



3138 10th Street North
Arlington, VA 22201-2149
703.842.2215 | 800.336.4644
F: 703.522.2734
dberger@nafcu.org

B. Dan Berger
President & Chief Executive Officer

National Association of Federal Credit Unions | www.nafcu.org

April 6, 2015

The Honorable Debbie Matz, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA's Recommended Legislative Reform Ideas for the National Credit Union
Share Insurance Fund

Dear Chairman Matz:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to request that the National Credit Union Administration (NCUA) provide greater detail about the agency's recommended changes for legislatively reforming the National Credit Union Share Insurance Fund (NCUSIF), as outlined in its September 2013 white paper, "National Credit Union Share Insurance Fund Improvements."

In my letter of February 23, 2015, I requested more information about NCUA's long-term plan for mitigating perceived risk in the credit union industry. In that letter, I specifically noted NCUA's legislative priority of establishing risk-based share insurance premiums – a priority that was buried in a footnote of NCUA's February 10, 2015, testimony before the Senate Banking Committee. In your March 16, 2015, response, however, you failed to address the agency's ideas for legislative reforms to the NCUSIF. These ideas have recently come to light with the release of the above-noted white paper.

NAFCU and our members realize the importance of ensuring the safety and soundness in the credit union system, but we are deeply concerned that the agency's recommended changes would give NCUA authority unparalleled to that of any other federal financial institution regulator. Specifically, NCUA is seeking; (1) to establish higher thresholds for the operating level of the NCUSIF; (2) the authority to assess risk-based premiums, and (3) to remove the statutory 1.5 percent equity ratio cap. The agency justifies these requests by stating they would more closely align the operations of the NCUSIF with those of the Deposit Insurance Fund (DIF) administered by the Federal Deposit Insurance Corporation (FDIC). NCUA, however, also wants to retain the ability to require credit unions to maintain 1 percent of their insured shares in the NCUSIF.

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April 6, 2015
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FDIC does not require insured banks to maintain a minimum deposit based on their insured deposits.

While NCUA's recommended changes give the appearance of parity with DIF, NCUA is seeking to layer risk-based insurance premiums on top of credit unions' existing 1 percent NCUSIF deposit. As a result, NCUA's recommendations would expand the credit union regulator's authority beyond that of FDIC and potentially force credit unions to pay more than banks do for federal deposit insurance coverage.

NAFCU strongly believes that credit unions are entitled to know the recommendations that NCUA is making to Congress about reforming the NCUSIF. Because the 2013 white paper is two years old, we request that the agency disclose all subsequent and future plans for pursuing legislative reform for the NCUSIF. Further, NAFCU asks that NCUA share its anticipated timeline for advocating these changes to Congress.

We hope that the agency will take the steps necessary to provide this information to credit unions, and we look forward to working with you in that effort. Should you have any questions or would like to discuss these issues further, please contact me by telephone at (703)-842-2215, or contact Carrie Hunt, NAFCU Senior Vice President of Government Affairs and General Counsel, at (703) 842-2234 or chunt@nafcu.org.

Sincerely,



B. Dan Berger
President & CEO

cc: The Honorable Richard Metsger, Vice Chairman
The Honorable Mark McWatters, Board Member
Mr. Michael McKenna, General Counsel
Mr. Larry Fazio, Director of the Office of Examination and Insurance

Enclosed:

Letter to Chairman Matz on February 23, 2015 regarding NCUA's Risk Mitigation Plan
Letter from Chairman Matz on March 16, 2015 in response to NAFCU



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National Association of Federal Credit Unions | www.nafcu.org

B. Dan Berger
President & Chief Executive Officer

February 23, 2015

The Honorable Debbie Matz, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA's Risk Mitigation Strategy

Dear Chairman Matz:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to you to urge the National Credit Union Administration (NCUA) to provide greater detail about the agency's plans and initiatives to address perceived risks in the credit union system.

In the past several years, NCUA has proposed or finalized rules, and made legislative requests seeking to mitigate perceived risks within credit unions. These include the agency's current proposal on risk-based capital and its recent final rule on emergency liquidity. Also, NCUA has indicated that one of its legislative priorities is the establishment of a risk-based share insurance premium structure and has noted its intent to act in additional areas, such as interest rate risk. Taken all together, these initiatives have, and will continue to, impose undue regulatory burden on credit unions all in an effort to address the same perceived risk.

