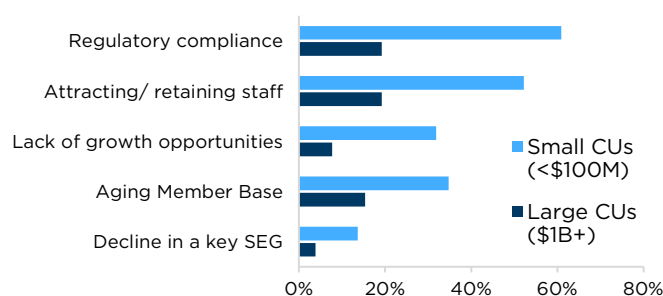
Compliance burden drains the few resources that small credit unions have, leaving them with precious little to devote to the business of actually growing. In this year's *Federal Reserve Meeting Survey*, respondents were asked about their credit union's growth rates prior to the pandemic. Among the smallest credit unions, those with under \$100 million in assets, 44 percent answered that their credit union needed to grow faster to remain viable. That number tapered down to 8 percent for credit unions with over \$1 billion in assets.

Chart 1.10 shows where some of the specific pain points lie for small credit unions. As in previous versions of our survey, regulatory compliance was listed as the top concern among small credit unions. Other areas with a large discrepancy between credit unions based on size were staff retention, growth opportunities, and field of membership concerns such as an aging membership base and declining select employee groups. The NCUA has made strides in advancing field of membership reform so that more credit unions can pursue growth opportunities. But the enormous day-to-day compliance burdens often prevent credit unions—especially small ones—from taking advantage.

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 Act) in 2010, the number of credit unions has declined by over 30 percent. The increase in merger activity is primarily among smaller credit unions with less than \$250 million in assets (Chart 1.11). Larger credit unions experienced a mild rise in mergers during the Great Recession, but since 2011 the merger rate has returned to its low, pre-crisis level.

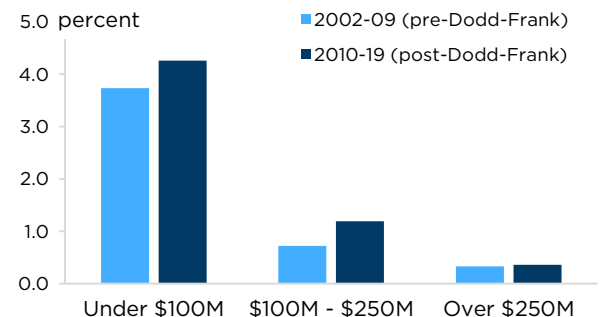
The other side of industry consolidation has been a lack of de novo credit unions. From 2000 through 2009, the NCUA chartered eight new credit unions per year, on average. However, from 2010 through 2019, that number shrunk to just over two per year. Regulatory burden in the Dodd-Frank era is stifling the formation of credit unions, which already face a steep challenge in raising capital. This development comes at a time when bank branch networks are shrinking, and large banks in particular are fleeing from rural areas (see *Trends in Rural Branching*, pages 17-18). Preventing the formation of new credit unions is another setback for underserved communities.

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



SEG = Select Employer Group  
Source: NAFCU 2020 Federal Reserve Meeting Survey

**Chart 1.11: Average Annual Merger Rate by Asset Class**



Source: NAFCU analysis of NCUA data

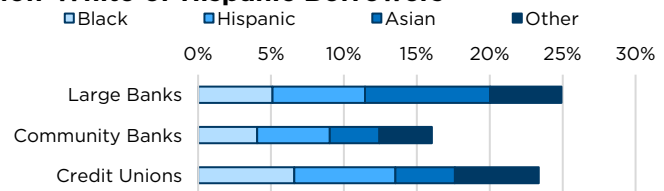
## II. CREDIT UNION PRODUCT OFFERINGS & SERVICE TO MEMBERS

Credit unions pride themselves in providing a broad range of products and services to their members at affordable prices. They have an established track record of working in areas that other lenders ignore. In doing so, credit unions bring resiliency and cohesion to the communities they serve. NAFCU finds ample evidence that credit unions are not only living up to their mission to serve, but plugging gaps left by other institutions as they pursue more profitable customers.

### Evidence from the Home Mortgage Disclosure Act

The 2019 HMDA data show the valuable work that credit unions are doing to deliver affordable mortgage loans to their members. Credit union borrowers represent a diverse population. Chart 2.1 shows that credit unions originate a far higher share of mortgage loans to non-white or Hispanic borrowers than community banks. While large banks make a slightly larger share, credit unions make a higher share of loans to both Black and Hispanic borrowers, respectively.

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

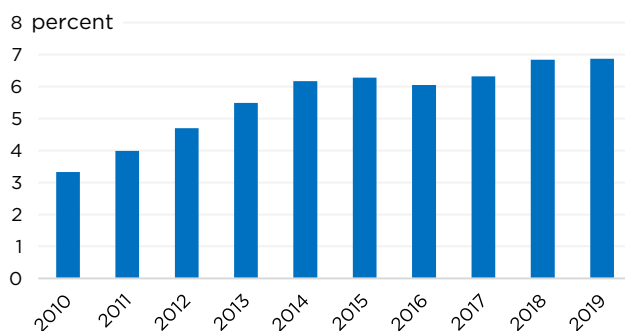


Notes: Figures reflect approved 1- to 4-family, owner-occupied, first-lien mortgage loans. "All Other" category includes American Indian or Alaska Native; Native Hawaiian or Other Pacific Islander; borrowers reporting two or more minority races; and applications where one borrower reported as White and another reported as non-White or Hispanic. Source: 2019 HMDA data

These figures are part of a trend. Since 2010, credit unions expanded the share of their mortgage lending to Black borrowers from 3.7 percent to 7.3 percent, and to Hispanic borrowers from 3.8 percent to 6.4 percent. Over that same time frame, banks have cut their share of loans to Black borrowers from 4.6 percent to 4.4 percent, and to Hispanic borrowers from 5.9 percent to 5.3 percent.

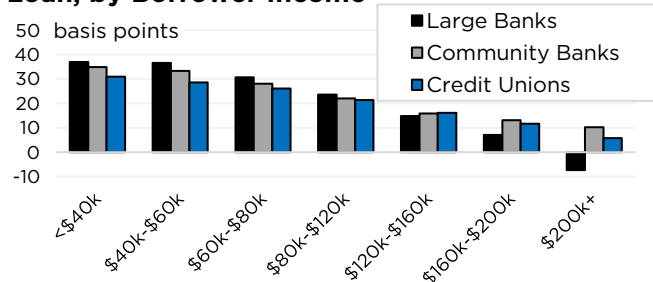
Credit unions are also providing an increasing share of mortgage loans to low- and moderate-income (LMI) borrowers,<sup>7</sup> and are doing so at a lower cost than other lenders. According to the 2019 HMDA data, credit unions provided 6.9 percent of all LMI loans (Chart 2.3). That figure has more than doubled since 2010, during which time the share provided by large banks has shrunk from 34.4 percent to 19.4 percent and the share provided by community banks has shrunk from 13.8 percent to 10 percent. Credit unions loans are more affordable than community bank loans across the income spectrum, and more affordable than large bank loans for all but the highest-income borrowers (Chart 2.4).

**Chart 2.2: Share of Total LMI Loans Originated by Credit Unions**



Note: LMI refers to low- and moderate-income. See footnote for what constitutes a LMI loan. Figures reflect approved 1- to 4-family, owner-occupied, first-lien mortgage loans. Source: 2019 HMDA data

**Chart 2.3: Median Rate Spread on a Mortgage Loan, by Borrower Income**



Note: Figures reflect 30-year, fixed-rate, first-lien conventional mortgage loan originations for 1- to 4-family, owner-occupied properties. "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](https://ffiec.cfpb.gov/tools/rate-spread). Source: 2019 HMDA data

<sup>7</sup> Those with income that is less than 80 percent of the area median family income, or who are located in census tracts where the median family income is less than 80 percent of the area median family income.



## Evidence from the Survey of Consumer Finances

In 2020, the Federal Reserve released the latest version of its triennial Survey of Consumer Finances (SCF). The survey provides a detailed look at household assets, debts, income, and consumption and saving patterns. One aspect of the survey which makes it particularly interesting for credit unions is that the sample of survey respondents is asked about use of financial institutions. This provides a vantage point to look at overall industry penetration at the household level, and also for looking at which types of households are utilizing credit unions.

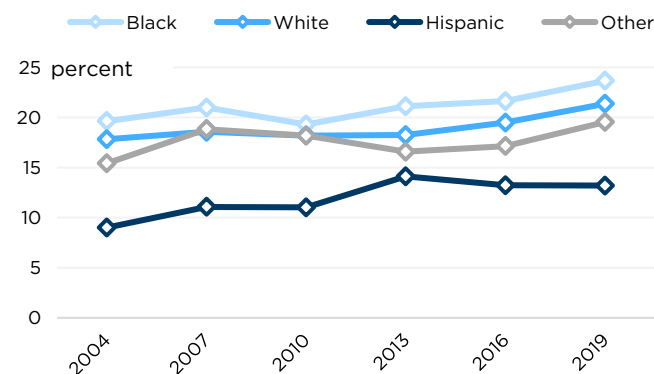
The returns from the SCF confirm the extraordinary credit union membership growth rates from recent years based on call report data. The 2019 SCF indicates that 20.7 percent of households utilize credit unions, which is up from 18.9 percent in 2016.<sup>8</sup> Credit unions' household share has been rising in recent years. Following a generally steady period where the share remained at roughly 18 percent of total households, that rate has improved in each survey since 2010, although the gain in the 2019 vintage was by far the largest over that span.

The SCF also identifies the race and ethnicity of survey respondents. Chart 2.4 shows that gains in credit union membership since 2010 have been diverse. The SCF data have consistently shown credit unions to have strong standing with Black households, and the share of Black households using credit unions jumped in the 2019 survey, consistent with the overall average. Although penetration among Hispanic households has been flat over the past two survey cycles, the substantial increase in 2013 remains notable.

Finally, NAFCU reviewed the financial condition of credit union households versus bank customers. Here we maintain a distinction between those households who use either banks or credit unions exclusively versus those who use a mix of the two. The rationale for doing so is clear from Chart 2.5, as households who use a mix of credit unions and banks have much higher incomes and are much wealthier than households who use only credit unions or banks exclusively. The results show that credit unions serve lower income and lower wealth households than banks. This comes as no surprise, as the SCF has consistently found this to be the case.

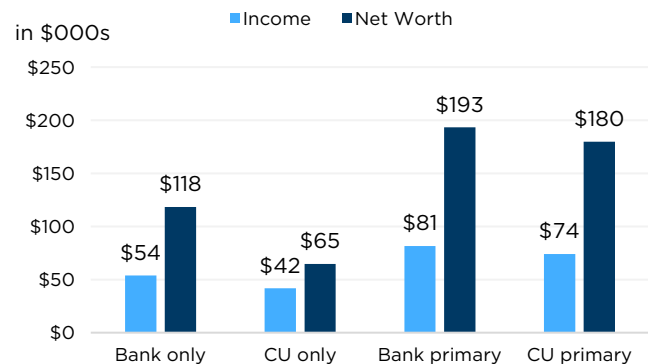
It is also worth noting that Black households are disproportionately likely to be “credit union only” households. Twenty percent of all CU only households are Black households. For the other three categories, the share of Black households is much lower and fairly consistent: 13.2 percent for the CU primary group, 12.6 percent of the bank primary group, and 12.7 percent the bank only group. Thus, the evidence suggests that both low-income/ low-wealth households and Black households are, to a large degree, looking to credit unions to serve as their exclusive financial institution.

**Chart 2.4: Share of Households Utilizing Credit Unions, by Race/Ethnicity**



Source: FRB SCF, NAFCU analysis

**Chart 2.5: Median Household Income & Wealth, by Type of Financial Institution**



Source: FRB SCF, NAFCU analysis

<sup>8</sup> We count as “credit union households” only those that use credit unions exclusively or as their primary type of financial institution. Households that use banks as their primary financial institution but still use credit unions in a secondary role are counted as banking households. If the “bank primary” category were added to the overall group of credit union households, it would capture a total of 40 percent of U.S. households.

## Trends in Rural Branching

The total number of bank branches peaked in 2009 and has declined every year since.<sup>9</sup> This has spurred interest in so-called “banking deserts,” areas with limited access to traditional sources of financial services. Rural areas are particularly vulnerable, and the Federal Reserve published a study last year, titled *Perspectives from Main Street: Bank Branch Access in Rural Communities* (Federal Reserve Study),<sup>10</sup> which documented the stark decline in branches in rural areas. The Federal Reserve Study found that both urban and rural counties lost 7 percent of branches between 2012 and 2017, but that 89 percent of counties which qualified as “deeply affected” using the study’s criteria were rural. One important caveat of the Federal Reserve Study is that it did not include credit union branches. NAFCU builds upon the Federal Reserve Study in the following ways: (1) we extend the analysis through 2019, (2) we break out community banks from larger banks to identify whether branching trends differ between the two, and (3) we review analogous trends in credit union branching.

The data through 2019 show that trends identified in the Federal Reserve Study have, if anything, accelerated on the banking side. Where that study showed that 7 percent of bank branches were lost between the years 2012 and 2017, that number has grown to 11 percent through 2019. Losses are concentrated among large banks, which lost 14 percent of their total branches, compared to 6 percent for community banks.

Credit unions account for roughly one in five depository branches in the United States. At the organizational level, the credit union industry is consolidating at a similar pace as banks (see *Industry Consolidation*, page 14), but the same is not true for branches. From 2012 through 2019, credit unions added offices to their branch network. The additions were modest, with a net gain of 1 percent, but nevertheless stand in stark contrast with banks.

The mix between urban and rural branches also shows important differences between the various institutional types. Even in 2012, large banks tended to be more heavily invested in urban areas. Still, 12 percent of large bank branches were located in rural counties in 2012. But over the next seven years, large banks closed 19 percent of their rural branches, compared to 13 percent of urban branches. Community banks, too, have lost significant amounts of both urban and rural branches since 2012. However, community bank losses have tended to be heavier, at least in percentage terms, in urban areas than rural ones. Credit unions have added branches in both urban and rural counties since 2012.

The Federal Reserve Study classified 44 counties as deeply affected, meaning they had 10 or fewer branches in 2012 and lost at least half of those by 2017. Extending this analysis through 2019 finds that the number of deeply affected counties has grown to 60, and 85 percent of those are rural. Community banks have reduced their branch totals in those counties by 51 percent over that time, while large banks cut 64 percent of their branches. Credit unions, meanwhile, grew their branches in those counties by 14 percent. Using the same criteria but including credit union branches in the total branch count, the number of deeply affected counties shrinks to just 15.

**TABLE 2.1: BRANCH CHANGES BETWEEN 2012 AND 2019**

Institution Type	County Type	Starting branches	Ending branches	Net change	Percent Change
Large Banks	Urban	48,707	42,298	-6,409	-13
	Rural	6,479	5,267	-1,212	-19
Community Banks	Urban	23,798	22,240	-1,558	-7
	Rural	13,890	13,137	-753	-5
Credit Unions	Urban	17,513	17,599	+86	+0
	Rural	3,458	3,537	+79	+2

Notes: Urban counties are those that were part of a metropolitan statistical area in 2017. Excludes U.S. territories as well as counties that have undergone code changes. Bank branches are assigned according to the institution it last reported under. Community banks are those with assets below \$10 billion in June 2019 or the last reported total. Bank branches include only those coded as types 11 or 12 in the FDIC data.

