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The Honorable Randy Neugebauer
Chairman
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Wm. Lacy Clay
Ranking Member
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

Re: Tomorrow's Hearing: "National Credit Union Administration Operations and Budget"

Dear Chairman Neugebauer and Ranking Member Clay:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the federal interests of our nation's federally-insured credit unions, I write today in conjunction with tomorrow's subcommittee hearing entitled "National Credit Union Administration Operations and Budget." NAFCU thanks you for holding this important hearing for the credit union industry and would like to take the opportunity to share our thoughts on some of our top concerns with the National Credit Union Administration (NCUA) ahead of the hearing. NAFCU believes that a robust discussion of credit union issues only helps to strengthen the industry.

NCUA's Budget

NCUA is funded by the credit unions it supervises. Each year, credit unions are assessed a different operating fee based on asset size. NCUA then pools the monies it receives from credit unions and uses those funds to create and manage an examination program. The monies that NCUA collects, however, have significantly increased since 2008 to cover more than $100 million in growth in the agency's annual operating budget which stands at $279 million today.

Because NCUA's budget is funded exclusively by the credit unions it regulates and insures, it is of the utmost and ever-increasing importance to the credit union industry. Yet, for the fifth year in a row, NCUA released and approved its annual budget without a formal hearing, thereby depriving the credit union industry and its membership, from which the agency receives its total funding, of the opportunity to formally comment on the agency's budget.

From 2001-2008, the agency held annual budget hearings to help promote transparency and allow the industry to ask questions to become better informed about NCUA's budget and the agency's plans for the year ahead. These hearings stopped in 2009, which happens to coincide with when the NCUA budget started to see significant increases. While this may have been expected during the financial crisis, these increases have continued post-crisis at a time when the FDIC has actually been scaling back its budget.

NCUA is charged by Congress to oversee and manage the National Credit Union Share Insurance Fund, the Temporary Corporate Credit Union Stabilization Fund, the Central Liquidity Fund, and its annual operating budget. Because these funds are comprised of monies paid by credit unions, NAFCU has long advocated the agency to exercise greater transparency by releasing non-aggregated balance sheets for each fund. Currently, NCUA publicly releases general financial statements and aggregated balance sheets for each of these funds. However, the agency does not provide non-aggregated breakdowns of the components that go into the expenditures from the funds. Although NCUA releases a plethora of public information on the general financial condition of the funds, they fail to fully disclose the amounts disbursed and allocated for each fund. NAFCU believes that credit unions deserve clearer disclosures of how the fees they pay the agency are managed.

Bipartisan legislation, H.R. 2287, the *National Credit Union Administration Budget Transparency Act* is pending before the committee. This legislation would require the NCUA Board, before the annual submission of its required detailed business-type budget, to: (1) print a draft of the budget in the Federal Register; (2) hold a public hearing to receive comments from the public on the draft; and (3) include in the required integral set of accounts statements in which the budget will address any of such comments. NAFCU urges you to support this legislation.

NCUA's Risk-Based Capital Proposal

In January of 2014, the NCUA Board initially proposed a risk-based capital system for credit unions. The proposal drew over 2,000 comments and over 360 Members of Congress expressed concerns. Based on those comments and concerns, the NCUA Board issued, by a 2-1 vote, a revised risk-based capital proposal in January of 2015. This revised proposal drew a record 2,167 comments and remains controversial in the industry, which views it as a costly solution in search of a problem. Credit unions believe this rulemaking is not only unnecessary given how extremely well-capitalized the industry is today, but they also fear this proposal will unjustifiably constrain their ability to grow and serve their communities.

Questions have been raised about the cost of this proposal on industry, the legal authority of the agency to issue the rule that they've proposed, the regulatory burden this new rule would have on credit unions and the impact on credit unions' capital buffers (capital cushions) – which could extend into the hundreds of millions of dollars.

Ultimately, NAFCU believes legislative changes are necessary to bring about comprehensive capital reform for credit unions that would reflect lower capital requirements for lower-risk credit unions and higher capital requirements for higher-risk credit unions. Such a system should move away from the static net-worth ratio to a system where NCUA joins the other banking regulators in having greater flexibility in establishing capital standards for institutions. NAFCU also believes that capital reform must include access to supplemental capital for all credit unions and we would urge your support for H.R. 989, the *Capital Access for Small Businesses and Jobs Act*.

