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Fred R. Becker, Jr.  
President/CEO

National Association of Federal Credit Unions | [www.nafcu.org](http://www.nafcu.org)

May 20, 2013

The Honorable Tim Johnson  
Chairman  
Senate Committee on Banking, Housing  
and Urban Affairs  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Crapo  
Ranking Member  
Senate Committee on Banking, Housing  
and Urban Affairs  
United States Senate  
Washington, D.C. 20510

**Re: The Financial Stability Oversight Council and Regulatory Coordination**

Dear Chairman Johnson and Ranking Member Crapo:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write today as the committee prepares to receive testimony from Treasury Secretary Jack Lew in his capacity as the Chairman of the Financial Stability Oversight Council (FSOC). NAFCU member credit unions appreciate the committee's oversight with respect to this body of regulators. We are hopeful that the FSOC will take seriously its duty to facilitate regulatory coordination for our nation's credit unions and their 95 million member-owners.

As members of the committee are aware, our nation's credit unions are struggling under an ever-increasing regulatory burden. A survey of NAFCU members late last year found that 94% have seen their regulatory burden increase since passage of the *Dodd-Frank Act* in July 2010. Credit unions, many of which have very small compliance departments, and in some instances a single compliance officer, must comply with the same rules and regulations as our nation's largest financial institutions that have the luxury of employing armies of lawyers. Furthermore, these compliance burdens are often compounded as new rules and regulations flow out of multiple regulators, often with little coordination on when they are released. As member-owned cooperatives, resources spent on regulatory compliance at credit unions are undoubtedly taking away from the services and products credit unions are able to offer to consumers.


As the tide of regulation rises, there has never been a more critical time for the FSOC, led by Secretary Lew, to facilitate regulatory coordination among its member regulators. This duty includes facilitating information sharing and coordination among the member agencies of domestic financial services policy development, rulemaking, examinations, reporting requirements and enforcement actions. As outlined in the attached letter to then Treasury Secretary Timothy Geithner in June of 2012, under the *Dodd-Frank Act* the FSOC is effectively charged with ameliorating weaknesses within the regulatory structure therein providing a safe

and more stable system as a whole. NAFCU appreciates the committee's focus on the activities of the FSOC and looks forwarding to learning more about the steps that have been taken to avoid duplicative and over burdensome regulation of our nation's credit unions.

As detailed in NAFCU's five-point plan for regulatory relief delivered to Congress in February, we believe regulatory relief is critical to the survival of credit unions. Accordingly, NAFCU is committed to pursuing every avenue – through the regulatory agencies and legislatively through Congress – possible to ensure credit unions are provided with real and substantial relief moving forward. Ensuring that the FSOC fulfills its duty to facilitate regulatory coordination would be a positive step in assisting our nation's credit unions as they navigate this unprecedented, and oftentimes unwarranted, amount of government regulation.

Thank you for the opportunity to comment on this important matter. If you have any questions or would like further information, please do not hesitate to contact me or NAFCU's Vice President of Legislative Affairs Brad Thaler by telephone at (703) 842-2204 or by e-mail at [bthaler@nafcu.org](mailto:bthaler@nafcu.org).

Sincerely,



Fred R. Becker, Jr.  
President and CEO

cc: Members of the Senate Banking Committee

Enclosure: The National Association of Federal Credit Union's June 27, 2012 letter to Secretary Geithner – *"FSOC's Role to Reduce Regulatory Compliance Burden on Credit Unions"*

The National Association of Federal Credit Union's February 12, 2013 letter to House Financial Services Committee on NAFCU's 5 point regulatory relief plan



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Fred R. Becker, Jr.  
*President and CEO*

June 27, 2012

The Honorable Timothy F. Geithner  
Secretary of the Treasury  
United States Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

RE: FSOC's Role to Reduce Regulatory Compliance Burden on Credit Unions

Dear Secretary Geithner:

*Timothy F. Geithner*  
On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's Federal credit unions (FCUs), I am writing to you in your capacity as Chairman of the Financial Stability Oversight Council (FSOC).

As you know, under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), the FSOC has a duty to facilitate regulatory coordination. This duty includes facilitating information sharing and coordination among the member agencies of domestic financial services policy development, rulemaking, examinations, reporting requirements and enforcement actions. Through this role, the FSOC is effectively charged with ameliorating weaknesses within the regulatory structure, promoting a safer and a more stable system.