Sources: NCUA call report data files, FDIC Summary of Deposits

<sup>9</sup> FDIC Summary of Deposits

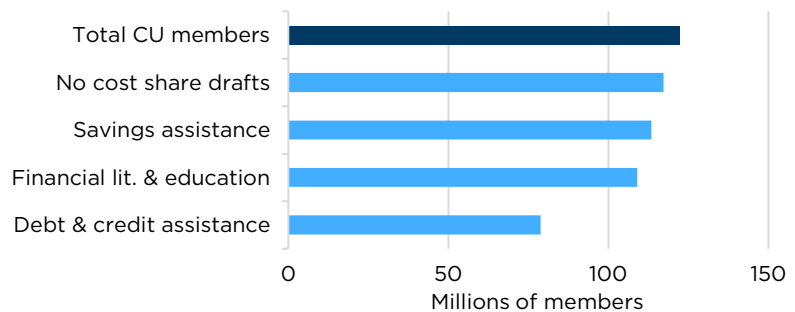
<sup>10</sup> <https://www.federalreserve.gov/publications/files/bank-branch-access-in-rural-communities.pdf>

The erosion of bank branching networks has potentially profound ramifications for affected communities. Research has shown that access to mortgages and small business loans is correlated with branch presence.<sup>11,12</sup> Furthermore, research from the FDIC indicates that households in rural areas are more likely to access banking services through branches than those in urban areas.<sup>13</sup> Policymakers have expressed concern with the persistence of unbanked and underbanked populations, and the pandemic has highlighted the disadvantages faced by these groups, such as additional delays in terms of receiving government stimulus payments (see *Postal Banking*, pages 39-40). As a consequence, some policymakers have seized upon the urgency of the pandemic to promote unorthodox solutions for expanding banking services. But before considering more radical proposals to promote financial inclusion, policymakers ought to empower institutions which have, for many years, demonstrated an eagerness to serve those communities. Granting field of membership and small business lending relief to credit unions would expand the provision of financial services to rural and low-income communities.

## Trends in Product & Service 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 wealth creation. The industry's financial education programs extend to 89 percent of its overall membership, or 109 million total members (Chart 2.6). 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."<sup>14</sup>

**Chart 2.6: 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, financial literacy workshops, and in-school branches; (3) "Debt & credit assistance" includes credit builder and debt cancellation.  
Source: NCUA

The challenge of offering a full slate of financial products grows as technology advances and consumer tastes evolve. With a growing list of faster payment providers, credit unions are clearly prioritizing investments in that area. For the second consecutive year, more than half of respondents to NAFCU's survey expect to invest in payments processing over the next three years. 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*, pages 31-33). 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.

Another strategic challenge for the industry is adapting to weakened fee income. As a percent of assets, fee income has declined by 27 basis points since 2008 (see *Interchange Fees*, page 38). If that trend continues, it could prevent credit unions from making the kinds of necessary but costly investments in payments and technology that consumers will demand, or it could even jeopardize the ability of credit unions to provide critical services like free checking.

<sup>11</sup> Tim Critchfield, Jaya Dey, Nuno Mota, and Saty Patrabansh, *Mortgage Experiences of Rural Borrowers in the United States Insights from the National Survey of Mortgage Originations*, FHFA Staff Working Papers 18-01 (March 14, 2018), [https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/NMDB-Staff-Working-Paper\\_18-01.pdf](https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/NMDB-Staff-Working-Paper_18-01.pdf).

<sup>12</sup> Hoai-Luu Q. Nguyen, *Are Credit Markets Still Local? Evidence from Bank Branch Closings*, *American Economic Journal: Applied Economics* 11, no. 1 (January 2019): 1-32.

<sup>13</sup> FDIC, *National Survey of Unbanked and Underbanked Households* (2017), <https://www.fdic.gov/householdsurvey>.

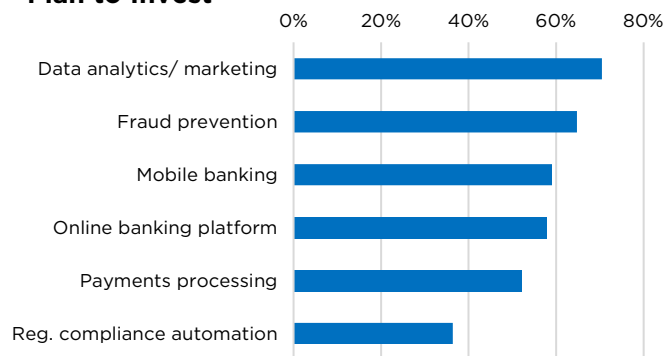
<sup>14</sup> Bankrate.com, *Credit Union Checking Survey* (May 21, 2018), <https://www.bankrate.com/banking/checking/survey-free-checking-largest-credit-unions/>.

## Investments in Financial Technology

Credit unions are prioritizing investments in technology, with over 94 percent of NAFCU’s survey respondents reporting that IT will drive spending over the next three years. That was by far the highest of any category in the survey, outdistancing employee compensation (67 percent), advertising and marketing (57 percent), and regulation and control environment (49 percent). When asked which IT-related areas they plan to invest in, respondents focused on data analytics and marketing, fraud prevention, mobile and online banking, and payments processing (Chart 2.7).

For many of those projects, credit unions are enlisting the assistance of fintech firms (Chart 2.8). However, fintech firms are, to an increasing degree, direct competing with credit unions. 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 39 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).

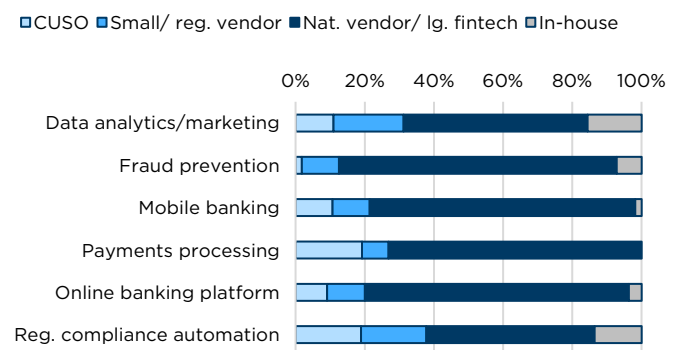
**Chart 2.7: IT Areas where CUs Plan to Invest\***



\* over next three years

Source: NAFCU 2020 Federal Reserve Meeting Survey

**Chart 2.8: Most Likely Provider for Planned Investment Projects\***



\* over next three years

Source: NAFCU 2020 Federal Reserve Meeting Survey

The COVID crisis provides a vantage point for observing the role of fintech firms in the broader financial landscape, while also highlighting the need for increased regulatory oversight. When policymakers were concerned about delays in getting funds to small businesses via the Paycheck Protection Program, fintech firms were recruited to expedite lending. But an October 2020 *Bloomberg* analysis indicates that fintechs were the locus for a substantial amount of fraud.<sup>15</sup>

Last year, NAFCU released a white paper titled *Regulatory Approaches to Financial Technology*, which outlines several recommendations that would provide for greater legal clarity and a more level competitive playing field. Developments since that time have only served to make the issue of fintech regulation more prominent. In 2020, the acting director of the Office of the Comptroller of the Currency (OCC) announced plans for a radical expansion of its fintech charter (see *Payments Charter*, page 37). In September 2020, cryptocurrency exchange Kraken Financial obtained a state banking charter with the apparent intent to apply for a master account with the Federal Reserve.<sup>16</sup> In order to maintain financial stability and promote consumer protection, regulators should develop a uniform chartering policy for fintech firms prior to granting them access to the payments system.

Fintech has an important role to play in the future of financial services. However, the right approach involves a mix of physical and digital solutions. As NAFCU’s analysis of rural branching trends shows, credit unions are uniquely focused on both channels. The result of these investments, combined with their member focus, means credit unions are well placed to effectively and responsibly expand financial services to underserved communities.

<sup>15</sup> Bloomberg.com, *PPP Scammers Made Fintech Companies their Lenders of Choice* (October 7, 2020),

<https://www.bloomberg.com/news/articles/2020-10-07/ppp-loans-scammers-used-fintech-companies-to-carry-out-fraud>.

<sup>16</sup> The National Law Review, *The First Cryptocurrency Bank* (September 22, 2020), <https://www.natlawreview.com/article/first-cryptocurrency-bank>.

## III. POLICY PRIORITIES

### A. A Regulatory Environment that Allows Credit Unions to Grow

Credit unions provide low-cost financial services to 122 million Americans. Their record of providing affordable mortgage and small business loans during and after the Great Recession, when other lenders failed to do so, was instrumental in the economic recovery. Now, as the country recovers from the COVID-19 crisis, credit unions are once again leading the way in providing support to Main Street. Simply put, a thriving credit union industry makes for thriving communities. Yet credit union growth is stifled by significant regulatory burdens and growing compliance costs. While credit unions continue to look for ways to provide state-of-the-art products and services to better serve their members, regulatory overreach continually thwarts those efforts.

#### *Preserving the Credit Union Tax Exemption*

The *Federal Credit Union Act* (FCU 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 qualities remain just as true of credit unions today as they did when the FCU Act was first enacted in 1934. The *Tax Cuts and Jobs Act* (TCJA), signed into law in December 2017, preserved the credit union tax exemption.

Preservation of the credit union tax exemption remains a top legislative priority. NAFCU remains vigilant as credit unions' tax exemption status continues to face challenges from bankers. In 2019 and 2020, 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, the House Financial Services Committee Chairwoman Maxine Waters, and several key members from the committee pledged to stand by credit unions in the fight to keep the industry's tax exemption intact.

In early 2020, NAFCU also wrote to the Senate Banking Committee defending the credit union tax exemption in the context of credit union mergers with banks, where the acquisition is most often conducted as a taxable purchase and assumption transaction. This letter was followed in February with comments submitted to the House Committee on Ways and Means, which highlighted the cumulative benefit credit unions provide to the greater economy.

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.

In 2020, NAFCU sought additional clarity in IRS regulations governing reporting of executive compensation, which derive from legislative changes made by the TCJA. In June 2020, the IRS published a proposed rule affecting how all credit unions, and potentially certain credit union service organizations (CUSOs), should apply the excise tax imposed under section 4960 of the Internal Revenue Code (IRC). In comments shared with the IRS, NAFCU urged the IRS to grandfather certain nonqualified deferred compensation plans, which are necessary to attract talented executives with community-focused leadership skills.

NAFCU has also worked to address more nuanced tax-related issues embedded within the CARES Act. In 2020, the CARES Act and the *Families First Coronavirus Response Act* introduced relief measures that were intended to benefit a broad array of businesses whose employees and operations were impacted by the pandemic. Certain provisions granted payroll tax credits to businesses providing paid sick leave and family medical leave to their employees, but these were not made available to instrumentalities of the federal government. NAFCU engaged both Congress and the IRS seeking additional clarification of this restriction in light of the broad relief contemplated in the CARES Act. Although NAFCU awaits further clarification on this matter, the IRS ultimately published additional guidance that could be useful in determining a credit unions' eligibility to claim the credits.

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**

Since the onset of the COVID-19 pandemic, NAFCU has been vigilant in ensuring that the Federal Housing Finance Agency (FHFA) and the GSEs were aware of and attentive to the needs of credit unions. The pandemic's economic effect on the housing finance market may not be fully understood until the protections of CARES Act expire in 2021. A net 25 percent of credit unions responding to NAFCU's 2020 *Federal Reserve Meeting Survey* expect an increase in delinquencies and forbearances related to mortgage loans over the next 12 months. More than a quarter of responding credit unions expect that the foreclosure and eviction moratorium will have a material impact on their credit union. In the spring, NAFCU urged the FHFA to take action to protect credit unions from negative impacts arising from forbearance requested under the CARES Act, including relief from interest and principal payments on loans in forbearance. The FHFA has been responsive to NAFCU's requests, offering flexibilities regarding principal and interest payments and the purchase of loans in forbearance.

NAFCU has continued to communicate with the FHFA about operational difficulties credit unions are facing due to the pandemic, including limited staff and increased requests from members. In response the FHFA has also provided flexibilities for credit unions in the origination, sale, and servicing of mortgages affected by the pandemic. NAFCU's 2020 *Federal Reserve Meeting Survey* shows that 81 percent of responding credit unions that use the GSEs find ease of access to be a key factor in that decision, so these flexibilities are important. In response to the same survey, 26 percent of all credit unions reported that these flexibilities have a material impact on the credit union. These flexibilities allow credit unions to maintain access to the secondary market despite limited resources and maintains liquidity and the ability to assist members.

In August, the FHFA announced a 0.5 percent fee on most mortgage refinances, which NAFCU immediately and strongly opposed in a formal response. A majority of *Federal Reserve Meeting Survey* respondents (59 percent) indicated that the FHFA's recent attempt to impose additional fees on these loans would have a material impact on their credit union. Shortly after NAFCU's response, the FHFA delayed the imposition of the fee while it considers its impact. NAFCU will continue to advocate against these fees to ensure credit unions are able to assist as many of their members in affordably accessing their home equity during this time.

Despite the pandemic, the FHFA continues to move the GSEs toward an exit from conservatorship. In May, the GSEs hired financial advisors to assist in raising capital and the FHFA issued a re-proposed regulatory capital framework for the GSEs. While NAFCU has long supported the GSEs being permitted to rebuild appropriate capital buffers, it is also critical that credit unions retain access to the GSEs and the secondary market at fair prices and reasonable fees.

Given the high importance of pricing as a factor driving credit union engagement with the secondary market, NAFCU continues to share industry concerns regarding likely increases in guarantee fees and mortgage rates with the FHFA in writing and in person. NAFCU supports a sustainable secondary mortgage market that offers a level playing field for credit unions, and where pricing is based on the risk and quality of loans.

## **Field of Membership**

Historically, the dual-chartering system benefits credit unions and consumers by promoting competition and innovation. However, for some time the federal charter has lagged behind many state charters, stagnating credit union growth and leading to a trend of conversion to state charters in the industry. For several years, efforts to modernize the federal charter were slowed by spurious litigation challenging amendments to the NCUA's field of membership rules; however, the NCUA was ultimately able to declare victory in 2020 and approve new regulations. In June, the Supreme Court denied the American Bankers Association's appeal in their lawsuit against NCUA's 2016 field of membership final rule. This decision affirmed the NCUA's success at the appellate level and finally cleared the way for implementation of the 2016 final rule modernizing various provisions of the NCUA's field of membership rules applicable to community-based credit unions.

The 2016 final rule modernized the NCUA’s field of membership rules in several ways, including increasing the population limit for rural district fields of membership to 1 million people; permitting federal credit unions to serve all or portions of a combined statistical area if the chosen area has a population less than 2.5 million; eliminating the requirement for a federal credit union to serve the core area of a core-based statistical area; and more. Following the Supreme Court’s decision, NAFCU urged the NCUA to reinstate all previously approved fields of membership which were removed due to the litigation. The NCUA immediately reinstated fields of membership that made use of the expanded definition of rural districts.

