



National Association
of Federal Credit Unions
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NAFCU | Your Direct Connection to Education, Advocacy & Advancement

April 4, 2016

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Comments on the NCUA 2017-2021 Draft Strategic Plan

Dear Mr. Poliquin:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing to you regarding the National Credit Union Administration's (NCUA) 2017-2021 Draft Strategic Plan.

NAFCU supports a robust credit union system, and as such, we support the agency's efforts to lay out long term goals and objectives to make the industry even stronger. We believe the plan correctly identifies the credit union industry's largest opportunities over the next five years. However, as NCUA considers its strategic direction for the next five years, we encourage the agency to continue to focus on operational and regulatory improvements, such as its recent modernization efforts related to its member business lending and field-of-membership regulations. To aid in these efforts, NAFCU offers the following comments based on each of the agency's three strategic goals:

Strategic Goal 1 - Ensure a safe and sound system

Budgetary Matters

As outlined in the plan's first strategic goal, NCUA's primary function is to identify credit union system risks, determine the magnitude, and mitigate unacceptable levels through the examination and supervision program. However, as NAFCU has repeatedly noted, prudent management of the agency's operating budget is of paramount concern to ensuring a safe and sound system.

Despite the fact that the credit union system is the healthiest it's been since the financial crisis, the agency continues to increase the budget. As the agency's budget is partly funded by the Share Insurance Fund, NAFCU believes that an ever increasing budget creates a risk to the safety and soundness of the credit union industry, especially considering NCUA's budget has increased for nine years in a row.

Accordingly, NAFCU strongly believes that a budget reduction or stabilization should be an objective under this first strategic goal. Therefore, budget implications of NCUA's strategic plan should be included in a revised plan, specifically detailing how an increased budget is increasing the safety and soundness of the credit union system.

Competition and Consolidation

Another key risk that the agency identifies is the rapid growth of credit union consolidation. NAFCU agrees that this is a serious problem, considering the fact that the number of credit unions dropped by 17 percent (more than 1,280 institutions) since the second quarter of 2010. Ninety-six percent of those credit unions were smaller institutions with less than \$100 million in assets.

Additionally, according to NCUA's most recent "Financial Trends in Federally Insured Credit Unions," credit unions under \$10 million in assets had negative membership growth of -1.40 percent during calendar year 2015, while credit unions with assets between \$10 million and \$100 million produced a -0.11 percent decrease in membership.

The Strategic Plan attributes these declines to the benefits of economies of scale found through mergers and increased competition from non-traditional financial services providers. While NAFCU agrees these two explanations are factors behind the shrinking credit union industry, NCUA must acknowledge that increased regulatory burden is the main contributor to credit union consolidation. Accordingly, NCUA should set out an objective that seeks to address the threat of consolidation due to overregulation.

Finally, NAFCU is pleased by recent agency actions that have attempted to curb such consolidation, such as the "Network Credit Union." This development permits multiple group federal credit unions (FCUs) to merge with each other while maintaining the non-surviving credit union identity and field-of-membership. NAFCU supports this innovation as it will help a smaller credit union achieve much needed economies of scale, while simultaneously retaining its identity in the community and close relationship with members – a true win-win situation. As the agency refines its Strategic Plan, NAFCU looks forward to working with NCUA to develop additional strategies and flexibilities for the continued survival of smaller credit unions.

Examination Cycle

The agency employs a robust examination process to ensure the safety and soundness of the system. NAFCU is encouraged by recent agency statements that have indicated NCUA will soon consider moving well-managed, low risk credit unions to an 18-month examination cycle. NAFCU strongly supports this move since other financial services regulators have recently moved toward an 18-month examination cycle for healthy, well-run institutions under \$1 billion.

NAFCU, however, is extremely dismayed that the agency did not include plans, nor contemplate such a move, in this Strategic Plan. This move would be one of the largest efforts toward providing regulatory relief toward credit unions, while simultaneously

reducing agency costs and increasing agency efficiency. It is therefore imperative the agency include an 18-month examination schedule as one of its strategic objectives, especially as this will be a multi-year initiative with long-lasting implications.

Cybersecurity

NAFCU appreciates that NCUA is addressing cybersecurity risk in its Strategic Plan, and we agree that it is an ongoing concern for the entire industry. In fact, NAFCU has long championed the risk of cybersecurity threats as we were the first financial services trade association to weigh in on data and cyber security issues in the wake of the 2013 Target breach. However, as NCUA seeks to implement its strategies to address cybersecurity risks, NAFCU stresses that cybersecurity is not an issue that can be solved with more regulatory red tape.

As NCUA revises its plan, NAFCU asks the agency to acknowledge that emerging cyber risks must be addressed by adopting solutions that are scalable and nimble enough to be used both on an institution-level and industry-wide basis to identify and respond to the ever-changing threat landscape.

Vendor Management

NAFCU notes that NCUA contemplates third-party vendor management authority in its Strategic Plan, which echoes the agency's earlier calls to Congress for such authority. However, NAFCU believes this would impose significant costs on credit unions, while providing little benefit and no clear relief to the industry.