In regards to this goal, NAFCU would like to emphasize how important it is to credit unions for our industry's copious regulators to coordinate with each other to help mitigate regulatory burden. As highlighted in the testimony of NAFCU Board Member Ed Templeton before the House Financial Services Committee on May 9, 2012, it is not any single regulation, but the panoply of the regulatory regime of numerous regulators, each operating "within their own lanes" and with minimal, if any, interagency coordination, that not only helps create, but significantly magnifies, today's undue regulatory burden on credit unions and other small financial institutions.

In his testimony, Mr. Templeton, CEO of a small credit union that serves a large number of underserved Americans, emphasized the difficulties facing credit unions to

Secretary Geithner  
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plan ahead and keep pace with the rapid rate of regulatory changes under the Act. As Mr. Templeton testified, 96.4% of credit unions in a NAFCU survey last spring reported that they were devoting more staff time to regulatory compliance than they did in 2008. Consequently, credit unions have not been able to use their resources efficiently as they are devoting far too much time and money on regulatory compliance and related functions; they should be empowered, instead, to expend such time and resources to serving their members.

The array of regulations that are making operating a credit union more and more difficult are being fired simultaneously from multiple directions and by a host of agencies. For example, the Consumer Financial Protection Bureau (CFPB) has issued several rules and is soon expected to propose numerous major rules that would greatly impact credit unions' products and services, including savings, mortgage lending, and credit and debit card services. Concomitantly, the credit union's principle regulator, the National Credit Union Administration (NCUA), is issuing regulations on issues such as concentration and interest rate risk, loan participations, credit union service organizations and appraisal management. At the same time, the Department of Justice is issuing regulations on physical access to ATMs, while the Department of Labor is issuing regulations on employee rights and the Financial Crimes Enforcement Network (FinCEN) is issuing regulations on currency transaction reports and suspicious activity reports.

As we have approached each agency regarding the ever-increasing regulatory burden, they quickly respond that the rules being issued by other agencies are outside of their purview. NAFCU believes the FSOC is well-positioned to rectify this lack of coordination. In that regard, we ask that you establish within the FSOC robust inter-agency coordination on the issuance of rules impacting financial institutions.

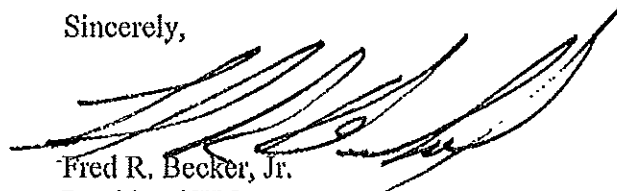
NAFCU also urges the FSOC to establish policy requiring member agencies to conduct and publish a thorough cost-benefit analysis prior to issuing regulations as well as a separate cost-benefit analysis a year after each regulation the agency prescribes and every other year thereafter. Also, a cost-benefit analysis should be conducted every two years on each regulation that an agency has on its books, with the agency required to justify the regulations' continued existence. These cost analyses should be reviewed by the FSOC to assess the total impact on the financial services industry. We strongly believe that conducting such exercises would better instruct regulators of the high cost of compliance, and equip them with the information necessary to assess whether a particular regulation is effective and justifiable.

America's credit unions have long been reliable sources of financial advancement for millions of people. We believe that the FSOC, with your leadership, is in a position to help credit unions and other small financial institutions continue to achieve their mission of serving their members.

Secretary Geithner  
U.S. Department of the Treasury  
June 27, 2012  
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NAFCU appreciates your attention to our concerns. Should you have any questions or concerns, please feel free to contact me or Carrie Hunt, NAFCU's General Counsel and Vice President of Regulatory Affairs, at 703-842-2234.