Soon thereafter, the NCUA released a final rule readopting the provisions relating to combined statistical areas and the removal of the requirement to serve the core area of a core-based statistical area. That final rule became effective on October 14, 2020, allowing the NCUA to reinstate previously granted fields of membership based on these provisions. The NCUA is now accepting new field of membership applications under these provisions.

The NCUA’s success at litigation is a welcome and much-needed development. According to NAFCU’s 2020 *Federal Reserve Meeting Survey*, 45 percent of respondents are currently pursuing an expansion of their field of membership. Twenty percent of responding credit unions intend to expand their field of membership by adding a new geographic area. Expanding into new communities is critical to credit union growth and to improve access to banking services for unserved and underserved communities.

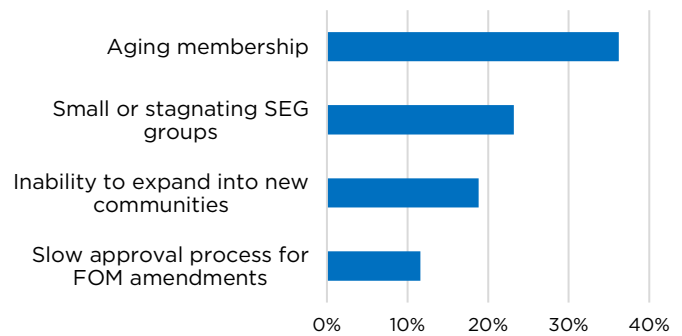
The implementation of the 2016 final rule was a great victory for credit unions, but NAFCU continues to urge the NCUA to remove all non-statutory constraints on field of membership chartering and expansion. This reformation of the field of membership limitations and procedures are well within the agency’s legal authority and allowed by the FCU Act. Further, NAFCU continues to advocate for legislation that would relax statutory constraints on chartering, such as the arbitrary limit on the type of credit union eligible to add underserved communities to their field of membership. These reforms will help federal credit unions reach potential members who need affordable financial services, including providing services to underserved areas, as well as provide much needed regulatory relief by streamlining the field of membership process for community, multiple common bond, and TIP charters.

### Capital Reform and Liquidity

In the early, pre-COVID months of 2020, the NCUA was primed to consider capital reform options after finalizing a delay of its risk-based capital (RBC) rule in late 2019. Credit unions began the year with a temporary reprieve from RBC preparations, but managing net worth presented its own, separate challenge as the pandemic fueled uncertainty about delinquencies, a drop in interest rates, and asset growth. Throughout this tumultuous period, NAFCU engaged closely with the NCUA and Congress to ensure that credit unions would not be burdened with unwieldy capital requirements and could instead focus on providing assistance to members facing financial hardship. In response, the NCUA adopted several interim final rules aimed at easing pandemic-related capital stresses.

In his April 29, 2020, letter to Senate Banking Committee Chairman Mike Crapo (R-ID), Chairman Hood also requested NAFCU-supported temporary capital flexibility for the NCUA and credit unions. Specifically, he asked for “a reduction in the level at which credit unions are considered well capitalized from a net-worth ratio of seven percent to six percent and adequately capitalized from six percent to five percent during the pandemic.” NAFCU has continued to advocate for additional capital flexibility given the unexpected surge in deposit growth during the pandemic, a trend that continues to place unique and unanticipated stresses on industry net worth.

**Chart 3.1: Greatest Field of Membership (FOM) Constraints on Growth**



Source: NAFCU 2020 Federal Reserve Meeting Survey

### ***Risk-Based Capital***

NAFCU remains concerned about the impact the RBC rulemaking will have on the credit union industry, including regulatory burden and increased costs, particularly at a time when the nation faces an uncertain path to economic recovery. To create a fair risk-based capital system for credit unions, NAFCU fundamentally believes that legislative reforms are necessary.

On December 17, 2019, the NCUA published a final rule to delay the effective date of its October 2015 RBC rule by two years until January 1, 2022. The NCUA intended to utilize the 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 (CBLR) analog should be adopted as a mechanism for additional relief. In 2020, the NCUA issued a proposal regarding subordinated debt but has yet to address asset securitization or the CBLR analog.

### ***Subordinated Debt***

NAFCU supports the core features of the NCUA's subordinated debt proposal, which affords complex, new, and low-income credit unions (LICUs) the ability to issue or invest in subordinated debt. Subordinated debt issued by LICUs would function similarly to secondary capital while subordinated debt issued by complex and new credit unions would operate as a form of regulatory capital (i.e., contributing to the numerator portion of the risk based net worth calculation, but not the net worth ratio). This limitation conforms to the statutory parameters of the FCU Act and has prompted NAFCU to also advocate for legislative changes that would enable all credit unions to access some form of supplemental capital.

Currently, most credit unions rely entirely on retained earnings to satisfy regulatory capital requirements. Because retained earnings accumulate slowly, they can become diluted during times when a credit union is experiencing strong asset growth, impairing the credit union's net worth or RBC ratio. Additionally, in times of economic stress, a credit union's capital position could deteriorate faster in the absence of a loss buffer such as supplemental capital. Allowing all credit unions access to supplemental capital, in addition to retained earning sources, would improve the industry's overall resiliency to economic shocks. It would also grant all credit unions the ability to efficiently pursue longer-term, growth-oriented plans and better serve their members throughout the business cycle. The NCUA's subordinated debt proposal offers a promising first step towards enhancing credit unions' ability to manage and sustain organic growth; however, the proposed procedural requirements could make accessing subordinated debt costly for issuers of any size—but particularly for existing LICUs that are accustomed to acquiring secondary capital under simpler rules. NAFCU has continued to recommend that the process for issuing or investing in subordinated debt should align more closely with existing rules for secondary capital to ease barriers for growing credit unions and others that will likely have little appetite for high cost issuances.

### ***Simplified Leverage Ratio for Complex Credit Unions***

In 2019, the NCUA Board said that it planned to propose a simplified leverage ratio (informally titled the CBLR analog) for complex credit unions that could be used to satisfy requirements in the agency's RBC rule. The CARES Act has since amended the CBLR requirements for community banks, reducing the leverage ratio threshold from nine percent to eight percent. Eligible community banks that use the CBLR framework and maintain the new leverage ratio would be considered to have satisfied the risk-based and leverage capital requirements in the banking agencies' generally applicable capital rule. In March 2020, NAFCU requested that the NCUA seek to maintain at least parity with the revised capital standards applicable to banks. A notice of proposed rulemaking for the CBLR analog was originally planned for June 2020, but so far the NCUA has yet to release any proposal.

### ***Prompt Corrective Action***

In March 2020, NAFCU wrote to the NCUA requesting urgent capital relief to address operational stresses and economic uncertainty. Among NAFCU's recommendations was a request that the NCUA adopt more flexible prompt corrective action (PCA) processes to give credit unions additional scope to address members' financial hardship.

On May 28, 2020, the NCUA published an interim final rule amending its PCA regulations to provide temporary capital flexibility as credit unions focused their priorities on channeling stimulus funds and new lending opportunities to members in need. The temporary PCA rule introduced two primary changes. First, it established



a waiver of the earnings retention requirement for any credit union that is adequately capitalized. Second, it permitted a FICU that is less than adequately capitalized to submit a streamlined net worth restoration plan if its net worth level has fallen predominantly as a result of share growth. In these cases, the FICU may submit a simplified net worth restoration plan to the applicable Regional Director after attesting that the FICU fell to undercapitalized because of share growth and that the condition is a temporary effect. The rule will expire at the end of the year, but NAFCU continues to advocate for longer-term changes to PCA processes.

### ***Stress Testing and Capital Planning***

The NCUA's rules for stress testing and capital planning impose significant operational burdens on covered credit unions, which are those that have \$10 billion or more in assets. In response to the pandemic, the NCUA granted an extension for the submission of the annual capital plan and stress testing results to August 31, 2020. NAFCU supported this change and has asked the agency to consider granting credit unions that have a net worth ratio of at least ten percent an off-ramp from stress testing and capital planning requirements. Such an accommodation for strong credit unions would accord with the Treasury's recommendations regarding Dodd-Frank Act Stress Test and Comprehensive Capital Analysis and Review offramps for banks.

### ***Regulatory Treatment of PPP Loans***

NAFCU has often made the argument that easing capital rules will allow credit unions to expand lending opportunities. In the CARES Act, Congress recognized that capital flexibility was needed to make the PPP program successful. On April 27, 2020, the NCUA published an interim final rule to grant PPP loans a zero percent risk weighting under the NCUA's current risk-based net worth requirement, consistent with the capital relief provisions in the CARES Act. The interim final rule also provides that if a PPP loan is pledged as collateral to the Federal Reserve's Paycheck Protection Program Liquidity Facility (PPPLF), the loan can be excluded from a credit union's calculation of total assets for the purposes of calculating its net worth ratio.

### ***Central Liquidity Facility***

As the CARES Act was in its formative stages, NAFCU advocated early on for enhanced credit union access to the NCUA's Central Liquidity Facility (CLF). The CARES Act ultimately adopted several temporary changes relating to CLF access which NAFCU has since encouraged Congress to make permanent. The most significant change was an increase to the CLF's borrowing capacity from a multiple of twelve times its subscribed capital stock and surplus to sixteen times.

On April 13, 2020, the NCUA issued an interim final rule implementing the CARES Act amendments. This rule temporarily shortens the waiting period when a credit union terminates its membership with the CLF, and temporarily allows an agent member to borrow for its own liquidity needs. The interim rule also reduced the cost of agent access to the CLF by adjusting the nature of the capital stock subscription requirement.

NAFCU supports the NCUA's decision to adopt two other changes to the CLF rules that will not sunset at the end of 2020. These include eliminating the six-month waiting period for a new member to receive a loan from the CLF and easing collateral requirements on assets pledged to the CLF. NAFCU continues to advocate for streamlined access to the CLF to support the industry's future liquidity needs.

### ***Need for Additional Investment Flexibility***

In July 2020, the NCUA announced that the addition of new members to the CLF had increased the facility's borrowing capacity to \$25.8 billion, an increase of \$15.3 billion since April. The announcement aligns with NAFCU's findings in the *Federal Reserve Meeting Survey*, where a greater share of respondents said that they had chosen to subscribe to the CLF as a backup liquidity source as compared with previous years (see Chart 1.9 on page 13). In a somewhat unexpected turn, the industry now finds itself with greater than expected liquidity and limited discretion to direct money into productive investments. As a result, NAFCU has asked the NCUA to consider granting credit unions additional investment flexibility. NAFCU's recommendation is that new guidance should reflect the current economic circumstances created by the pandemic. We have also asked that future guidance on investment authorities permit a credit union to temporarily engage in additional types of investments that share a rational nexus with those already allowed under the FCU Act, so long as they do not pose more risk than currently permitted activities and are essential to carrying on the credit union's operations.

## **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 model, 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.

From the outset, NAFCU has opposed the decision to subject credit unions to FASB's standard. One of the stated purposes of CECL 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. Perhaps most importantly, the potential benefits of CECL, when weighed against the risk of it reinforcing tightened lending conditions, are not fully understood. By contrast, the projected costs of future adoption, particularly in terms of capital, are well documented, and NAFCU was able to share these concerns directly with FASB's new Chairman, Richard Jones, in September 2020.

Recognizing the extent of industry concern regarding CECL, NCUA Chairman Hood sent a letter to the FASB in April 2020 requesting that it permanently exempt credit unions from complying with CECL. His letter echoed many of the themes NAFCU has raised over the years, such as data collection challenges, the possible chilling effect of CECL on lending, and the expected day-one, adverse impact on credit union net worth levels.

On July 30, 2020, the NCUA issued a proposed rule to establish a three-year phase-in of the day-one adverse impacts of the CECL accounting standard on a FICU's net worth ratio. The phase-in would only be applied to those FICUs that adopt the CECL standard for fiscal years beginning on or after December 15, 2022. Early adopters would not be eligible. In general, the phase-in would operate by supplementing nominal retained earnings and total assets with a "transitional amount," measured as the difference between pre-CECL and post-CECL retained earnings. The proposed rule also exempts FICUs with less than \$10 million in assets from complying with Generally Accepted Accounting Principles (GAAP) in determining their charges for loan losses and, instead, permits any reasonable reserve methodology to cover known and probable loan losses. Following issuance of the proposal, NAFCU sent a letter to the new FASB chairman urging a CECL exemption for credit unions. NAFCU has also provided comments to the NCUA urging consideration of broader relief options, such as identification of an accounting alternative to CECL that satisfies the unique statutory constraints imposed by the FCU Act.

In September 2020, Treasury released its Congressionally mandated study of CECL. In general, the study found that the exigencies of the pandemic had complicated analysis of CECL's projected impact on regulatory capital, and provided an explicit admission that "a definitive assessment of the impact of CECL on regulatory capital is not currently feasible, in light of the state of CECL implementation across financial institutions and current market dynamics." While the report does not reach any conclusion regarding CECL's net impact on credit unions, it acknowledges the industry's greater dependence on retained earnings to manage net worth levels. NAFCU continues to emphasize CECL's high costs and marginal benefits for the credit union industry in meetings with policymakers, the FASB, and the NCUA.

## **Telephone Consumer Protection Act**

Credit unions continue to feel the reverberations of the Federal Communications Commission's (FCC) 2015 Declaratory Ruling and Order. The order provided an expansive treatment of the term "automatic telephone dialing system" (auto-dialers) in the *Telephone Consumer Protection Act*, 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. In 2018, this definition was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit in *ACA International v. FCC*. However, in the absence of a workable definition from the FCC, Federal Circuit Courts of Appeal have become split, with the Second, Sixth, and Ninth Circuits adopting the FCC's expansive definition and the Third, Seventh, and Eleventh Circuits adopting a more narrow interpretation.

This split may be resolved in 2021. The Supreme Court has taken up *Facebook, Inc. v Duguid*, which asks the Court to clarify the definition of the term. NAFCU joined with other trade associations to file an *amicus curiae* brief in support of Facebook's position that the expansive definition adopted by the Ninth Circuit is unconstitutional and unworkable. Oral argument in the case is scheduled for December.

NAFCU has continued to engage with the FCC on other issues affecting credit unions. NAFCU urges the FCC to ensure credit unions have access to reassigned numbers data at a fair cost. As the FCC works towards the implementation of a modernized call authentication framework and the Telephone Robocall Abuse Criminal Enforcement and Deterrence (TRACED) Act, NAFCU has emphasized the negative effects of call blocking and mislabeling calls on credit unions and their members. In response, the FCC is currently considering appropriate notifications and redress mechanisms to address these issues.

## **Small Business Lending**

Small business lending is vital to ensure the nation's local communities continue to thrive, promote innovation, and provide jobs. Credit unions continue to serve small businesses, and no time was more visible than during the COVID-19 pandemic. Due to the COVID-19 pandemic, numerous small businesses were forced to close, and some continue to face an uncertain future. The CARES Act created the Paycheck Protection Program (PPP) loan, a new lending program fully guaranteed by the SBA. PPP loans were designed by Congress to give small businesses the ability to cover payroll and operating expenses, while also permitting the SBA to forgive loans so long as funds were used for certain expenses and employees were kept on payroll. Several hundred credit unions opted into becoming a PPP lender, many of which had never offered SBA loans before. Congress authorized \$349 billion for the PPP program which began on April 3rd and initial funding was exhausted on April 16th. At the outset, the PPP suffered from several issues as guidance was slim, the SBA's loan system crashed, and credit union lenders were unable to get their applications approved before the initial round of funding was exhausted.