NAFCU believes NCUA is already authorized to thoroughly regulate credit unions and their third-party relationships through the existing exam process. NAFCU disagrees with the assertion that third party vendor examination and enforcement authority will provide any significant improvement to credit union safety and soundness. Instead, we believe that such authority would require an additional outlay of agency resources, which will in turn necessitate higher costs to credit unions. Accordingly, NAFCU does not support spending credit union resources to expand NCUA's examination authority into non-credit union third-parties.

Balancing Risk Mitigation with Innovation

Finally, NAFCU asks the agency to also consider the very real risk that arises from lack of innovation in the credit union industry, especially in light of the advancements of non-traditional financial service providers, such as online marketplace lenders. To not only maintain market share, but grow in membership levels, NAFCU believes that NCUA must empower credit unions with the regulatory flexibility to innovate and expand their financial services offerings.

Strategic Goal 2 - Promote Consumer Protection and Financial Literacy

As the Strategic Plan states, the agency's second goal seeks to ensure consumers have access to appropriate and timely disclosures, sufficient protections against unscrupulous

products or services, and financial literacy education programs to help consumers make informed financial decisions. As NAFCU believes that credit unions are the best option for those Americans that are suffering financially, we are supportive of this goal.

Promoting consumer protection and financial literacy is of great importance to NAFCU and our member credit unions, especially when considering the poor financial state of many Americans. For example, 75 percent of Americans live paycheck-to-paycheck, 47 percent cannot cover a \$400 emergency, and one-in-three do not have any retirement savings. This clearly indicates a large number of Americans are not financially healthy.

To address this problem, a large majority of NAFCU member credit unions already offer financial literacy classes and training. In fact, according to a recent NAFCU survey, almost 90 percent of credit union respondents spend 86 hours each month on matters related to financial literacy, reaching an average of 20,800 members per credit union.

NAFCU urges the agency to enable credit unions to address Americans' financial needs by granting credit unions additional regulatory flexibility when addressing the needs of the least financially healthy Americans. NAFCU looks forward to working with the agency in creating policies that will help credit unions develop products and services that address Americans' financial needs.

Strategic Goal 3 - Cultivate an Inclusive, Collaborative Workplace at NCUA that Maximizes Productivity and Enhances Impact

Diverse and Skilled Workforce

The agency's third strategic goal focuses on high quality, skilled staff. The plan states that agency staff must be supported by efficient and effective processes, tools, and leading edge technology. NAFCU is supportive of this goal as it will provide the agency with a skilled and efficient workforce, which is a necessity when reviewing complex financial services.

NAFCU has routinely heard from our members that as industry issues and powers become more nuanced, credit unions need to hire more specialized individuals to keep pace. Likewise, it becomes imperative that the agency has equally skilled subject matter experts and examiners to appropriately understand the complex work being conducted at some credit unions. This will become even more relevant in the next five years, as the agency will begin to implement complex rules such as risk based capital. As the level of complexity increases, NAFCU agrees that the agency needs subject matter experts that can handle the complicated nature of the work, as this will elevate the level of conversation between the agency and the credit union.

However, as the agency retains more expertise on complicated subject matters, NAFCU urges the agency to consider the cost-benefits of using third-party contractors, particularly for one-time implementation projects. For example, the agency recently announced its Enterprise Solutions Modernization Program (ESMP), a plan to update and integrate several of its software platforms. In implementing this plan, NCUA has stated it intends to

hire part-time employees and specialized contractors. NAFCU supports this recent decision, and encourages the agency to continue evaluating the cost-benefits of using third-party contractors for projects that require highly specialized personnel, but are not needed for on-going concerns core to the agency's mission.

Finally, NAFCU would also like to take this opportunity to applaud the agency's commitment to a robust workforce as it focuses on increasing diversity and subject matter experts. NAFCU notes that the agency is routinely rated as one of the best places to work in the federal government, being ranked the eighth best work place out twenty-four mid-size agencies. As NCUA recruits a team of subject matter experts that have specialized experience in complex matters, NAFCU looks forward to the agency continuing to build on its effective work environment.

Technology Upgrades

NAFCU appreciates that a priority in the Strategic Plan is improving processes, tools, and technologies to increase efficiency and effectiveness at the agency. NCUA has committed to a major investment to modernize examination and information technology. NAFCU looks forward to the implementation of tools that will enable the agency to conduct more off-site examinations, thereby increasing agency efficiency.

Additionally, NAFCU looks forward to providing the agency with input from our member credit unions on ways that this technology can increase credit union efficiency, particularly as it will streamline many processes for credit unions. As the agency revises its Strategic Plan, NAFCU requests that the agency outline a path by which NAFCU member credit unions can participate in working groups to help test and improve these technological upgrades before final implementation.

Conclusion

NAFCU appreciates the opportunity to comment on the 2017-2021 Strategic Plan. This document is a very important tool with long-lasting implications that will continue to impact the industry beyond 2021. As the agency implements its strategies to achieve its goals and objectives, we urge NCUA to do so in the least burdensome fashion.

NAFCU looks forward to working with the agency in 2017 and beyond. Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2249 or memancipator@nafcu.org.

Sincerely,

Michael Emancipator
Senior Regulatory Affairs Counsel