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National Association of Federally-Insured Credit Unions

June 1, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

Re: Hearing on the Implementation of Title IV of the CARES Act

Dear Chairman Crapo and Ranking Member Brown:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing on the implementation of Title IV of the CARES Act. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

We appreciate that credit unions were included in the CARES Act and thank you for holding tomorrow's hearing to evaluate the implementation of Title IV of this legislation. As you examine Title IV of the CARES Act, we would like to share our thoughts on certain sections that impact credit unions:

Section 4008

NAFCU would like to highlight the lack of parity between credit unions and community banks in Section 4008 of the CARES Act. This section appears to allow the Federal Deposit Insurance Corporation (FDIC) to establish an unlimited maximum guarantee, whereas the "equivalent" provision for the National Credit Union Administration (NCUA) appears to only apply to noninterest bearing transaction accounts. We ask that the Committee consider providing the NCUA with the same powers as the FDIC, extending their ability to establish a maximum guarantee to all shares or deposits held in a federally-insured credit union.

Section 4012

Another issue with parity between community banks and credit unions comes in section 4012. This section provides banking regulators with the authority to temporarily lower the Community Bank Leverage Ratio (CBLR) from 9 percent to 8 percent. NAFCU asks that you consider capital relief for credit unions in the next relief package that is on par with those provided to community banks so that credit unions may loan more to their members who need it.

Section 4013

NAFCU appreciates the provisions in this section giving the NCUA broad authority to suspend Generally Accepted Accounting Principles (GAAP) requirements with respect to loan

modifications related to COVID-19 that would otherwise be categorized as Troubled Debt Restructurings (TDRs). Despite the flexibility that was granted, there are still operational challenges with the treatment of loan modifications and TDRs. We have urged the NCUA to act to permit credit unions to reinterpret its regulations to permit capitalization of interest, in accordance with GAAP and the processes of the banking agencies and Fannie Mae and Freddie Mac, as credit unions work to help borrowers in need. Currently, in order to make a TDR modification work for the member, the credit union must pursue one of the following options: (1) collect interest current at the time of modification, which causes additional hardship for the member, especially as many Americans have now lost their jobs; (2) forgive the interest, which harms the credit union, making it more difficult to loan to other members and creating potential tax ramifications for the members; (3) defer the interest until the end of the loan term, which creates a balloon payment for the member and could cause additional hardship; or (4) adjust the amortization on the loan and bifurcate it to create a modified rate component and a zero-interest component, which is confusing for the member and poses operational challenges for the credit union as many systems are not designed to easily incorporate such an adjustment.

Section 4014

Credit unions remain well-capitalized as an industry and stand ready to help in the economic recovery. However, pending new capital requirements from regulators could stymie these efforts. Even though the Financial Accounting Standards Board (FASB) has delayed its new Current Expected Credit Loss (CECL) standard for credit unions until the first quarter of 2023, credit unions will have to start bringing their portfolios in line in 2021 and 2022. The temporary relief for 2020 provided in Section 4014 is a good first step. Still, CECL will remain a burden on credit unions as the economy seeks to recover. This could cause constraints on lending and delay our nation's economic recovery. NAFCU believes that credit unions, as not-for-profit cooperative institutions, should not be subject to the CECL standard. If credit unions are not exempted, further delaying implementation of this standard could help provide additional clarity and relief for credit unions. We would note that NCUA Chairman Hood called for a credit union exemption to the CECL Standard in an April 30, 2020 letter to FASB, stating that "...the compliance costs associated with implementing CECL overwhelmingly exceed the benefits." We hope you will continue to examine legislative measures to provide relief from CECL in the next coronavirus relief package.

Section 4016

We support, and ask that you make permanent, the changes to the Central Liquidity Facility (CLF) in section 4016. We would note that National Credit Union Administration (NCUA) Chairman Rodney Hood and Board Member Todd Harper have both called on Congress to make these changes permanent. The CLF is an important liquidity tool for credit unions, and the recovery ahead will likely extend beyond the end of 2020 when the changes are set to expire. NAFCU believes strong liquidity is vital to ensuring loans to struggling families and small businesses continue to flow within the credit union system.

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Sections 4022 & 4023

We would also like to reiterate credit unions' concerns with section 4022 and 4023, which provide borrowers with forbearance options for single-family and multifamily loans sold to the government-sponsored enterprises (GSEs) respectively. Credit unions stand ready to help their members remain in their homes but may also be facing difficulties handling the large volume of forbearance requests. Credit unions are experiencing many members submitting requests for forbearance as countless individuals are furloughed or laid-off from their jobs as a result of the COVID-19 pandemic and facing financial hardship. However, credit union mortgage servicers are contractually obligated to continue to make payments to investors on the interest, with respect to Freddie Mac mortgages, and interest and principal, with respect to Fannie Mae mortgages, on mortgage-backed securities (MBS), based on a calculation of the unpaid principal balance of the loan after the last payment was received from the borrower. The CARES Act did not address these issues. NAFCU has asked the Federal Housing Finance Agency (FHFA) to direct the GSEs to be as transparent as possible with respect to expectations for servicers during these unprecedented times and offer assistance programs for servicers encountering difficulties making the required payments to the GSEs on mortgages and MBS. We ask that you echo these requests to the FHFA, as well as consider legislative action to ensure that this health crisis does not become another financial crisis. Congress should enact measures to address this concern, including directing insurance companies to keep hazard insurance policies in place during a period of forbearance, directing the National Flood Insurance Program (NFIP) to keep flood insurance in place during a forbearance, and addressing the issue of property tax payments during a period of forbearance, such as the Federal government stepping in to make required payments to local governments during the forbearance period instead of putting the burden on the financial institution.

As the Committee evaluates the implementation of Title IV of the CARES Act, we strongly urge you to consider the concerns of the nation's credit unions and the 120 million Americans that they serve that we have outlined in this letter. During times of economic crisis, credit unions always focus on their members and doing all that they can to help. We thank you for the opportunity to share our members' concerns in advance of this hearing.

Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at 703-842-2836.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Banking Committee