NAFCU advocated for additional rounds of funding, flexibility in borrower application forms, and updated guidance for lenders on forgiveness requirements and hold harmless provisions. As credit unions reported administrative difficulties in becoming approved SBA lenders, NAFCU sought set asides for smaller institutions, and on April 24, 2020, the PPP and Health Care Enhancement Act was passed and signed into law, reserving a portion of PPP funds for lenders under \$10 billion. NAFCU also met with SBA Administrator Carranza as well as staff from the Treasury Department to seek additional mechanisms for credit unions to maximize the impact of their PPP lending. During this same timeframe, Congress authorized an additional round of PPP funding. On June 5, 2020, the *PPP Flexibility Act of 2020* was passed and signed into law which provided flexibility for borrowers in terms of the use of funds, loan maturity, and payment deferrals. A separate bill was passed and signed into law extending the PPP application deadline to August 8th. In addition, the SBA provided countless interim final rules implementing the CARES Act. NAFCU continues to advocate for additional funding and automatic loan forgiveness for PPP loans under \$150,000. Several bills have been introduced allowing automatic forgiveness.

In addition to providing PPP loans, credit unions continue to serve small business owners who might not otherwise be able to secure affordable credit. This role is particularly critical as the nation begins a tentative process of economic recovery. If history is any indication, credit unions will rise to the challenge. In January 2020, the CFPB published a data point on small business lending before, during, and after the Great Recession. According to the data point, the number of credit unions offering small business lending products doubled since 2004 (10% to 20%). The data point recognizes this increase despite consolidation in the credit union industry and restrictions imposed by the FCU Act.

For credit unions to continue serving small businesses most effectively, Congress must remove outdated statutory restrictions on member business lending (see *Member Business Lending*, page 28). According to NAFCU's 2020 *Federal Reserve Meeting Survey*, over 37 percent of credit unions rated slow economic growth as a challenge anticipated over the next three years; a statutory cap on member business loans only serves to magnify this challenge. Accordingly, NAFCU continues to advocate for both legislative and regulatory changes to allow credit unions to expand small business lending opportunities.

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

Regulatory burdens are expanding at a breakneck pace. The result is added costs, increased consolidation, slower growth, and, ultimately, reduced member benefits. Respondents to NAFCU's *Federal Reserve Meeting Survey* said that, on average, 24 percent of their staff's time was devoted to regulatory compliance. Four out of five respondents expect to add staff in the next three years to better manage current and anticipated compliance burdens.

### Exam Modernization

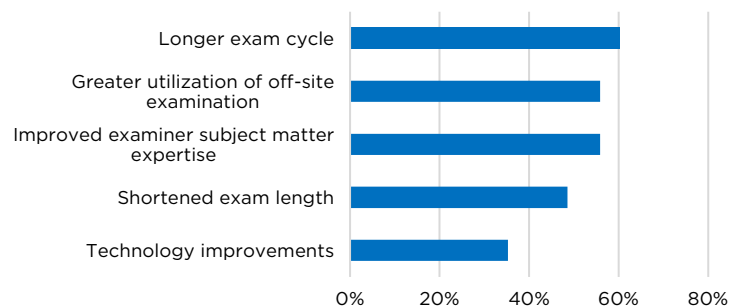
The NCUA's exam modernization initiatives replace outdated, end-of-life examination systems, streamline processes, adopt enhanced examination techniques, and leverage new technology and data to conduct examinations with less onsite presence. As part of the process, the NCUA Board approved five initiatives 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 worked on all of these initiatives in 2020; however, the COVID-19 pandemic forced the NCUA to move towards a virtual examination and supervision program more quickly and thoroughly than anticipated. The NCUA reported that it was able to successfully perform more offsite examination and supervision than it had initially assumed would be possible. This is good news for the majority of credit unions as over 55% of respondents of NAFCU's 2020 *Federal Reserve Meeting Survey* stated that they desire greater utilization of off-site examination in reforming the examination process (Chart 3.2).

**Chart 3.2: Most Desired NCUA Examination Reforms (top 5 responses)**



Source: NAFCU 2020 Federal Reserve Meeting Survey

The NCUA published a Request for Information regarding virtual examinations in 2020 as part of a research and discovery phase. While credit unions generally reported positive feedback in response to the pivot to virtual examinations, many opportunities for improvement were also identified. Examiners reportedly asked for duplicative documentation and information over the course of several weeks, prolonging the duration of exams and expanding the examination scope which is a tremendous burden on credit unions. Credit unions also reported that sharing documentation in real time was difficult or impossible. NAFCU has long advised the NCUA that increasing data reporting burdens without a corresponding reduction in exam length would be counterproductive. Finally, the strength of NCUA's cybersecurity controls in a virtual examination environment is paramount and NAFCU has actively advocated for the NCUA to be as transparent as is reasonably possible regarding its data protection standards to build confidence in the security of the virtual examination process. The Virtual Examination Program project is collecting feedback and lessons learned during the pandemic with the intention to present a proposal to the NCUA Board by December 31, 2020. The NCUA Board will then consider next steps for moving the project forward into development, testing and adoption.

Also underway is the NCUA's Enterprise Solution Modernization Program (ESM) initiative which includes the roll-out of the new examination management platform Modern Exam and Risk Identification Tool (MERIT) to replace the legacy examination program, the Automated Integrated Regulatory Examination System (AIRES). MERIT contains functionality for secure document transfer and will be accessible to credit unions through the NCUA Connect portal. The NCUA began piloting MERIT and NCUA Connect in the fourth quarter of 2019. Roll-out of examiner training for both NCUA and state supervisory authority examiners on MERIT and NCUA Connect were intended to begin in May 2020; however, this roll-out was delayed due to the COVID-19 pandemic. Instead, the NCUA is adding credit unions and some state examiners to an expanded pilot to gather additional feedback until a full roll-out with face to face training is possible.

NAFCU continues to advocate for a more streamlined and efficient examination process. Despite the theoretical availability of the extended exam cycle beginning in 2017, the vast majority of credit unions continue to report that they undergo examinations every 12 months. More than 60 percent of credits unions responding to NAFCU's 2020 *Federal Reserve Meeting Survey* expressed the desire for a longer exam cycle, the most common desire for exam modernization expressed by responding credit unions. NAFCU has previously recommended that the NCUA expand eligibility for an extended 18-month exam cycle for all well-run, low-risk credit unions, and will continue to urge the NCUA to reconsider its approach to supervision and better coordinate resources and expertise with other regulators, including state supervisory authorities.

### **Member Business Lending**

NAFCU has long advocated for member business lending reform, both through legislation and regulatory relief from the NCUA. NAFCU remains supportive of increased flexibility for member business loans (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 a 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.

Modifications to the MBL cap will provide vital lending to members. In response to the COVID-19 pandemic, Representatives Brad Sherman (D-CA), Suzanne Bonamici (D-OR), Don Young (R-AK), and Brian Fitzpatrick (R-PA) announced a bill that would provide a three-year exemption from the MBL cap for loans made to small businesses, the proceeds of which were used to aid in the recovery of the pandemic. Despite the immediate relief needed, NAFCU continues to seek a permanent legislative fix to the MBL cap. In April 2019, Representatives Vicente Gonzalez (D-TX), Paul Cook (R-CA), Tulsi Gabbard (D-HI), and Don Young (R-AK) 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. NAFCU continues to seek legislative relief in removing or modifying the MBL cap to provide vital capital to small business members. Reform of the MBL cap has recently garnered support from officials at the U.S. Department of Treasury and the NCUA.

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 and credit unions often find themselves in a position of members seeking out a loan at another financial institution. According to NAFCU's 2020 *Federal Reserve Meeting Survey*, 25 percent of respondents had to turn down an application on a non-owner occupied home due to the general 15-year maturity limit restriction. NAFCU continues to seek legislative relief in revising the restrictive FCU Act provisions. On March 4, 2020, Senators Tim Scott (R-SC) and Catherine Cortez Masto (D-NV) introduced the Expanding Access to Lending Options Act (S. 3389), which would provide the NCUA with greater flexibility on loan maturity limits. On March 8, 2019, Representatives Lee Zeldin (R-NY) and Vicente Gonzalez (D-TX) introduced H.R. 1661, which also provides the NCUA with the flexibility to increase loan maturity limits. Revising the general 15-year maturity limit will allow credit unions to compete with other lenders who are able to offer longer loan maturities.

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 January 2020, the Bureau issued a policy statement providing a framework for how the agency applies the “abusive” standard in unfair, deceptive, or abusive acts and practices (UDAAP) supervision and enforcement matters. Prior to the release of the policy statement, the Bureau regulated this area through enforcement actions. The policy statement provides that the Bureau: (1) will challenge conduct as abusive only when the harm to consumers outweighs the benefits; (2) will generally avoid challenging conduct as abusive when all or nearly all the same facts could be classified under legally more familiar categories of conduct (i.e., unfair or deceptive); and (3) will seek monetary relief for abusive violations only when there has been a lack of a good-faith effort to comply with the law. The Bureau expects to provide more clarity on the specific factual bases for an abusive violation.

Despite the policy statement issued by the Bureau, compliance with UDAAP continues to be a concern for credit unions as significant resources are necessary to monitor and track the Bureau’s supervision and enforcement actions to determine how best to design or modify internal practices and procedures to avoid a UDAAP violation. According to NAFCU’s 2020 *Federal Reserve Meeting Survey*, 14 percent of respondents expect to increase the number of full-time equivalent staff members devoted to UDAAP compliance over the next three years. NAFCU has long sought transparent guidance from the Bureau regarding the “abusive” prong of UDAAP and continues to seek additional clarification on the factual basis for an abusiveness violation. Ultimately, NAFCU urges the Bureau to entertain a rulemaking regarding the abusiveness standard.

## ***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. The rule defined a General QM and created a second category, termed the Temporary 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. The GSE Patch provides credit unions with continued and robust access to the secondary mortgage market and allows lending to members in underserved markets who may not meet the requirements for a QM loan. On average, respondents to NAFCU’s 2020 *Federal Reserve Meeting Survey* sold over 39 percent of their mortgages to the secondary market over the prior 12 months, representing a six-percentage point increase from a year earlier. Seventy-nine percent of respondents reported that they plan to sell at least as large a portion of their portfolios over the next 12 months. In light of the GSE Patch expiring, the Bureau released a series of three proposed rules to amend the ATR/QM rule to ensure access to credit remains.

First, the Bureau published a proposed rule amending the General QM definition by removing the current 43 percent debt-to-income (DTI) cap and replacing it with an alternative pricing threshold. Under the proposal, a loan will receive QM status if the annual percentage rate (APR) is no more than 200 basis points above the average prime offer rate (APOR) and rebuttable presumption status if the APR is no more than 150 basis points above APOR. According to NAFCU’s July 2020 *Economic & CU Monitor Survey*, 46 percent of respondents preferred a QM with a DTI of 45 percent, with an additional 33 percent preferring a DTI of 48 percent. NAFCU has advocated against an APOR approach and has urged the Bureau to revise the General QM to a DTI threshold of up to 50 percent with the allowance of compensating factors. NAFCU remains concerned that a pricing threshold approach does not address default risks and may lead to the mispricing of loans.

Alongside proposed revisions to the General QM definition, the Bureau also published a proposed rule to extend the GSE Patch until the effective date of the general QM definition rulemaking. NAFCU is supportive of an extension of the GSE Patch to minimize any market disruptions and asked for an 18- to 24-month extension.

Lastly, the Bureau published a proposed rule creating a new Seasoned QM category that would allow non-QMs to gain QM status if the loan includes restrictions on product features and points and fees, and meets certain underwriting and performance requirements after a 36-month seasoning period. The proposal limits the amount of delinquencies during the seasoning period to no more than two 30-day delinquencies and no delinquencies over 60 days. The Bureau intends to provide an alternative pathway to gain QM safe harbor status and encourage safe and responsible innovation in the non-QM mortgage market. NAFCU supports alternative pathways to QM safe harbor status; however, the alternative needs to afford credit unions the same legal protections and benefits as the GSE Patch. In addition, NAFCU suggests that the Bureau revise the performance requirements to allow for more than two 30-day delinquencies during the seasoning period.

## Remittances

NAFCU members have consistently voiced concerns regarding the overall effects of the CFPB's final rule governing remittance transfers (Remittance Rule). The Bureau's Remittance Rule became effective in October 2013 and ultimately prompted a significant share of credit unions to exit the remittance market, primarily due to the disproportionately high cost of regulatory compliance.

Section 1073 of the Dodd-Frank Act amended the Electronic Fund Transfer Act (EFTA) by adding new section 919, which instituted many of the new and complex disclosure rules which underlie the Bureau's regulations. While subsequent amendments to the Remittance Rule have gradually addressed the most egregious burdens, many credit unions remain hesitant to provide remittance services altogether if they must manage remittance volume to remain below the rule's safe harbor threshold, or else incur disproportionately high compliance costs.

NAFCU has been successful in persuading the Bureau to provide additional relief under the Remittance Rule. On May 11, 2020, the CFPB published a final rule amending the Remittance Rule. The amendments increased the "ordinary course of business" safe harbor threshold from 100 transfers in the previous calendar year to 500, which provided immediate relief to credit unions that were in danger of losing the safe harbor due to growing remittance volume. In addition, the amendments adopted new thresholds to permit continued use of estimates when disclosing exchange rates or fees, which can be difficult or impossible to determine ahead of time when using an open network of intermediary institutions to facilitate remittance transfers. Although the adjustments to the safe harbor were not as generous as hoped, they were a win for the industry after NAFCU's consistent messaging on the need for a higher threshold.

In September 2020, NAFCU also shared comments on the Remittance Rule with Representative James Comer (R-KY), Ranking Member of the House Committee on Oversight and Reform. NAFCU requested the addition of a new safe harbor under the EFTA that would exempt all credit unions from the CFPB's Remittance Rule. NAFCU continues to advocate for such an exemption, which would allow credit unions to offer remittance services at more affordable prices and encourage former remittance providers to reenter the market, improving competition and accessibility for consumers.

## Home Mortgage Disclosure Act

On June 25, 2020, the CFPB publicly released the 2019 HMDA loan-level data set. As discussed in an earlier chapter of this report, credit unions performed well compared with banks (see *Evidence from the Home Mortgage Disclosure Act*, page 15). Credit unions continue to expand their loans to low- and moderate-income (LMI) households while banks are scaling back (see Chart 2.7), and credit unions originated more small-dollar loans, both as a percent of total loans and as a percent of LMI loans, than banks. Most significantly, credit unions made more loans to Black borrowers, and modestly more loans to Hispanic borrowers, than banks.