Sincerely,



Fred R. Becker, Jr.  
President/CEO

cc: Members of the Senate Banking Committee  
Members of the House Financial Services Committee  
The Honorable Ben Bernanke, chairman of the Federal Reserve Board  
Martin J. Gruenberg, acting chairman of the Federal Deposit Insurance Corporation  
The Honorable Richard Cordray, director of the Consumer Financial Protection Bureau  
Edward DeMarco, acting director of the Federal Housing Finance Agency  
The Honorable Debbie Matz, chairman of the National Credit Union Administration  
The Honorable Karen Mills, administrator of the Small Business Administration  
The Honorable Hilda Solis, secretary of the Department of Labor  
The Honorable Shaun Donovan, secretary the Department of Housing and Urban Development  
James H. Freis, Jr., director, Financial Crimes Enforcement Network  
The Honorable Julius Genachowski, chairman of the Federal Communications Commission  
The Honorable Jon Leibowitz, chairman of the Federal Trade Commission



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February 12, 2013

The Honorable Tim Johnson  
 Chairman  
 Senate Committee on Banking,  
 Housing and Urban Affairs  
 United States Senate  
 Washington, D.C. 20510

The Honorable Michael Crapo  
 Ranking Member  
 Senate Committee on Banking, Housing  
 and Urban Affairs  
 United States Senate  
 Washington, D.C. 20510

The Honorable Jeb Hensarling  
 Chairman  
 House Financial Services Committee  
 United States House of Representatives  
 Washington, D.C. 20515

The Honorable Maxine Waters  
 Ranking Member  
 House Financial Services Committee  
 United States House of Representatives  
 Washington, D.C. 20515

Re: NAFCU Calls on Congress to Provide Regulatory Relief for Credit Unions

Dear Chairman Johnson, Chairman Hensarling, Ranking Member Crapo and Ranking Member Waters:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write today to call for Congressional action during this session of the 113<sup>th</sup> Congress to enact broad-based regulatory relief that is essential to the credit union industry's ability to serve its 95 million members.

Our nation's credit unions are struggling under an ever-increasing regulatory burden that must be immediately addressed. A survey of NAFCU members late last year found that 94% have seen their regulatory burden increase since the passage of the *Dodd-Frank Act* in July 2010. The regulatory onslaught continues to compound as credit unions now have over 5,000 pages of rules from the Consumer Financial Protection Bureau (CFPB) that they must understand, interpret, and ultimately comply with – despite the fact that Congress has widely acknowledged that credit unions were not the cause of the financial crisis. Credit unions, many of which have very small compliance departments, and in some cases only one compliance officer, must comply with the same rules and regulations as our nation's largest financial institutions that employ armies of lawyers. The impact of the ever-increasing regulatory burden is even more sobering, as the number of credit unions continues to decline. There are nearly 700 fewer credit unions today than there were before the passage of the *Dodd-Frank Act*.

It is with this regulatory onslaught in mind that we call on Congress to enact meaningful regulatory reforms and provide much needed assistance to our nation's credit unions. Over the past year, we have been actively conversing with our member credit unions to identify those areas where regulatory relief is requisite.

Our ongoing discussions with our members have led us to draft a five point plan for credit union regulatory relief:

#### **I. Administrative Improvements for the Powers of the NCUA**

We believe there are changes that must be made to strengthen and enhance the National Credit Union Administration (NCUA).

First, the NCUA should have authority to grant parity to a federal credit union on a broader state rule, if such a shift would allow them to better serve their members and continue to protect the National Credit Union Share Insurance Fund.

Second, the NCUA should have the authority to delay the implementation of a CFPB rule that applies to credit unions, if complying with the proposed timeline would create an undue hardship. Furthermore, given the unique nature of credit unions, the NCUA should have authority to modify a CFPB rule for credit unions, provided that the objectives of the CFPB rule continue to be met.

Third, the NCUA and the CFPB should be required to conduct a look-back cost-benefit analysis on all new rules after three years. The regulators should be required to revisit and modify any rules for which the cost of complying was underestimated by 20% or more from the original estimate at the time of issuance.

Fourth, new examination fairness provisions should be enacted to help ensure timeliness, clear guidance and an independent appeal process free of examiner retaliation.

Finally, the Central Liquidity Facility (CLF) should be modernized with changes such as: (1) removing the subscription requirement for membership, and (2) permanently removing the CLF borrowing cap so that it may meet the current needs of the industry.

#### **II. Capital Reforms for Credit Unions**

NAFCU believes that capital standards for credit unions should be modernized to reflect the realities of the 21<sup>st</sup> century financial marketplace.

First, the NCUA should, with input from the industry, study and report to Congress on the problems with the current prompt corrective action (PCA) system and recommended changes.