While NAFCU and our members acknowledge the importance of safety and soundness in the credit union system, we firmly believe that NCUA needs to more fully outline its long term strategy and goals, as credit unions are currently unable to fully analyze the impact of the agency's initiatives without knowing NCUA's ultimate goals for mitigating perceived risk. We strongly believe that credit unions are entitled to know NCUA's overall design for addressing perceived risk within the credit union system. Specifically, NAFCU requests that the agency disclose how its current proposal on risk-based capital, its recent final rule on emergency liquidity, and its supervisory attention to interest rate risk fit in to NCUA's long term risk mitigation plan. Further, NAFCU asks that NCUA share its anticipated timeline for proposing

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and implementing any new rules or guidance that would seek to address risk in the credit union industry.

We hope that the agency will take the steps necessary to provide this information to credit unions and we look forward to working with you in that effort. Should you have any questions or would like to discuss these issues further, please contact me by telephone at (703)-842-2215, or Carrie Hunt, NAFCU's Senior Vice President of Government Affairs and General Counsel, at (703) 842-2234 or chunt@nafcuh.org.

Sincerely,



B. Dan Berger
President and CEO

cc: The Honorable Richard Metsger, Vice Chairman
The Honorable Mark McWatters, Board Member
Larry Fazio, Director of the Office of Examination and Insurance



National Credit Union Administration

Office of the Chairman

March 16, 2015

Mr. Dan Berger
President and CEO
National Association of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201-2149

Dear Dan:

Thank you for your letter about the agency's plans and initiatives to address perceived risks to the credit union system. I understand the intent behind your inquiry is for transparency purposes, so you can clarify for your member credit unions what specific actions they may expect from NCUA in the coming year.

NCUA publicly posts a strategic plan every three years, as well as an annual performance plan outlining the agency's goals to achieve our safety and soundness objectives. Both documents give a higher-level view of NCUA goals to maintain safety and soundness and mitigate risk within the credit union system to protect the Share Insurance Fund.

Annually, NCUA sends all federally insured credit unions the agency's annual *Supervisory Letter to Credit Unions*. Each year, this letter details NCUA's supervisory priorities for the coming year, so credit unions can prepare for NCUA examiners' approach to address and mitigate potential risks in the system. For 2015, NCUA's supervisory priorities detailed in the letter are interest rate risk, cybersecurity, liquidity and contingency funding rule compliance, Bank Secrecy Act compliance, and continued due diligence and ongoing monitoring of lending programs.

Additionally, every six months, NCUA publicly posts a Semi-Annual Regulatory Agenda that lists potential rulemakings that the Board might consider in the near future. As I said in a recent speech, my intent is that the revised risk-based capital proposal now out for comment be the last significant safety and soundness rulemaking for the foreseeable future. I also indicated that rather than issuing a proposed rule concerning interest rate risk, NCUA is looking at options to examine for it in the supervisory process. We have asked credit unions to comment on ways NCUA should address interest rate risk.

With safety and soundness regulation being sufficiently modernized, 2015 will see Board actions and rulemakings focus primarily on regulatory relief. We've already started, by proposing to lift the Regulatory Flexibility Act definition of a small entity (non-complex) to \$100 million, representing a ten-fold increase from the \$10 million asset threshold in place when I became Chairman. We also intend to:

Mr. Dan Berger
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- Propose a supplemental capital rule for the purposes of risk-based capital, once the risk based capital rule is finalized;
- Look at ways within our rules and policies to modernize and expand fields of membership that are consistent with the Federal Credit Union Act's authority granted to the NCUA Board to ensure greater consumer access to credit union provided financial services;
- Remove the fixed assets waiver process and existing 5% investment limit on fixed assets;
- Permit large, qualified credit unions to securitize their assets, allowing them to tap new sources of liquidity and reduce interest rate risk by converting fixed-rate assets into cash; and
- Modernize our member business lending rule, such as removing our requirements for personal guarantees and the existing time-consuming waiver process, moving away from NCUA-driven highly prescriptive loan underwriting requirements, and lifting unnecessary limits on construction and development loans. NCUA will of course continue to provide business loan guidance and supervise effectively for sound commercial lending practices.

Dan, as a former credit union official myself, I understand the need for credit unions to plan operationally for the coming year. This list transparently covers my main rulemaking agenda items for 2015. I sincerely hope this helps NAFCU and its members understand what to expect from NCUA during the coming months, and puts to rest any anxiety or concerns about whether NCUA intends to propose new, significant safety and soundness rule makings in the coming year.

Sincerely,



Debbie Matz
Chairman