A longstanding component of NAFCU's advocacy efforts has been persuading the CFPB that revised HMDA reporting thresholds are needed to provide meaningful regulatory relief for credit unions, which unlike banks, do not have a history of redlining. In a modest win for credit unions, the CFPB made favorable adjustments to Regulation C's coverage thresholds in April 2020, increasing the thresholds applicable to both closed-end mortgage loans and open-end lines of credit. Specifically, the final rule permanently increases the closed-end mortgage loan threshold from 25 loans to 100 loans and the open-end line of credit threshold from the original 100 lines of credit to 200 lines of credit.

A higher, temporary adjustment to the HMDA reporting thresholds remains in effect for open-end lines of credit. Credit unions that originate fewer than 500 open-end lines of credit in each of the two preceding calendar years are still excluded from those reporting requirements until January 1, 2022.

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 costs. To reduce regulatory burdens on credit unions, NAFCU recommends the Bureau raise the open-end and closed-end thresholds, eliminate excess data points adopted pursuant to the Bureau's discretionary authority, and require only the information mandated by the Dodd-Frank Act.

## Overdraft

Overdraft programs continue to be popular with credit union members. Respondents to NAFCU's 2020 *Federal Reserve Meeting Survey* indicated that overdraft use has steadily increased, and now a majority of credit union members (55 percent) have opted into these programs. At the same time, an all-time high 84 percent of credit union respondents reported that members never or rarely experienced dissatisfaction or confusion about the opt in process for the overdraft program. In response to the pandemic, the NCUA suggested that credit unions consider efforts to support communities under stress, including waiving overdraft fees. Over 73 percent of credit unions report waiving these fees in response to pandemic-related hardship, the most common fee-related concession offered by credit unions to their struggling members.

While consumer use and satisfaction of overdraft programs seems to have increased, the litigation risk associated with overdraft persists. Despite the pandemic, new class actions alleging violations of Regulation E, contractual agreements, and state law continue to be filed. In addition to complaints regarding the definition of "available funds," credit unions are now seeing allegations regarding the resubmission of ACH transactions that were rejected due to insufficient funds. As consumers continue to better understand and embrace overdraft programs, credit unions are seeking to limit their exposure to this risk by reviewing their programs carefully and with the assistance of counsel.

## Small Business Data Collection

In 2020, the CFPB moved forward with plans to implement Section 1071 of the Dodd-Frank Act. Section 1071 requires financial institutions to collect and report information to the Bureau regarding business loans made to women-owned, minority-owned, and small businesses using systems and procedures that are similar to those currently associated with HMDA reporting. Section 1071 gives the CFPB broad discretion to define additional data points, provide financial institution exemptions, and define the scope of covered products and businesses. In past surveys, a strong majority of NAFCU members expressed concerns about a small business data collection rulemaking, which has the potential to introduce significant compliance burdens.

As these concerns have advanced closer to reality in 2020, NAFCU asked its members what practical effects additional data collection would have on the availability and terms of small business credit products. In NAFCU's March 2020 *Economic & CU Monitor Survey*, the most frequently predicted impact was higher rates or fees on business products to account for increased compliance burden, followed closely by similar measures applied to other credit products.

On September 15, 2020, the CFPB issued an outline of proposals (Outline) under consideration to implement small business lending data collection requirements under section 1071. While the Outline itself does not constitute a formal notice and comment rulemaking, it does serve as a starting point for engaging small entity representatives (SERs) through the consultative process required under the Small Business Regulatory Enforcement Fairness Act (SBREFA). A select number of credit unions were invited to participate as SERs and will provide their input on the Bureau's Outline in October 2020. NAFCU is committed to supporting the industry's assessment of and opposition to burdensome requirements contained in the Bureau's proposal and will plan to submit comments to the CFPB regarding the Outline in December.

## Payments

NAFCU's goal is to ensure that existing and future payment systems are 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 new payment solutions that could benefit both credit unions and their members. From April to June, a period critical to CARES Act implementation, NAFCU also engaged closely with Treasury and the Bureau of Fiscal Service to ensure that credit unions were able to effectively process CARES-mandated stimulus payments to needy families.

An effective payments system must also be resilient to fraud. NAFCU continues to advocate for appropriate controls to address persistent levels of fraud which cost the economy billions in losses each year. Specifically, NAFCU advocates for the adoption of strong data security standards to mitigate a growing tally of costly breaches



of payment-related information among retailers. Our work reflects the view shared among 50 percent of surveyed credit unions that managing fraud risk will be a “significant concern” over the next three years.

### **Economic Impact Payments**

Like other facets of the nation’s financial infrastructure, the strength and reliability of the U.S. payments system was put to the test during the pandemic. In large part this was due to the CARES Act, which instructed the Department of Treasury to send economic impact payments (EIPs) to individual Americans. The unprecedented magnitude of the EIP program required credit unions to quickly determine how the payments should be identified, processed, and handled to ensure seamless delivery, with Treasury leaving only a few weeks to prepare between the enactment of the CARES Act and the first round of EIP disbursements. NAFCU’s compliance team fielded numerous questions related to EIPs at the beginning of April, helping ensure the industry was prepared to handle EIP delivery through ACH direct deposit or check—a process that was predictably challenging given the contemporaneously evolving body of guidance issued by the Internal Revenue Service. As major EIP disbursements concluded, NAFCU joined with other stakeholders in sharing lessons learned with the Bureau of Fiscal Service, with the hope that any additional rounds of stimulus will benefit from clearer guidance and future technical improvements.

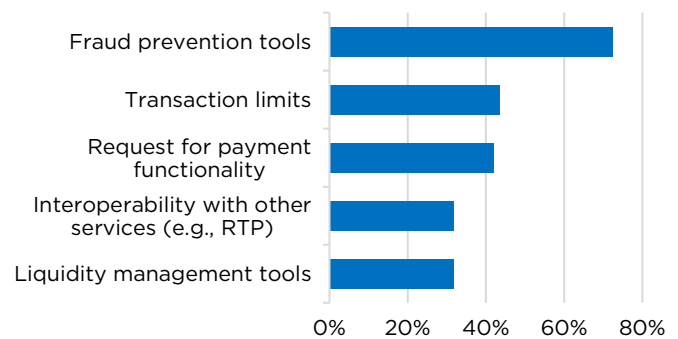
### **FedNow**

NAFCU has long been supportive of the Federal Reserve’s involvement in developing a real time payments system. Accordingly, NAFCU appreciates the Federal Reserve’s continued engagement with credit unions and other industry stakeholders as it pursues development of the FedNow Service (FedNow).

Although FedNow will not become operational until 2023 or 2024, nearly half of respondents to NAFCU’s 2020 *Federal Reserve Meeting Survey* reported that its development will accelerate adoption of faster payments. Remarkably, only 7 percent of surveyed credit unions said that they were not considering real-time payments—a sign that the industry is starting to ask critical questions about potential use cases for real-time transactions in an environment where faster payment capabilities are increasingly commonplace.

In August 2020, the Federal Reserve shared new details regarding the expected features and functionality of FedNow, with agency representatives discussing some of these directly with NAFCU’s Cybersecurity and Payments Committee in September. NAFCU was pleased to learn that many of the features credit unions had identified as critically important to FedNow adoption would be prioritized. These included a liquidity management tool, fraud prevention tools, and request for payment functionality as day-one features (see Chart 3.3). NAFCU was also supportive of the Federal Reserve’s explicit commitment to conform FedNow’s technical specifications to widely accepted industry standards to remove barriers to interoperability. As NAFCU has commented in the past, we encourage the Board of Governors to remain open minded regarding ways to work with private service providers to advance the goal of interoperability while ensuring that credit unions have fair and affordable access to real time payments.

**Chart 3.3: What FedNOW service features are most important to your credit union?**



Source: NAFCU 2020 Federal Reserve Meeting Survey

### **Payments Fraud**

NAFCU advocates for secure, fast, and affordable payments systems to ensure that credit unions and their members are able to send and receive payments with ease. A critical component of this advocacy is communication of credit union concerns regarding payments fraud, as well as educating the industry about fraud trends within the wider financial system.

As Treasury announced its first round of EIPs in April 2020, NAFCU helped socialize information regarding COVID-related fraud schemes. These often involved social engineering attacks aimed at tricking Americans into giving up information ostensibly related to receipt of EIPs in order to facilitate unauthorized transfers. Fortunately, these

schemes were not nearly as damaging as initially predicted, and credit unions have continued to protect their members from criminal actors. This commitment is evident based on surveyed members' prioritization of technology investments targeted at fraud prevention (see Chart 2.7 on page 19).

NAFCU continues to push for greater accountability within the payments ecosystem, particularly for entities that are not subject to the same rigorous oversight and supervision as credit unions and other federally examined institutions. While depository institutions have had a national standard on data security since the passage of the Gramm-Leach-Bliley Act (GLBA) over two decades ago, other entities who handle consumer financial data may not be held to the same standards. As a result, credit unions continue to express serious concern with merchant data security practices, which directly impact the prevalence payments fraud. In 2020, half of surveyed credit unions reported that they were "very concerned" with merchants as a source of potential cybersecurity risk.

In 2020, NAFCU also collaborated with stakeholders within the Federal Reserve System to educate the industry about a voluntary fraud classification tool, developed with the input of credit unions and banks, which aims to improve the consistency and usefulness of fraud-related data.

### ***Coin Circulation***

A lingering effect of the COVID-19 pandemic has been disruption to the circulation of the nation's coin supply. Business closures and social distancing have precipitated changes not only in spending patterns but also in how consumers choose to pay, with many preferring to shop online and use digital payments instead of transacting in physical currency. Not surprisingly, the movement of coin has been impaired as a result. According to the Federal Reserve, deposits of coin from businesses, coin recyclers and the public to financial institutions had dropped by more than half in July. While the scarcity of coin may have the outward appearance of a shortage, the reality is that there is more than \$40 billion already in circulation—but it remains stuck within American households.

In August 2020, credit unions surveyed by NAFCU shared their perspectives on coin related disruption. Although most indicated that they had enough coin, those who felt differently noted that in some cases their original orders had been reduced dramatically. Coin allocations from the Federal Reserve have since improved but there remains uncertainty about whether future coin circulation patterns will conform to historical norms.

To help get coin moving, NAFCU joined with other financial sector stakeholders as a member of the U.S. Coin Task Force. In this capacity, NAFCU helped identify solutions and develop resources for credit unions and other depository institutions to facilitate acceptance of coin. Central to the Task Force's recent recommendations are communication strategies to promote consumer awareness and incentivize redemption of spare change.

### ***Regulation D***

NAFCU has long advocated for elimination of Regulation D's six-transfer limit applicable to savings accounts. In past years, members were often unaware or did not understand the arbitrary limit on the number and types of transfers Regulation D permitted—frustrations that the pandemic only served to amplify as members wondered why they lacked unfettered access to their funds. In February, anticipating that the pandemic would likely place unique stresses on household finances, NAFCU urged the Federal Reserve to eliminate the transfer limit entirely. NAFCU's request was successful and credit unions secured an important victory in the battle against regulatory burden.

In April 2020, the Federal Reserve amended Regulation D and removed the six-transfer limit on savings deposits. This has proven to be extremely helpful for consumers during the pandemic. Credit union members can now transfer more money between savings and other accounts without hindrance, allowing them to better manage household liquidity. The Federal Reserve has suggested that this change will be permanent, in part because of underlying changes to monetary policy and a shift to an ample reserves regime. The Federal Reserve's decision to eliminate reserve requirements for depository institutions naturally prompted removal of the distinction between reservable transaction accounts and non-reservable savings deposits, giving credit unions peace of mind that Regulation D relief would be, at the very least, longer term.

## Regulation CC

In general, NAFCU encourages the Federal Reserve to modernize the language of Regulation CC in order to improve its accessibility and relevance in an environment where check payment volume is steadily decreasing. NAFCU has recommended that regulatory relief can be provided to credit unions by adopting more reasonable standards for check holds, which would better address rising incidences of check fraud. In NAFCU's 2020 *Federal Reserve Meeting Survey*, nearly three-quarters of respondents said that their credit union had observed an increase in either the frequency or dollar amount of check fraud in recent years. To address this concern, NAFCU has suggested narrow amendments to Regulation CC's exception hold provisions that would give credit unions more time to investigate whether a check is counterfeit or fraudulently presented. Existing provisions regarding check holds create undue risk for both credit unions and potentially their members because Regulation CC does not always afford sufficient time to conduct such an investigation or determine if there are insufficient funds. NAFCU will continue to work with the Federal Reserve to identify reforms which will ensure that members continue to enjoy timely access to funds without creating undue fraud risk.

## Cyber & Data Security

Cybersecurity is a perennial concern for both credit unions and the NCUA. Because of the COVID-19 pandemic and the need to facilitate social distancing, credit unions all over the country quickly shifted to working remotely and increasing the online availability of products and services. In response to this sudden transition to remote work, the NCUA issued a risk alert regarding cybersecurity considerations for remote work describing cybersecurity best practices for credit unions that leverage employees' personal networks and devices. Similarly, on April 30, 2020, the Federal Financial Institutions Examination Council (FFIEC) issued a statement addressing the use of cloud computing services and security risk management principals. In June, the NCUA updated its supervisory priorities for 2020 to account for the effect of the pandemic. In those priorities, NCUA identified mobile banking and employees working remotely as elevated risks that it expects credit unions to address and mitigate.

This transition to remote work and the necessary primacy of online banking has led to the rapid expansion of credit unions' technological needs and capabilities, as well as an associated increase in cost and risk. According to the results of NAFCU's 2020 *Federal Reserve Meeting Survey*, 7.2 percent of credit unions' current operating budgets is devoted to cybersecurity, a 225 percent increase in average spending over 2015. Over the next three years, 94 percent of responding credit unions intend to further increase spending in information technology and 66 percent expect to increase the number of full-time employees devoted to compliance related to information technology requirements. Spending on additional information technology staff is the most common expected staff investment according to respondents.

These costs are necessary to address corresponding risks associated with an increase in technological deployment. Over 63 percent of respondents to NAFCU's 2020 *Federal Reserve Meeting Survey* identified IT and cyber risk as a significant risk management concern over the next three years. This concern was the most frequently identified significant risk in the survey. The societal shift to a primarily virtual environment spotlights existing credit union concerns regarding cybersecurity risks posed by other legitimate entities in the financial system. A significant majority of credit unions (88 percent) are very or somewhat concerned about cybersecurity risk rising from merchants – a slight increase of 2 percentage points over last year. Eighty-one percent of credit unions reported that they are very or somewhat concerned about risks from payment processors. Respondents also indicated high levels of concern about cyber security risks from non-bank fintechns (64 percent very or somewhat concerned) and insider threats (63 percent). Such concerns are understandable, as over 84 percent of respondents indicated a financial marketplace with appropriate safeguards against fraud and data breaches is critical to their credit union's continued growth and success.

Credit union concerns regarding criminal actors also remained high, with 87 percent of credit unions reporting that they are very or somewhat concerned, compared to 86 percent in 2019. Recently, there have been reports of significant activity by cybercriminals and fraudsters attempting to exploit the broad uncertainty and shifts created by the pandemic. In particular, the creation of government relief programs and increase in remote working has created new opportunities for criminals posing as government agencies, financial institutions, and other pandemic-related organizations in phishing email scams.

