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B. Dan Berger
President & Chief Executive Officer

November 12, 2015

The Honorable Debbie Matz, Chairman
The Honorable Richard Metsger, Vice Chairman
The Honorable Mark McWatters, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA 2016 Operating Budget

Dear Chairman Matz, Vice Chairman Metsger, and Board Member McWatters:

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) 2016 operating budget.

First and foremost, NAFCU and our members appreciate the agency's commitment to increasing transparency around NCUA's budgeting and expenditure processes. Over the past several months, NCUA has not only developed a dedicated budget resource center on its website, but it has also posted detailed information about the agency's spending plans, annual fund audits, and a wealth of other budget information. In reviewing these documents, NAFCU's members have found the increased disclosure extremely helpful to understanding how NCUA allocates the funds it derives through the annual operating fee. Further, we commend the Board for posting their individual office budgets and travel expenses. Overall, this NAFCU-sought transparency provides much-needed clarity to the industry on how the agency prioritizes and spends the dollars that it assesses from credit unions. Finally, NAFCU and our members also appreciate the Board's willingness to discuss policies that would further increase budget transparency

General Comments

As you know, NCUA's budget is funded exclusively by the credit unions it regulates and insures. Every single dollar spent by NCUA starts as a dollar from a credit union somewhere in the United States, and any NCUA expenditure has a direct impact on the daily operations of all regulated and insured credit unions. In the current regulatory environment, every dollar becomes that much more important as credit unions of various sizes and complexities expend significant financial and human resources to bring their systems and procedures into compliance with new requirements.

Accordingly, NCUA's budget process is of the utmost and ever-increasing importance to NAFCU's membership, the credit union industry, and Congress. This year, we have seen bipartisan legislation, the *NCUA Budget Transparency Act (H.R. 1176, S. 924)* to require greater transparency and credit union input during NCUA's budget process introduced in both Houses of Congress. NAFCU views this legislation as crucial because credit unions currently have no ability to comment or have input on any part of NCUA's budget – every dollar of which they ultimately fund.

As NCUA moves to approve its fiscal year 2016 budget, NAFCU again strongly urges the NCUA Board to look at each line item of the budget with the explicit goal of achieving cost-savings. NCUA, as the steward of credit union's dollars, must ensure that it develops a realistic and cost-effective budget because every dollar saved by NCUA in its operating expenses enables credit unions to better serve their members. Accordingly, we encourage NCUA to look carefully at what works within the agency and reprioritize any current resources that can be used more effectively.

NCUA has increased its budget year over year since 2008. Of note, these increases were due to higher staffing and contracting services costs. While NAFCU and our members appreciate the NCUA Board's zero-budgeting approach to ensure that each position and every expense is individually justified, we note that in 2015, the agency added additional full-time equivalents (FTEs), and also increased its Contracted Services line item by approximately \$2.05 million—an 8.5% increase over 2014's budgeted line item. Although NCUA added a modest four FTEs last year, NAFCU and our members are concerned that the agency may be shifting staffing costs from one line item to another. We acknowledge that contracted services enable NCUA to engage specialized subject matter expertise in support of the agency's regulatory and supervision responsibilities; however, NAFCU encourages the agency to thoroughly review its Contracted Services line item to ensure that each expenses is realistic, appropriate and justified—similar to the approach it uses for every other line item in its overall Operating Budget.

2-year budget

Listed on the agency's November 2015 Board meeting agenda is consideration of a "2016/2017 Operating Budget." NAFCU and our members firmly believe that a two-year budget cycle poses the risk of decreasing transparency and accountability in NCUA's budget process. As we have consistently maintained, NCUA's budget must accurately and transparently reflect the realistic and reasonable costs for the agency in order to fulfill its Congressional mandate of preserving the safety and soundness of the credit union industry.

NAFCU is deeply concerned that a biennial budget will be inefficient and ineffective because it will yield inaccurate projections that will ultimately have to be refined by the agency after the first year. When NCUA utilized a biennial budgeting process from 2008-2011, the agency consistently revised and increased its second year projected budget. For example, in November 2008, the NCUA Board approved a budget for fiscal years 2009 and 2010, in which it allotted $189.9 million for 2010. However, in November 2009, the NCUA Board revised and increased this budget to $200.9 million. Furthermore, in 2009 the NCUA Board approved a $215.8 million budget for 2011, which increased a year later to $225.4 million. These increases underscore the inefficiencies and ineffectiveness of a biennial budget, as the NCUA Board was unable to operate within it original projection. Further, these increases are evidence that a biennial budget will not provide credit unions greater certainty or the ability to prepare long-term, as the agency consistently changed its original budget. NAFCU is concerned that as NCUA's budgeting time-frame becomes further removed from present day, it will become less accurate, and thereby, less efficient.

NAFCU and our members are also concerned that a biennial budget forecast does not achieve transparency and efficiency in the agency's budgeting process. NAFCU maintains that transparency hinges on detailed disclosures and interactive input. We believe he best way for NCUA to reach its stated policy goal of greater transparency is to have greater credit union stakeholder involvement during the budgeting and expenditure processes. For that reason, NAFCU and our members ask that NCUA maintain its current annual budget, and reconsider holding public hearings on its budgetary processes.

18-month exam cycle

As NAFCU outlined in our August 18, 2015 letter, we believe that an 18-month examination cycle would allow NCUA to better prioritize staff and resources, while still balancing risk factors and maintaining the safety and soundness of credit unions. Credit unions have healed along with the overall U.S. economy since the financial crisis. Given that current risk to the NCUSIF and economic trends mirror 2001-2007, NAFCU and our members strongly urge the agency to implement an 18-month examination cycle that would allow federal credit unions determined to be "low risk" to receive no more than two exams in a three year period. This approach would preserve the agency's ability to address risk through requisite supervision and monitoring, but would streamline NCUA's staff and resources for a more cost-effective budget. Simply put, this approach will allow NCUA more flexibility in balancing staff and resources without compromising the safety and soundness of the industry

NAFCU and our members appreciate NCUA's thoughtful review of our letter, and we look forward to continuing the dialogue about how to adopt an extended exam cycle for healthy credit unions that will efficiently provide relief and effectively maintain our industry's safety and soundness. Further, we welcome engagement with NCUA about what processes and procedures are needed in order for NCUA to implement an 18-month exam cycle.

Third Party Vendor Authority

NAFCU does not support spending credit union resources to expand NCUA's examination authority into non-credit union third parties. While NCUA contends that examination and enforcement authority over third party vendors will provide regulatory relief for the industry, NAFCU and our members firmly believe that such authority is unnecessary and will require considerable expenditure of the agency's resources and time. 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 will require an additional outlay of agency resources, which will in turn necessitate higher costs to credit unions. A better use of credit union resources in the examination space would be to appropriately train and educate examiners so that examinations are conducted consistently in all Regions.

Conclusion

We look forward to continuing to work with NCUA to address ways that the agency could streamline and refine its operating costs in order to more effectively grow and support the dynamic credit union industry. I look forward to hearing from you regarding this important matter. Should you have any questions or would like to discuss these issues further, please feel free to contact me, or Carrie Hunt, NAFCU's Senior Vice President of Government Affairs and General Counsel at (703) 842-2234 or by e-mail at chunt@nafcu.org.

Sincerely,

B. Dan Berger
President/CEO

cc: Mr. Mark A. Treichel, Executive Director
Mr. Rendell L. Jones, Chief Financial Officer