On June 15, 2015, Representatives Fincher, Heck and Posey introduced the bipartisan *Credit Union Risk-Based Capital Study Act of 2015* (H.R. 2769). This legislation would stop NCUA from moving forward with their second risk-based capital proposal until completing and delivering to Congress a thorough study addressing NCUA's legal authority, the proposal's impact on credit union lending, capital requirements for credit unions compared to other financial institutions and more. Additionally, NCUA could make any legislative recommendations that would help with the implementation of a new capital system. The agency would not be able to finalize or implement the proposal before 120 days after the report goes to Congress. This "time-out" would give everybody a chance to examine the issue in greater detail. NAFCU urges you to support this legislation.

Regulatory Relief

Regulatory burden is the top challenge facing all credit unions. While smaller credit unions continue to disappear as a result of the growing burden, all credit unions are finding the current environment challenging. Finding ways to cut-down on burdensome and unnecessary regulatory compliance costs is the only way for credit unions to thrive and continue to provide their member-owners with basic financial services and the exemplary service they need and deserve. It is also a top goal of NAFCU.

We hope NCUA will use this opportunity to outline areas where they support legislative regulatory relief and areas where the agency plans to act to provide relief. A prime example of NCUA action is the agency's Fixed Assets proposal which is scheduled to be finalized tomorrow. The agency should be commended for bringing this long needed relief to credit unions. We hope NCUA Chairman Debbie Matz will outline more areas where the agency plans to take such steps in her testimony tomorrow.

For example, NAFCU believes that the agency could do more under existing law to provide field-of-membership relief for credit unions. Further, NAFCU believes that NCUA can remedy and streamline the process of applying for field of membership expansions or conversions. Many federal credit unions (FCUs) report that they must wait between 18 months to two years before a field of membership expansion request is approved or denied by NCUA. Often, during the extensive waiting time after the application has been submitted, the FCU is rarely provided any information from NCUA about the status of their request.

NAFCU believes NCUA has the existing statutory authority to make the following field of membership changes:

- Require deadlines for FOM amendment requests
- Increase transparency in the agency's decision making process
- Streamline cumbersome notification requirements
- Make it easier for a FCU to convert to a community charter
- Clarify the definition of "rural district"
- Recognize the growth of technology in defining a "community"
- Modifying the service facility requirement to recognize online banking services
- Provide greater flexibility with Trade, Industry, or Profession (TIP) charters

We also recognize the recent proposal by NCUA to improve the member business lending process at credit unions. You may have heard from banking trades that mischaracterize this proposal as an attempt to circumvent the statutory member business lending cap at credit unions, but in reality this is a proposal to cut "regulatory red-tape" for credit unions and our nation's small businesses by removing overly prescriptive restrictions the agency placed on credit union business lending a number of years ago in favor of a more comprehensive and overall principle-based risk management policy for business lending at each credit union. The bankers are simply attempting to unfairly limit competition.

NAFCU also urges you to support legislation that would provide credit unions with relief from the arbitrary member business lending (MBL) cap. Legislation such as H.R. 1188, the *Credit Union Small Business Jobs Creation Act* (which would raise the MBL cap to 27.5% of assets), H.R. 1422, the *Credit Union Residential Loan Parity Act* (which would exempt non-owner occupied 1-4 family dwelling loans from the MBL cap), and H.R. 1133 (which would exempt loans made to veterans from the MBL cap) deserve your support.

We hope areas such as field-of-membership reforms, the agency's proposed changes to the member business lending process and pass-through share insurance coverage will be areas of regulatory relief covered by Chairman Matz tomorrow. We urge you to encourage the agency to be aggressive in its actions to provide relief moving forward.

NCUA and Third-Party Vendor Examination Authority

NAFCU opposes the agency's call for the ability to examine third-party vendors. We view this as regulatory overreach that would prove costly and create new burdens for the industry. When NCUA previously had this authority for Y2K concerns, Congress specifically had the authority sunset and chose not to renew it. The NCUA budget has already increased over 50% during the past five years. The budget would continue to increase dramatically if NCUA had to hire or contract experts in every field that credit unions contract to third parties in order to examine vendors. NCUA already has the tools it needs to address risk through its examination of credit unions directly.

NCUA has cited cybersecurity as a reason it should have vendor examination authority over technology vendors. However, the key to safety and soundness for credit unions is the credit union relationship with the third party, which is already subject to the examination process.

Credit unions are proud of their track record of success in helping consumers and the American economy. We ultimately want fair regulation that ensures safety and soundness but does not hamper our ability to provide the services that our nation's 100 million credit union members desire. We thank you for holding this important hearing. If my staff or I can be of assistance to you, or if you have any questions about credit unions, please feel free to contact myself or NAFCU's Vice President of Legislative Affairs Brad Thaler at (703) 842-2204.

Sincerely,

Carrie R. Hunt
Senior Vice President of Government Affairs and General Counsel

cc: Members of the House Financial Services Committee