The expansion of the burdens associated with regulatory compliance in the IT space continues unabated. In response to NAFCU's 2020 *Federal Reserve Meeting Survey*, credit unions estimate that regulatory burden related to IT compliance has expanded 72 percent since 2016. NAFCU remains engaged with the Financial Sector Coordinating Council, through cybersecurity exercises and joint meetings with the FBIIC, and supports this valuable, private-public partnership and its promotion of cybersecurity regulatory harmonization. NAFCU continues to bring these concerns to Capitol Hill, as well. In letters to the House Subcommittee on National Security, International Development and Monetary Policy and the Senate Committee on Commerce, Science and Transportation, NAFCU has reemphasized the need for a national data security standard to protect consumers and the financial system as a whole.

## C. A Level Playing Field

### *Data Privacy*

In 2020, the California Attorney General finalized implementing regulations for the California Consumer Privacy Act (CCPA) and began enforcement of the law. In response to NAFCU's 2020 *Federal Reserve Meeting Survey*, 60 percent of respondents are concerned about compliance with the CCPA, a sharp increase from a year ago when 37 percent of respondents registered concern. This is not surprising as the reported upfront costs of establishing a privacy program in response to the CCPA ranged from \$100,000 to \$2.5 million, depending on the scale of the credit union's operations.

The CCPA is a single piece of state privacy legislation within a larger patchwork of privacy laws forming across the U.S. and internationally. So far, new state privacy legislation is in the works for the 2020/21 legislative term in California, Washington, Illinois, New York, and New Jersey. In response to NAFCU's 2020 *Federal Reserve Meeting Survey*, 71 percent of responding credit unions indicated they are concerned about compliance with state privacy laws beyond the CCPA. Fifty-seven percent of respondents reported concern about the European Union's General Data Protection Regulation (GDPR).

This growing patchwork of privacy laws poses a significant threat to credit unions which operate in multiple jurisdictions. In addition to the existing federal privacy requirements under the GLBA, state privacy legislation may require credit unions to establish multiple, parallel frameworks for privacy compliance. This is inefficient, confusing, and burdensome for credit unions. To resolve this, Congress has been increasingly active in proposing federal data privacy legislation. In November 2019, Senator Maria Cantwell (D-WA), ranking member of the Senate Commerce Committee, introduced the *Consumer Online Privacy Rights Act*. In August 2020, Senator Sherrod Brown (D-OH), ranking member of the Senate Banking Committee, introduced the *Data Accountability and Transparency Act of 2020*. In September 2020, Senator Roger Wicker (R-MS), Chair of the Senate Commerce Committee introduced the *Setting an American Framework to Ensure Data Access, Transparency, and Accountability Act*. These competing bills joined the already crowded field of federal privacy legislation. NAFCU continues to engage with legislators to advocate for credit unions, share its six principles<sup>17</sup> for a federal data privacy standard, and identify favorable legislation to push towards passage.

In the meantime, to find temporary relief for credit unions, NAFCU participates as an observer on the Uniform Law Commission's Collection and Use of Personally Identifiable Data Committee. This committee is working on a model state privacy law. Once finalized, perhaps as early as the fall of 2021, the model law may be adopted in multiple states throughout the country. NAFCU will continue to provide feedback on the committee's drafts of the model law in meetings and in letters. The goal is to achieve greater consistency for credit unions operating in multiple states until a single, federal data privacy standard can be passed by Congress.

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<sup>17</sup> These principles are outlined in NAFCU's white paper, [Principles for a Federal Data Privacy Standard](#), and include (1) a comprehensive national data standard covering all entities that collect and store consumer information; (2) harmonization of existing federal laws and preemption of state privacy law related to privacy or security of personal information; (3) delegation of enforcement authority to the appropriate sectoral regulator; (4) a safe harbor for businesses that take reasonable measure to comply with privacy standards; (5) notice and disclosure requirements that are easily accessible to consumers and do not unduly burden regulated entities; and (6) scalable civil penalties for noncompliance imposed by the sectoral regulator that seek to prevent and remedy consumer injury.

## Competition and Financial Technology

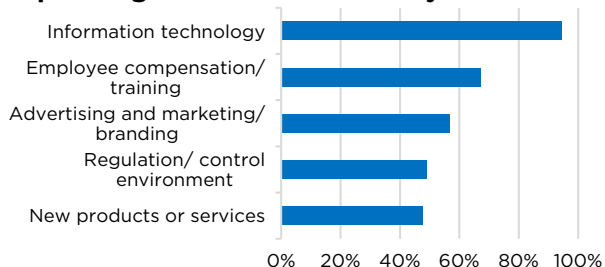
NAFCU advocates for competitive equality between traditional financial institutions and fintech companies, which are generally regarded as nonbank firms that reach consumers through digital channels. NAFCU has also sought to empower credit unions with the tools to innovate and serve their communities better and more efficiently. In recognition of these dual objectives, NAFCU believes that federal banking regulators should not give preference to fintech as a model to replace traditional financial institutions. Instead, FFIEC agencies should modernize supervisory frameworks to ensure that the promise of better, more efficient services or expanded access to credit is predicated on responsible innovation rather than regulatory arbitrage.

While NAFCU has advocated for reducing regulatory barriers to promote innovation, many of our letters and meetings with regulators in 2020 emphasized the need to preserve a level playing field within the financial sector. NAFCU has been particularly active in opposing the hasty creation of a new payments charter, and we have advocated for more transparent procedures for evaluating applications for Federal Reserve accounts—particularly those originating from non-traditional firms. In October 2020, NAFCU recommended that the Federal Reserve Banks adopt a consistent set of guidelines before attempting to evaluate a request from Kraken Financial to obtain a master account with the Federal Reserve. As a special purpose depository institution focused on the sale and exchange of cryptocurrency assets, Kraken Financial's interest in Federal Reserve access presents unique risks that the Reserve Banks must evaluate on a consistent basis using guidelines that reflect the concerns and perspective of the broader financial sector. In a subsequent letter to Congress, NAFCU joined a group of financial trades to express concern with the OCC's lack of transparency surrounding its payments charter and the need for a formal evaluation of how nonbank firms might introduce unique systemic risks to safety and soundness if they are granted access to Federal Reserve payment systems. More generally, NAFCU's concerns reflect growing apprehension among credit unions that fintech companies have even eclipsed banks as competitors. Accordingly, a central recommendation in many of our comments is that Congress and federal banking agencies must close regulatory and statutory loopholes that permit nonbank parents of specialized charter recipients to avoid consolidated federal supervision, even when accessing critical pieces of financial infrastructure such as the Federal Reserve's payment systems. NAFCU has also asked Congress to empower credit unions to reach underserved populations through legislative changes rather than costly and complex proposals which promote fintech-themed variants of postal banking.

### Credit Union Investments in Technology

Where credit unions are investing their money demonstrates how technology is driving evolution within the industry. When asked to evaluate various spending categories that would impact budgets the most over the next three years, nearly all credit union respondents included information technology as a primary cost driver (Chart 3.4). Within the IT domain, data analytics, mobile banking, and fraud prevention tools ranked as the most popular investment choices. At the same time, credit unions' preference for investment in older technology—namely, ATMs—declined in 2020.

**Chart 3.4: Which of these areas will drive spending over the next three years?**



Source: NAFCU 2020 Federal Reserve Meeting Survey

Not surprisingly, credit unions' appetite for new IT investments corresponds with a consumer fintech environment that is largely populated with app-based financial tools and platforms, including payment services that allow faster payments. It also recognizes the need to adapt to competitive pressure from fintech companies, which have wasted no time in 2020 pushing for third party data sharing rights under section 1033 of the Dodd-Frank Act, seeking novel bank licenses, or attempting to access Federal Reserve payment systems. While credit union technology investments will ensure that the industry remains relevant in the digital marketplace, to compete effectively requires a level playing field. In 2020, NAFCU has helped educate lawmakers about disparities in supervisory frameworks that could distort the competitive landscape within the financial sector or erode safety and soundness protection. NAFCU believes that regulators should not seek to bring non-traditional entities into the supervisory fold by dangling the promise of comparatively less federal oversight, or by allowing risky and complex business models to place added strain on federal safety nets.

## ***Payments Charter***

After taking office in May 2020, the acting Comptroller of the Currency, Brian Brooks, announced that the OCC would plan to offer a narrow variant of its current fintech charter aimed at payments companies. Through news reports, NAFCU learned that the OCC intended the first iteration of the new charter to provide the benefits of national preemption for companies like PayPal, Stripe, or Square; in essence, operating like a national money transmitter's license. A subsequent version—what Brooks has called Payments Charter 2.0—would potentially grant nonbanks direct access to the Federal Reserve's payment systems.

NAFCU and other trade associations quickly responded to these plans by requesting that the OCC explore any new chartering ideas through an open and transparent rulemaking process. The initial response seemed positive. In August, the Acting Comptroller responded to NAFCU and other trades with a letter stating that the OCC would proceed "in a manner that is transparent, deliberate, measured, and consistent with the laws and regulations governing the federal banking system." Brooks added that the OCC intends to use the chartering process to ensure fintech companies that perform activities similar to traditional financial institutions "receive the same level of oversight" when it comes to regulation and supervision.

However, in late August, the Acting Comptroller took a different course of action, announcing that the OCC would begin accepting applications for the payments charter under existing authority and without any notice and comment rulemaking. Just three months after becoming Acting Comptroller, Brooks finalized a new licensing policy that appeared on its face to suffer from the same legal defects as the agency's special purpose national bank charter (i.e., the fintech charter). In interviews, Acting Comptroller Brooks also said he would entertain applications from nonbank entrants like Google or Amazon if they wanted to acquire a bank.

## ***Industrial Loan Companies***

Industrial loan companies (ILCs) are state-chartered institutions that operate similarly to commercial banks and are supervised and insured by the FDIC. ILCs have proven attractive to fintech companies at a conceptual level because they can be owned by firms that operate beyond the reach of federal bank regulation. In a more technical sense, an entity that controls an ILC that is not a bank holding company under the Bank Holding Company Act (BHCA) will not be subject to consolidated federal supervision. As a result, the relationship between a nonbank parent and its ILC subsidiary lacks the degree of transparency and accountability intended by the BHCA while at the same time inviting potentially hazardous comingling of banking and commercial activities. Interest in acquiring banks by the largest and most complex technology firms raise other issues as well. Even if these firms were theoretically subject to consolidated federal supervision as parent companies, it seems unlikely that any federal agency would have the capacity to fully examine risk across international subsidiaries, holding companies, and other affiliates. For example, it is hard to imagine how a traditional banking regulator might address privacy or cybersecurity expectations for a global entity that possesses a total package of social and financial information regarding millions of American consumers.

Although credit unions have faced competition from ILCs for many years, fintech applicants could potentially utilize the charter in ways that were never envisioned prior to the financial crisis. Companies whose products and services are the foundation of an always online, on-demand consumer economy could potentially capture market share for consumer financial products merely by virtue of massive, pre-existing customer bases and control over key technology infrastructure. Already companies like Google and Facebook have taken steps to become more direct participants in the financial ecosystem, and an ILC charter could potentially allow these firms to obtain greater access to critical financial market utilities, like the Federal Reserve's discount window.

A level playing field also depends upon consistent application of prudential safeguards to preserve the safety and soundness of the financial system. Excessive risk taking by large, nonbank firms could have ripple effects for the entire financial sector, and such risks must be properly examined. However, the FDIC's chartering of two new ILCs in 2020 has only served to perpetuate disparities within the financial regulatory landscape that could make assessment of future risks more difficult. New ILCs not subject to consolidated federal supervision could have latent weaknesses spread across many different domestic or foreign business entities that no bank regulator will truly be able to understand or examine. Such an arrangement could create broader instability within the financial sector, particularly if economic uncertainty persists for an extended period. Accordingly, NAFCU has urged both

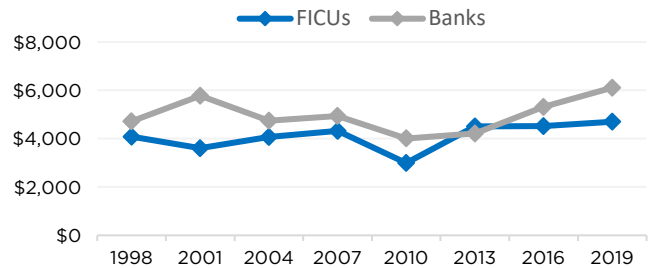
the FDIC and Congress to freeze current ILC chartering activity and consider a three-year moratorium on future ILC approvals.

NAFCU also wrote to the FDIC requesting a withdrawal of a March 2020 proposed rule that establishes a new supervisory framework for parent companies of ILCs. While the FDIC's proposal did attempt to address significant safety and soundness concerns aimed at non-BHCA parents ("covered companies"), it fell short of mitigating the inherent risk associated with a lack of consolidated supervision by the Federal Reserve.

### Payday Lending

In February 2019, the Bureau issued a proposed rule to amend the payday, vehicle title, and certain high-cost installment loans rule (payday rule). The proposed rule maintained the safe harbor for NCUA Payday Alternative Loans (PAL) but did not account for the new iteration of PAL loan that finalized in 2019 (the PAL II loan). During the rulemaking process NAFCU met with the Bureau on multiple occasions to ensure that the agency's final payday rule would not impair the NCUA's ability to promote access to small dollar credit through the new PAL II option and advised the Bureau to exempt all future iterations of the PAL program from the payday rule.

**Chart 3.5: Median Household Liquid Assets by Type of Financial Institution Used for Main Checking Account (in \$2019)**



Source: FRB SCF, NAFCU analysis

On July 22, 2020, the Bureau published a final payday rule rescinding all mandatory underwriting requirements for making an ability-to-repay (ATR) determination while retaining the original rule's payment provisions. NAFCU supported the rescission of the mandatory ATR underwriting requirements to enhance access to responsible small-dollar loans. After the final payday rule was published, litigation challenging the entirety of the Bureau's payday lending rule provisions was allowed to proceed in *the Consumer Financial Services of America v. CFPB*. However, the court's stay of compliance date in that case remains in place, and NAFCU anticipates that litigation regarding the payment provisions will continue. Thus, compliance with the payments provisions is not necessary until the court-ordered stay is lifted.

In addition to opposing regulatory burdens imposed by the CFPB, NAFCU has sought additional regulatory flexibility from the NCUA that recognizes credit unions' good conduct as small dollar lenders. NAFCU continues to advocate for expansion of the NCUA's PAL program to provide additional options for credit unions to help members in need of responsible short-term, small-dollar loans.

### Interchange Fees

NAFCU has long sought the repeal of Dodd-Frank's cap on interchange fees (Durbin amendment) as the benefits have not been passed on to consumers. NAFCU opposes any efforts to expand interchange price caps to credit products. According to NAFCU's 2020 *Federal Reserve Meeting Survey*, over 39 percent of respondents reported that their per-transaction debit interchange rates had dropped since the Durbin amendment took effect, while only 4 percent said it had increased. Over 54 percent of respondents rated maintaining or increasing non-interest income as a significant challenge anticipated over the next three years. The loss of interchange revenue has contributed to a decline in fee income for credit unions in recent years, and, unlike other institutions, credit unions are bound by restrictions in the FCU Act regarding raising capital to stabilize net worth levels. Although the Durbin amendment affects credit unions with over \$10 billion in assets, its effects are trickling down to those under the threshold. NAFCU will continue to work on behalf of our members to preserve a reasonable return for credit unions from interchange fee income.