Second, a risk-based capital system for credit unions that more accurately reflects a credit union's risk profile should be authorized by Congress.

Third, the NCUA should be given the authority to allow supplemental capital accounts for credit unions that meet certain standards.

Finally, given that very few new credit unions have been chartered over the past decade, and in order to encourage the chartering of new credit unions, the NCUA should be authorized to further establish special capital requirements for newly chartered federal credit unions that recognize the unique nature and challenges of starting a new credit union.

### **III. Structural Improvements for Credit Unions**

NAFCU believes there should be improvements to the *Federal Credit Union Act* to help enhance the federal credit union charter.

First, Congress should direct the NCUA, with input from the industry, to study and report back to Congress suggested changes to outdated corporate governance provisions in the *Federal Credit Union Act*. Congress should then act upon those recommendations.

Second, a series of improvements should be made to the field of membership (FOM) restrictions that credit unions face expanding the criteria for defining "urban" and "rural"; and allowing voluntary mergers involving multiple common bond credit unions and allowing credit unions that convert to community charters to retain their current select employee groups (SEGs).

Finally, all credit unions, regardless of charter type, should be allowed to add underserved areas to their field of membership.

### **IV. Operational Improvements for Credit Unions**

Credit unions stand willing and ready to assist in our nation's economic recovery. Our industry's ability to do so, however, is severely inhibited by antiquated legislative restrictions.

First, Congress should show America that they are serious about creating jobs by modifying the arbitrary and outdated credit union member business lending (MBL) cap. This can be done by raising the current 12.25% limit to 27.5% for credit unions that meet certain criteria or by raising the outdated "definition" of a MBL from last century's \$50,000 to a new 21<sup>st</sup> century standard of \$250,000, with indexing for inflation to prevent future erosion. Furthermore, MBLs made to non-profit religious organizations, businesses in "underserved areas", or small businesses with fewer than 20 employees should be given special exemptions for the arbitrary cap.

Second, requirements to mail redundant and unnecessary privacy notices on an annual basis should be removed, provided that the credit union's policy has not changed and additional sharing of information with outside entities has not been undertaken since the distribution of the previous notice.

Third, credit unions should be given greater authority and flexibility in choosing their investments.

Fourth, the NCUA should be given greater flexibility in how it handles credit union lending, such as the ability to establish longer maturities for certain loans.



Finally, Congress should clarify that Interest on Lawyers Trust Accounts (IOLTAs) at credit unions are fully insured and also that the NCUA should have practical requirements on how credit unions provide notice of their federally-insured status in any advertising.

#### V. 21<sup>st</sup> Century Data Security Standards

Credit unions are being adversely impacted by ongoing cyber-attacks against the United States and continued data breaches at numerous merchants. The cost of dealing with these issues hinders the ability of credit unions to serve their members. Congress needs to enact new 21<sup>st</sup> century data security standards that include: the payment of costs associated with a data breach by those entities that were breached; establishing national standards for the safekeeping of all financial information; require merchants to disclose their data security policies to their customers; requiring the timely disclosure of entities that have suffered a data breach; establishing enforcement standards for provisions prohibiting merchants from retaining financial data; requiring the timely notification of the account servicer if an account has been compromised by a data breach; and, requiring breached entities to prove a "lack-of-fault" if they have suffered from a data breach.

We have outlined a number of proposals that are necessary to providing the regulatory relief and assistance that credit unions urgently require. The number of credit unions continues to decline on a monthly basis and the ever-increasing regulatory burden the industry is facing is accelerating that decline as compliance costs become even more onerous. It is with that in mind that we call on Congress to act on any and all of these proposals, whether as a comprehensive package, or individually. Our nation's credit unions and their 95 million members desperately need this relief and we call on Congress to enact it.

Thank you for your attention to this important matter.

If you have any questions or would like further information about any of these issues, please do not hesitate to contact me or NAFCU's Executive Vice President of Government Affairs Dan Berger by telephone at (703) 842-2203 or by e-mail at [dberger@nafcu.org](mailto:dberger@nafcu.org).

Sincerely,



Fred R. Becker, Jr.  
President and CEO

cc: Members of the Senate Banking Committee  
Members of the House Financial Services Committee