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NAFCU
National Association of Federally-Insured Credit Unions

August 28, 2023

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: IRPS on Minority Depository Institution Preservation Program (Docket No. NCUA-2023-0070)

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the proposed revisions to interpretive ruling and policy statement (IRPS) 13-1, regarding the Minority Depository Institution (MDI) Preservation Program (MDI Program) for credit unions. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 137 million consumers with personal and small business financial service products. NAFCU and its member credit unions appreciate the opportunity to provide input on this proposed IRPS and strongly support the proposed revisions and appreciate the NCUA's continued dedication to the MDI Program.

Unique Nature of MDIs

NAFCU has consistently advocated for the importance of MDIs and the vital role they play in serving minority and underserved communities. The proposed IRPS aligns well with NAFCU's principles and efforts, recognizing the unique nature and contribution of MDIs and the necessity of tailored regulatory treatment that recognizes their distinct context and mission. The IRPS' acknowledgment of the distinct roles MDIs play, encouraging examiners to consider their unique characteristics and objectives rather than merely comparing them to similarly sized credit unions, is of particular importance. This approach will ensure that MDIs are not unduly penalized or hindered by a lack of contextual understanding. Furthermore, it is a significant step toward understanding the unique challenges MDIs face and ensuring their continued operation and growth. MDIs often have to adopt different approaches to financial and operational risk management in order to effectively cater to their customer base. This may include providing services to consumers and businesses in communities that might not otherwise have access to another federally insured financial institution. Consequently, the challenges faced by MDIs and the operational strategies they employ may be quite different from those of non-MDI credit unions of a similar size.

For NCUA examiners, it is necessary to understand the different core objectives of these institutions when evaluating their financial and operational condition and related management practices. It is important to consider not just the financial performance, but also the operational risks and the context in which these MDIs operate. For example, an MDI may require a higher level of operational expense due to the need for more hands-on customer service, education, and support to meet the needs of its community. These kinds of contextual elements, unique to the mission and customer base of the MDI, can impact the financial performance and risk profile of the institution.

The NCUA provides specific guidance to examiners to educate them about these unique challenges faced by MDIs. This guidance advises that the policies, processes, risks, and practices of MDIs may vary compared to other credit unions based solely on similar size. NAFCU supports this guidance, as it underscores the importance of understanding the unique nature of MDIs and assessing them based on their distinct strategy and membership. Technical assistance requests from MDIs are another area where the NCUA's recognition of MDI uniqueness is critical. Because of their distinctive roles and responsibilities, MDIs may require different or additional forms of support from the NCUA, such as training, partnership opportunities, or financial assistance.

Importance of the Community Development Revolving Loan Fund (CDRLF)

Congressional action to include MDIs without low-income designation in the eligibility for CDRLF grants and loans was a meaningful expansion of MDI access to necessary funding, and NAFCU supports the codification of this change into the proposed IRPS. The CDRLF was traditionally designed to support low-income designated credit unions. However, expanding the eligibility criteria to include MDIs without this designation will ensure that a broader range of institutions can access vital capital. This can support their growth and development, particularly in serving the needs of diverse and often underrepresented communities. MDIs, irrespective of their low-income designation status, generally serve minority and low- and moderate-income individuals, acting as a critical financial lifeline. Their inclusion in CDRLF eligibility is therefore essential to promoting financial inclusion and resilience.

Increased funding will allow more MDIs to engage in crucial outreach efforts to help meet the unique financial needs of their communities. Additional financing will enable these institutions to expand their outreach, particularly in underserved markets, thereby improving financial literacy and access to affordable services. Enhanced support would stimulate economic activity and financial well-being in minority communities. Simultaneously, inclusion in CDRLF eligibility would empower MDIs to invest more in developing their digital platforms, aligning with the continuously evolving digital landscape. This would enhance efficiency and reach, promote financial inclusion, and necessitate significant investment in cybersecurity measures to protect sensitive customer information.

Additionally, increased CDRLF funding will enable MDIs to invest in comprehensive staff training to cope with the increasingly complex financial landscape. Ongoing employee education is vital for these institutions to adapt to change and better serve their communities, contributing to their financial stability and growth. Furthermore, such funds will permit MDIs to invest in various capacity-building programs, facilitating the scaling of operations, serving more customers, offering a broader range of products and services, and enhancing overall institutional performance. NAFCU thanks the NCUA Board for supporting congressional action to increase funding to the CDLFR. NAFCU similarly supports increased funding to the CDLFR and understands the value of these efforts, that collectively, are aimed at bolstering the financial inclusion, security, and development in the communities served by MDIs.

MDI Preservation

The proposed policy statement is an important step in helping to nurture and preserve our nation's MDIs. This is critical as MDIs play a pivotal role in fostering economic inclusion and promoting financial stability within historically underserved communities. They often serve members who might not otherwise have access to federally insured financial services, thus bridging the gap in financial access. Preservation of MDIs is essential because they contribute to economic diversity, help reduce wealth disparity, and stimulate economic growth in minority and underserved communities. They also often offer culturally competent and language-appropriate services, making financial services more accessible to a broader range of people. Therefore, any policy aimed at recognizing and supporting the unique challenges faced by MDIs is a welcome effort and will help preserve these essential institutions and the unique role they play in our financial system.

However, there are additional steps that the NCUA could consider to further reduce the risk of MDI failures, or in the event of failure, to preserve the minority character of the institution. NAFCU recommends an increased focus on the MDI mentorship program, where successful MDIs provide guidance and expertise to nascent or struggling institutions, will help to ensure their sustainability. Furthermore, NAFCU urges the NCUA to be more proactive in providing additional information and resources to MDIs. This could include regular updates on regulatory changes, best practices, or opportunities for training and development, all tailored to the specific needs of MDIs. Such initiatives would go a long way in supporting the growth and success of these institutions. Finally, NAFCU appreciates the efforts by the NCUA to maintain an active engagement with MDIs through open dialogues and exchange of expertise. We encourage the NCUA to continue this practice and provide more platforms for engagement and collaboration between the NCUA and MDIs, as well as between MDIs themselves. NAFCU believes that with the appropriate support and recognition of their unique role, MDIs can continue to serve their communities effectively.

Conclusion

NAFCU appreciates the opportunity to comment on the proposed revisions to interpretive ruling and policy statement (IRPS) 13-1, regarding the MDI Program. If you have any questions, please do not hesitate to contact me at 703-842-2268 or jakin@nafcu.org.

Sincerely,

James C. Akin
Senior Regulatory Affairs Counsel