### Defense Issues

Credit unions have a strong track record of helping active duty members of the armed forces and their families avoid the predatory lending practices which precipitated Congress's enactment of the Military Lending Act (MLA). NAFCU supports efforts to protect servicemembers and their families from financial exploitation and has urged the Department of Defense (DoD) to provide clear rules that do not unduly restrict access to financial products

or services. NAFCU and its members have repeatedly sought rescission to the DoD's Question and Answer #2 (Question #2) of its 2016 interpretive rule which appeared to prohibit access to GAP insurance when the MLA-covered borrower tried to finance the GAP insurance with the loan used to purchase the vehicle. In February 2020, the DoD published an interpretive rule which rescinded Question #2 and reverted to a prior interpretation. However, the interpretive rule remains silent on the issue of GAP financing, possibly suggesting that the DoD did not intend to exclude it from an exception within the regulation.

NAFCU has also devoted considerable energy, defending credit unions' ability to maintain nominal cost leases on military installations in recognition of the services they provide to both the base and military personnel stationed there. The DoD has authority to lease space on military bases at a nominal rate to credit unions provided they meet certain statutory and regulatory requirements for providing financial services on base. These nominal leases have been under attack lately by bankers claiming that they are required to pay rent at fair market value; however, the DoD has the authority to consider "in-kind consideration."

The Senate's version of the National Defense Authorization Act (NDAA) for fiscal year 2021 contains language that would require the DoD to treat all banks and credit unions the same on military installations for leasing purposes. Essentially treating large banks equal to local, not-for-profit, defense credit unions. The House version of the NDAA does not include this provision and was rejected last year during the Conference Committee between the House and Senate for the fiscal year 2020 NDAA. NAFCU continues to urge Congress to reject the inclusion of this language, as community banks have an existing avenue to work with the DoD on achieving a nominal lease without harming credit unions' ability to serve military bases.

## **Postal Banking**

After the CARES Act was enacted, consideration of additional relief measures elicited several unorthodox proposals to address the plight of unserved and underserved communities. These contemplated, among other things, refashioning the United States Postal Service (USPS) as a bank, creating retail bank accounts at the Federal Reserve ("FedAccounts"), and creating a digital dollar. In letters to the House Financial Services Committee, NAFCU sought to discourage diversion of resources to pursue these projects, which on their face presented numerous operational and technological hurdles that would likely slow efforts to provide relief to needy households. Instead, NAFCU advised Congress that legislative reforms aimed at enhancing credit unions' existing capacity to reach underserved markets would provide faster and more tangible benefits.

NAFCU has long advocated against postal banking proposals, which all share the common goal of allowing the USPS to operate as if it were a bank. While postal banking bills have emerged from time to time for many years, logistical challenges encountered by Treasury in the course of disbursing stimulus payments to unbanked consumers spurred additional interest in 2020. Yet postal banking remains one of the least feasible approaches for improving Americans' access to financial services.

An official study conducted by the Task Force on the United States Postal System recommended that given the USPS' narrow expertise and capabilities, it should not seek to expand into new sectors. In 2020, NAFCU helped amplify this message in Congress, noting the ongoing financial challenges of the USPS, and instead encouraged support of already proposed legislation that would allow all credit unions to add underserved areas to their field of membership. In contrast to the USPS, credit unions are readily equipped to deliver affordable and responsible financial products and services to communities across America. Accordingly, NAFCU advocated against including funding to establish a pilot program for postal banking in the House version of the fiscal year 2021 financial services and general government appropriations bill. NAFCU has also urged the Senate not to include postal banking provisions in its own appropriations bill.

While postal banking legislation has yet to garner the support needed to become law, that has not deterred the USPS from discussing other types of banking partnerships that would transform post office branches into storefronts for financial services. In August 2020, news reports revealed that the USPS was interested in pursuing a postal banking pilot with JPMorgan Chase. While it remains unclear whether any agreement will be reached regarding plans to move forward with the pilot, NAFCU has expressed concern that an exclusive partnership with one of the most heavily fined banks since the last financial crisis will not deliver the type of banking experience Americans deserve or expect.



## **FedAccounts**

In contrast to postal banking, the concept of FedAccounts proposes a radically different merger of government and financial services. As envisioned in draft legislation introduced by House Speaker Nancy Pelosi (D-CA) and House Financial Services Committee Chair, Maxine Waters (D-CA), FedAccounts would operate as free digital wallets offered by the Federal Reserve. Outwardly, such accounts were promoted as an additional mechanism to deliver future stimulus payments to consumers, but behind this narrow purpose were a host of operational and competitive concerns that NAFCU has raised in letters to Congress. Although it appears unlikely that FedAccounts will gain the political traction necessary to become reality, they could serve in the future as a vehicle to advance criticism regarding longstanding features of consumer banking, such as courtesy pay programs.

## **Public Banking**

Another route that lawmakers have explored to expand banking services is through a public banking charter. In 2019, California enacted legislation allowing city or county governments to sponsor public banks. On October 30, 2020, Representatives Alexandria Ocasio-Cortez (D-NY) and Rashida Tlaib (D-MI) introduced the *Public Banking Act*, which would provide federal grants to state and local governments to form public banks and would ensure that such banks may become members of the Federal Reserve. The *Public Banking Act* would also bar those institutions from charging fees on transactional accounts and from requiring minimum account balances. Advocates argue that public banks are needed to address the local economic needs that often go ignored by Wall Street and to offer low-cost financial services to underserved communities. However, credit unions already provide these services to millions of households. The reality is that a public bank would most directly compete with credit unions and other community-based institutions, not large banks. Credit unions already offer low-cost financial products to millions of households, and their focus is on serving their local fields of membership. Providing credit unions with field of membership relief would enhance their ability to reach underserved areas and accomplish the laudatory goals behind the public banking push without introducing the risks associated with chartering a new, unproven type of institution.

## **Digital Currency**

In August, 2020, Federal Reserve Governor Lael Brainard announced a partnership between the Federal Reserve Bank of Boston and researchers at the Massachusetts Institute of Technology in a multiyear effort to build and test "a hypothetical digital currency oriented to central bank uses." The announcement emphasized that the Federal Reserve is still in the investigative stage and has not committed to any future action with respect to development of a central bank digital currency. Late last year, Chairman Powell had noted the Federal Reserve's exploration of the cost and benefits of digital currency but had not decided to pursue anything more than research activities. Although NAFCU is supportive of innovation in the marketplace, the association has previously highlighted concerns about how digital cryptocurrency-based exchange will affect BSA/AML regulation and compliance. NAFCU has also been active in advocating for consistent application of standards related to Federal Reserve processing of account applications from nontraditional institutions, such special purpose depositories whose business model relies heavily upon the exchange and acceptance of cryptocurrencies.

## **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. Much of this growth was supported by speculative investment activity, which has often been characterized as creating moral hazards for entities engaged in deposit taking. In the past, this hazard was addressed by firewalling retail and investment banking functions. The Glass-Steagall Act (GSA) was established in response to the Great 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 benefits 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 2019, Senator Elizabeth Warren (D-MA) 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. NAFCU has continued to recommend that Congress consider enactment of a modern variant of the Glass-Steagall Act to curb Wall Street's excesses.

Big banks must be encouraged to discover more innovative, yet honest, ways of accessing funding 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.stilltoobigtotofail.org](http://www.stilltoobigtotofail.org).

In July 2020, then presidential candidate Joseph Biden and Senator Bernie Sanders (D-VT) released a jointly developed policy paper, titled "the Biden Sanders Unity Task Force Recommendations." Notably, a key recommendation related to the banking sector was to "[m]aintain and expand safeguards that separate retail banking institutions from more risky investments." NAFCU continues to work with members of Congress to emphasize the importance of enacting such safeguards, particularly as large banks have already amassed over \$5 billion in penalties and fines during just the first six months of 2020.

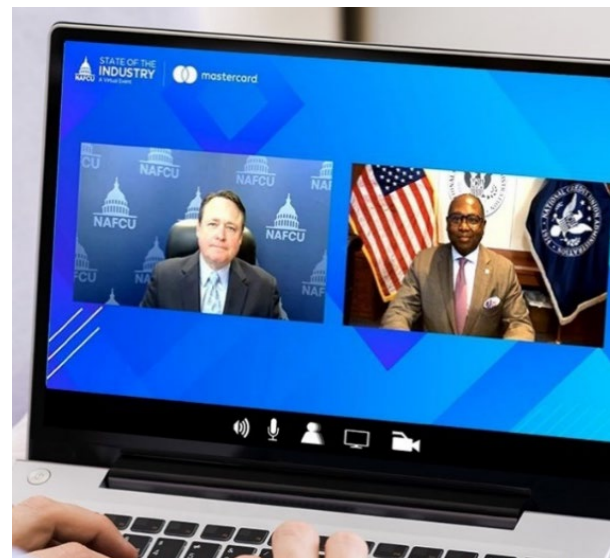
## D. Government Transparency and Accountability

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 the *Economic Growth, Regulatory Relief and Consumer Protection Act* (S. 2155) amended section 209(b) of the FCU 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. In November 2019, NAFCU provided comments during the NCUA's 2020-2021 budget hearing and offered recommendations to assist the NCUA in managing funds in a prudent and transparent manner. These recommendations highlighted the need for cost-benefit analysis, look-backs of NCUA programs, and additional exam modernizations to cut costs.

On July 29, 2020, NAFCU submitted comments to the NCUA regarding its mid-session budget. NAFCU asked the NCUA Board to carefully evaluate how it plans to utilize its remaining resources in 2020 and revisit its 2021 draft budget, which proposed another 3.8 percent increase over 2020. NAFCU appreciates the NCUA's commitment to examining the agency's budget in a public and transparent manner.



NAFCU CEO Dan Berger speaks with NCUA Chairman Rodney Hood at NAFCU's 2020 State of the Industry Virtual Event

## 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. In the wake of the Dodd-Frank Act, NAFCU was the only credit union trade association to oppose the creation of the CFPB. NAFCU remains opposed to the CFPB'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.

### CFPB Reform

The CFPB 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. NAFCU has consistently taken the position that the CFPB should exercise its authority under section 1022 of Dodd-Frank to exempt credit unions from rulemakings, recognizing their unique structure and mission.

On June 29, 2020, the Supreme Court issued its opinion in *Selia Law LLC v. CFPB*, holding that the agency's single-director that can be removed by the President "for cause" violates the separation of powers found in Article II of the United States Constitution. The court severed the Dodd-Frank provision that the single director can be fired only for cause and now the director may be fired at-will. Changing the leadership of the single director structure to a commission was outside the Supreme Court's powers. In addition, the Supreme Court indicated that previous actions by the agency are only valid if ratified by a director not unconstitutionally insulated from the President's removal authority. Subsequently, Director Kraninger ratified the Bureau's previous actions from January 4, 2012 to June 30, 2020 which included a large majority of existing regulations.

Bureau reform has been a top priority for NAFCU advocacy and continues given the Supreme Court's limited power in changing the leadership structure. NAFCU continues to support legislative efforts to create a bipartisan commission versus a single director structure. In March 2020, House Financial Services Committee Member Blaine Luetkemeyer introduced NAFCU-supported legislation to restructure the Bureau from a single director to a five-person, bipartisan commission, that serve a staggered five-year term. In March 2018, the *Financial Product Safety Commission Act* (H.R. 5266) was introduced which would also create a five-person commission with staggered five-year terms.

## IV. CREDIT UNIONS RESPOND TO THE PANDEMIC

In March 2020, COVID-19 accelerated its spread in the United States and triggered a financial crisis of unprecedented magnitude. Unemployment claims exceeded 40 million as it became clear that the pandemic would dramatically alter American life for months under even conservative projections. In March, Congress poured approximately \$2.2 trillion into the economy through a combination of tax breaks, lending programs and new spending—including direct stimulus payments to individuals. While the course of the COVID-19 pandemic remains uncertain, credit unions continue to leverage all available relief options to provide financial assistance and support continuity of operations.

### Operational changes

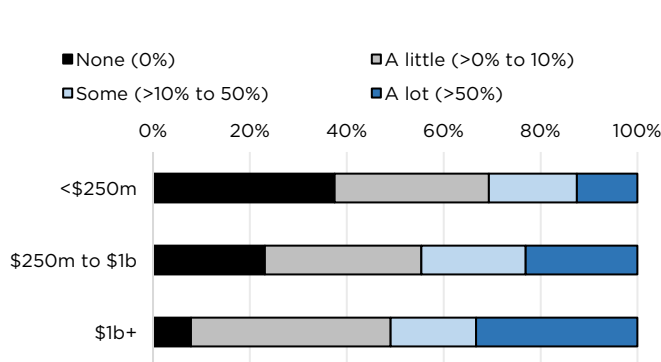
At an operational level, the primary challenge created by the pandemic was ensuring the safety of credit union employees and members. In practical terms, this entailed developing and enforcing social distancing protocols even as scientific understanding of COVID-19 continued to evolve. Reflecting the unexpectedly rapid rise in COVID cases within the United States, the FFIEC issued updated pandemic planning guidance in March 2020, but much of the advice was of a general nature and based on a document first published in 2007. Fortunately, credit unions were largely successful in transitioning to work from home arrangements, which have now become a centerpiece for operational resiliency and business continuity.

In NAFCU's *State of the Industry* (SOTI) survey, which was administered in June 2020, 75 percent of credit unions reported that staff already regularly teleworked (Chart 4.1). Larger credit unions performed better in this regard, but over 60 percent of credit unions with less than \$250m in assets had at least some degree of teleworking. The vast majority of SOTI survey respondents also reported that their experience with remote work has exceeded expectations, and they generally expect to increase use of remote work even after the COVID-19 crisis has passed (Chart 4.2).

Notwithstanding the success of telework arrangements, credit unions initially faced logistical difficulties around required Board meetings, primarily due to inflexible provisions contained in NCUA's model bylaws and travel restrictions created by the pandemic. NAFCU was ultimately successful in persuading the NCUA that operational relief was necessary to address governance matters, and in March the agency issued a Letter to Credit Unions clarifying different options for conducting or postponing virtual meetings. A majority of NAFCU member credit unions surveyed in April indicated that they had postponed board or annual meetings, taking advantage of either existing bylaw authority or the new guidance issued by the NCUA.

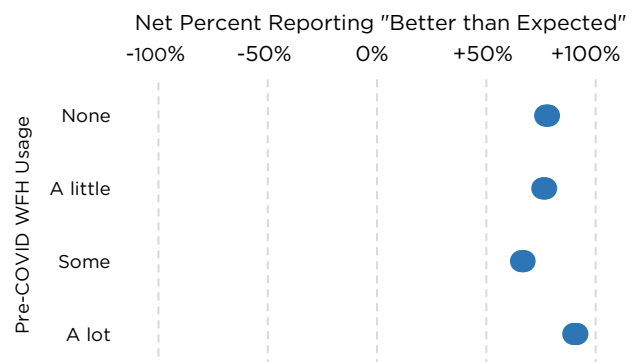
Credit unions also executed changes to branch policies to ensure safety while maintaining strong member service. In NAFCU's April 2020 *Economic & CU Monitor Survey*, a majority of respondents reported that they had implemented some form of appointment banking or would operate drive-through only branches. A significant number of credit unions reported major strains on operations but overcame difficulties to help their members.

**Chart 4.1: Share of Non-Branch Staff that Regularly Teleworked prior to COVID-19, by Asset Class**



Source: NAFCU *State of the Industry* survey

**Chart 4.2: How WFH has Functioned during COVID-19, by pre-COVID WFH Usage**



Source: NAFCU *State of the Industry* survey

## Assistance to Members

From the onset of the pandemic, credit unions were quick to react. Recognizing the severity of multiple financial stresses, such as business closures, suspension of critical services, and job losses, a stunning 100 percent of NAFCU surveyed respondents reported offering payment accommodations for borrowers. These options included deferments, modifications and skip-a-pays, along with pre-CARES Act loan forbearances. Further, a majority waived fees, and 49 percent increased staffing at call centers.

Alongside the mortgage relief provided in the CARES Act, which generally permits borrowers to obtain forbearances with minimal documentation other than an attestation of hardship, 81 percent of respondents in NAFCU's June 2020 *Economic & CU Monitor Survey* indicated that they had voluntarily offered forbearances on other consumer loans. Among the most popular options offered were 90-day skip-a-pay arrangements, and longer extensions for any COVID-19 related hardship.

Despite persistently high unemployment in the middle of the year, a majority of credit unions surveyed by NAFCU in June characterized the monthly change in delinquency rates on mortgage loans as “flat,” while roughly one-quarter said they were “increasing.” Fiscal support from the CARES Act, such as enhanced unemployment insurance and onetime stimulus payments, likely contributed to stable delinquency conditions. Credit unions responding to the *Federal Reserve Meeting Survey* reported that current delinquency rates were lower than average across virtually all product segments except commercial real estate loans. This aligns with call report data, which showed that delinquencies declined in the second quarter and were down from a year prior.

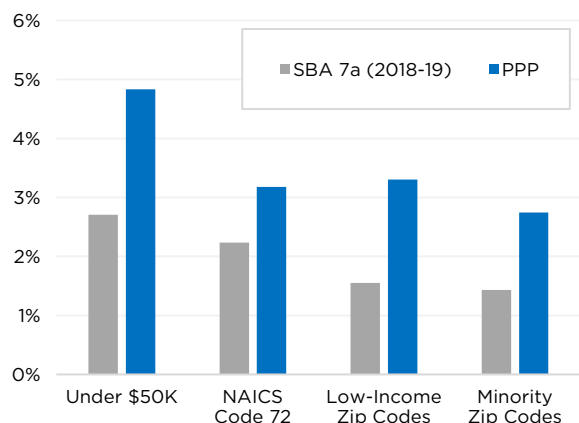
## Paycheck Protection Program

In 2020, credit unions have stepped up to ensure that small businesses within their communities are taken care of as economic uncertainty persists. Despite a relatively steep learning curve for accessing the PPP when it launched, credit unions did all they could to ensure their existing and new small business members were able to access credit and survive economic hardship. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. An analysis of SBA's PPP data shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately \$50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees. Economic Injury Disaster Loans (EIDL) are also an important tool in ensuring additional liquidity to members, and NAFCU is supportive of expanding access to these loans.

NAFCU member credit unions also reported making PPP loans in amounts much lower than the national average during both rounds of funding. As a consequence, NAFCU has been supportive of automatic loan forgiveness for PPP loans under a \$150,000 threshold. Loans under \$150,000 account for 85 percent of PPP recipients but only account for 26 percent of the funds disbursed by the SBA. This level would cover the majority of credit union loans, the vast majority of which have been to smaller businesses that could most benefit from this automatic forgiveness

NAFCU continues to advocate for a streamlined loan forgiveness process that does not impose additional costs on credit unions. Credit unions and their members were initially overwhelmed by the complexity of the PPP loan forgiveness process, but the SBA and Treasury have since release a revised, borrower-friendly loan forgiveness application implementing changes made in the NAFCU-supported bill, H.R. 7010, the Paycheck Protection Program Flexibility Act, as well as a new “EZ” version of the forgiveness application for borrowers who meet

**Chart 4.3: Share of Loans Originated by Credit Unions, by SBA Lending Program**



Note: NAICS Code 72 is primarily restaurants and hotels; Low-income zip codes are those with median annual household income below \$40k; Minority zip codes are those where more than half of population is non-white | Sources: Census Bureau, SBA Loan Level Data, NAFCU calculations

certain criteria. In early October, Treasury Secretary Mnuchin indicated during a conversation with Rep. Tom Reed (R-NY) that the department was working on a solution to make the forgiveness process easier; however, he acknowledged that absent legislative action options would be limited. NAFCU will continue lobbying Congress to support a forgiveness process that works best for credit unions and their members.

## **Regulator Response**

Virtually every financial regulator produced some measure of COVID-related relief to help ease economic and operational shocks within the financial sector. In some cases, this relief was carried by existing momentum for regulatory reform, while in other cases it derived wholly from new legislative provisions adopted in the CARES Act. After passage of the CARES Act, agencies generally turned their attention to implementing new provisions of law, which has in some cases displaced existing rulemaking schedules. From March to July, NAFCU compiled every regulator action relevant to credit unions in its “COVID-19 Regulator Responses” chart, which documented well over a hundred discrete agency actions. Some of these are summarized below:

### **NCUA**

The NCUA’s response to the pandemic initially focused on providing low-income and other eligible credit unions with emergency assistance grants, but quickly expanded into a host of broader relief measures targeted at all FICUs. In May, the NCUA announced that it had transitioned to a predominantly offsite examination posture. By May, it had issued new rules granting PCA flexibility, implemented changes to CLF access, approved additional appraisal flexibility, implemented a framework for favorable regulatory capital treatment of PPP loans, and participated in interagency guidance regarding troubled debt restructurings, and joined an interagency statement regarding cybersecurity best practices for virtual work environments.

### **CFPB**

The CFPB released numerous statements regarding supervisory and enforcement policies in response to COVID-19. Many of these statements, which included formal guidance, sought to clarify or ease compliance with Bureau rules. These included the Remittance Rule, HMDA and FCRA reporting requirements, loss mitigation rules under Regulation X, and E-Sign consent requirements under Regulation Z—to name just a few examples. The Bureau also published information for consumers describing ways to avoid COVID-related fraud schemes and how to receive economic impact payments.

### **SBA**

The SBA’s most visible role since the onset of the pandemic has been administering the Paycheck Protection Program. To date, the SBA has published 25 interim final rules implementing Sections 1102 and 1106 of the CARES Act, which amended the SBA’s 7(a) lending program and created the PPP loan program. The PPP loan program ended on August 8, 2020, with over \$133 billion in funding remaining. Subsequently, on August 10, 2020, the SBA’s loan forgiveness portal opened and began accepting PPP loan forgiveness applications. Most recently, the SBA has explained that borrowers can submit a loan forgiveness application at any point before the maturity date of the loan, which is either two years or five years from loan origination. In October, the SBA revealed that it had received about 96,000 forgiveness requests in September, which amounts to less than 2 percent of the total loans made under the program.

### **Federal Reserve**

Through March, the Federal Reserve introduced a series of stabilization packages to support the economy during the pandemic. During that timeframe, the Federal Open Markets Committee (FOMC) announced it would purchase at least \$500 billion of Treasury securities and at least \$200 billion of mortgage-backed securities. By April, the Federal Reserve had committed to providing up to \$2.3 trillion in loans. Instrumental to this stabilization strategy was the creation of new credit facilities to provide economic assistance to businesses. Of greatest relevance to credit unions was the Federal Reserve’s Paycheck Protection Program Liquidity Facility (PPPLF) and, to a lesser extent, the Main Street Lending Program. The PPPLF was designed to assist lenders by providing credit backed by PPP loans pledged as collateral. The NCUA also clarified that pledged PPP loans would not be factored into a credit union’s calculation of total assets for the purpose of determining net worth. Through the Main Street

Lending Program facilities, the Federal Reserve committed to purchase 95 percent participations in loans to businesses made by eligible lenders, which include credit unions.

As of September 30, 2020, the PPPLF has extended \$68 billion in credit to pledging institutions, yet credit union utilization of the PPPLF remains low. While NAFCU appreciate the Federal Reserve's efforts to streamline access to the facility (e.g., extending the deadline for new extensions of credit to December 31, 2020, waiving requirements for preexisting discount window access, and accommodating correspondent relationships), low demand for additional liquidity likely explains why credit unions were not major users of the PPPLF or the Main Street Lending Programs. Furthermore, one of the stated purposes of the PPPLF was to help financial institutions finance more PPP loans; however, the expiration of round one PPP funding, administrative barriers for borrowers and lenders, and early signs of an economic recovery may have slowed the pace of new lending. As a result, additional PPPLF financing was likely deemed unnecessary in order to sustain future PPP lending after Congress approved a second round of funding.

The Main Street Lending Programs, boasting \$600 billion in combined lending capacity, were more specifically designed to facilitate loans to small and medium sized businesses, including non-profit organizations (but not credit union borrowers). Through the Main Street programs, the Federal Reserve committed to acquiring participations in loans originated through the individual Main Street facilities. Specifically, the Federal Reserve would purchase 95 percent of the loan, while the lender retains 5 percent. As of September 30, 2020, the total outstanding amount of the Federal Reserve's loans under the Main Street Lending Programs was \$2.2 billion.

### **FHFA**

The FHFA has taken several actions to provide liquidity and stability in the housing market, including requiring both Fannie Mae and Freddie Mac (the GSEs) to adopt a four-month limit on the payment of principal and interest for mortgages in forbearance. Other actions were aimed at consumers, such as expanding a moratorium on foreclosures and evictions and prohibiting lump sum repayment at the conclusion of forbearance. The FHFA also recently announced that it would purchase mortgages in forbearance before delivery to the GSEs in exchange for a fee of 500 basis points for new borrowers and 700 basis points for all other borrowers. In addition, the FHFA announced a payment deferral option for borrowers that would permit them to repay forbore payments when the home is sold, refinanced, or at maturity. Also related to forbearances, the FHFA announced that the GSEs are permitting borrowers to refinance or buy a new home, if they continued to make payments during the forbearance period, after three months of consecutive payments following the end of the forbearance period. As a result of NAFCU's advocacy, the FHFA announced that it would delay to December 1, 2020 the implementation of a new "adverse market refinance fee," originally scheduled to start on September.

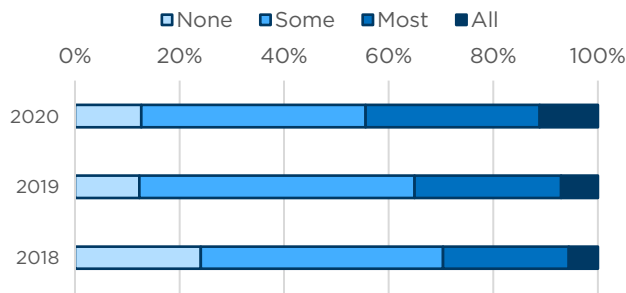
While many regulatory actions served to make it easier for credit unions to serve their members during the pandemic, persistent economic uncertainty could also trigger less desirable interventions. For example, additional rounds of government stimulus could compound existing capital stresses for the industry. New direct deposits of EIPs could erode net worth if members' cautious spending habits continue to depress loan to share ratios and net interest margin. While NAFCU continues to recommend that the NCUA consider additional capital flexibility, the agency's priorities may lie elsewhere. At the NCUA's September Board meeting, staff presented the SIF's second quarter financial summary. It was revealed that the equity ratio had fallen 13 basis points since the prior year end, from 1.35 percent to 1.22 percent. NCUA staff emphasized that this drop was due to extraordinary share growth related to the COVID-19 crisis. Most significantly, the Board also entertained discussion surrounding the possibility of a premium assessment either in 2020 or 2021, followed by consideration of the uncertainty around projecting the future path of the equity ratio.

Immediately after the NCUA's September meeting, NAFCU submitted a letter to the Board opposing any SIF premium that was primarily intended to remedy the temporary effects of increased share growth during the COVID-19 pandemic. NAFCU supports a strong SIF and a strong credit union industry that is both robust to unforeseeable crises such as COVID-19 and positioned to thrive during the recovery. Accordingly, in lieu of imposing a premium, NAFCU supports the NCUA adopting or facilitating relief measures to provide credit unions with more options to manage the large influx of deposits, including additional temporary investment authorities.

# APPENDIX: CREDIT UNION RATINGS OF FEDERAL RESERVE SERVICES

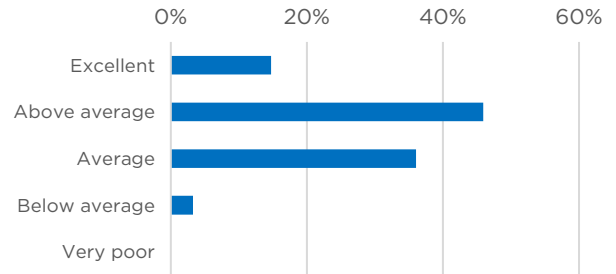
NAFCU's 2020 *Federal Reserve Meeting Survey* asked about participants' use of Federal Reserve services. In terms of usage rates, respondents reported increased reliance on the Federal Reserve for transactional service needs. Nearly half of respondents (44 percent) used the Federal Reserve for "all" or "most" of their transaction services, which is higher than either of the prior two years (Chart A.1). Thirteen percent of respondents reported that they do not use the Federal Reserve for any transaction services. As was the case in prior surveys, respondents' usage of transaction service providers depended largely on their size. Seventy-five percent of credit unions with under \$100 million in assets indicated that they use corporate credit unions for "all" or "most" of their service needs, while 67 percent of credit unions with over \$1 billion in assets use the Federal Reserve.

**Chart A.1: Share of Respondents' Transaction Services Provided by Fed**



Source: NAFCU 2020 Federal Reserve Meeting Survey

**Chart A.2: Respondents' Rating of Fed Services**



Respondents reporting no usage of Fed services were excluded.

Source: NAFCU 2020 Federal Reserve Meeting Survey

Survey respondents continue to rate Federal Reserve services highly. Among service users, 61 percent of respondents rated Federal Reserve services as "excellent" or "above average." Just 3 percent rated those services as "below average." When asked to comment on their experience using the Federal Reserve as a service provider, most survey participants responded positively. One commenter noted that the Federal Reserve provided helpful assistance early in the COVID pandemic, including through offering service fee relief. Another commenter praised the customer support provided through a transition in account representatives. There were several negative comments, with respondents noting the high cost of educational services, difficulty changing authorized signers, and the receipt of incorrect information on transferring funds.

Finally, NAFCU asked its members about the pricing of Federal Reserve services. Overall, 66 percent said that services were priced competitively, compared to 9 percent that said pricing was not competitive. The remaining 25 percent were unsure or did not utilize Federal Reserve services. Products mentioned most often by respondents as being priced competitively included: ACH, cash services, and wire transfers. The service that respondents cited most often as not being competitively priced was wire transfers.