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December 3, 2021

The Honorable Todd M. Harper  
Chairman

The Honorable Kyle S. Hauptman  
Vice Chairman

The Honorable Rodney E. Hood  
Board Member

National Credit Union Administration   
1775 Duke Street   
Alexandria, VA 22314

Re: NCUA 2022-2023 Proposed Budget

Dear Chairman Harper, Vice Chairman Hauptman and Board Member Hood:

Good morning.

My name is Carrie Hunt and I am the President/CEO of the Virginia Credit Union League. On behalf of the commonwealth’s credit unions, I appreciate this opportunity to comment on the National Credit Union Administration’s draft budget proposal for 2022-2023.

Virginia is blessed with a diverse, vibrant and thriving credit union system, comprised of state- and federally chartered credit unions large and small, with local and national fields-of-membership.

Each of those credit unions is an important stakeholder in how NCUA chooses to spend the funds received from regulated and insured institutions in the execution of its mission.

Credit unions exist to provide provident credit and everything the agency does has a direct impact on that mission. Every dollar NCUA requires of credit unions is money credit unions cannot deploy for the benefit of their members and communities.

This year’s budget proposal represents a 1.2% increase over the current budget, and while the budget increase is itself of keen interest to credit unions, our greater concern lies with how NCUA spends the money credit unions provide and what initiatives the agency chooses to pursue.

From my perspective, ensuring the agency addresses the needs of all credit unions, of all types, is paramount. To that end, the question I pose is this: How can the NCUA effectively use its resources to support the industry, as a whole, and fulfill its mission to provide a safe and sound credit union system?

Before I delve into the budget, I first want to applaud the recent announcement from Board Member Hood that the NCUA will be returning money to credit unions from the operating fund. I also join other industry leaders in calling for continued discussion on returning the Normal Operating Level to 1.3%.

As to the budget, stakeholders deserve accountability and transparency and I appreciate the fact the agency is presenting a clear, accessible and transparent proposal.

What strikes me, however, is that this budget generally reflects the NCUA’s current focus, raising the question of how the agency will mesh this budget proposal with future-focused objectives and initiatives anticipated in its coming strategic plan.

From my perspective, credit unions benefit from a forward-thinking, vibrant regulator that exists to administer the Federal Credit Union Act and provide the framework for a cooperative industry -- all of the industry. The agency itself notes it is both a safety and soundness regulator and a functional regulator. Again, we’re left with an important question: Does this budget strike the right balance between the agency’s dual function? And if we wish to strike directly to the heart of the matter, perhaps we should phrase that question this way: Does the agency need to recalibrate how it approaches risk to allow more innovation and growth of credit unions?

Many of the proposals in the budget address exam issues and safety and soundness: The agency is adding resources to return some credit unions to a yearly exam cycle (specifically, 29 FTEs); increasing the specialist staff by 3 FTEs; and adding 5 FTEs to the fair lending staff.

In terms of costs, these increases are significant. The need for these additional staff members appears predicated on the premise that credit unions are becoming more complex or “risky” due to present-day marketplace circumstances and that there are deficiencies in credit unions’ fair lending compliance. Relative to these issues, the agency has not -- from my perspective -- presented justification for their assessment. As to risk, it appears the agency seeks to add staff to address what is, in all probability, transitory economic uncertainty. Relative to complexity, the agency is adding specialists in electronic payments, information systems officers, and regional lending specialists.

NCUA should be a forward-thinking regulator in pursuit of its mission to ensure safety and soundness, including new risks such as cybersecurity, but attempting to spend its way to the elimination of all risk represents an unreasonable financial burden for regulated and insured credit unions and, ultimately, supplants the judgment of management at well-managed credit unions.

The NCUA has announced it is expanding and moving forward with its MERIT program and focusing on agency-wide use of data. The MERIT program was intended to create efficiencies and provide the agency with more data so that exams are more effective and efficient. I urge the agency to assess whether the MERIT program makes the addition of these FTEs unnecessary.

In recent months, I have re-read the entire FCU Act – not only the current law, but old text prior to amendments. Through that research, you understand the evolution of the agency and this industry and why we are where we are today. As an industry, we’ve grown and evolved, but what struck me in my research is that a return to our roots and reconnecting with the past might well prove instructive in addressing our future.

Certainly, we cannot operate as we did in the 1930s or 1970s, but what struck me in my research was that the NCUA focused not solely on examining credit unions for safety and soundness, but was also committed to fostering innovation – truly meaningful innovation through creative thinking.

I salute the NCUA for its new Fintech initiative and its evaluation of the impact of cryptocurrency and digital assets on credit unions. There is room, however, for the NCUA to do much more. Prior to the NCUA we know today, the agency was an administrative body run by a Presidentially appointed administrator and a board made up of credit union execs from across the various regions. Those individuals were appointed by the President and confirmed by the Senate.

The structure of the agency at that time provided, through the Board, a formal mechanism for credit unions to offer feedback to the agency. That structure changed, obviously, but in it, I see an opportunity. While we are fortunate to have a talented, knowledgeable NCUA Board, none of the Board’s current members have direct credit union experience. I would argue that for the NCUA to remain relevant, we need a formal mechanism by which the industry can provide feedback to the NCUA Board.

I urge the NCUA to consider a formal advisory group made up of credit union executives from across the country to better inform the agency of their real-world challenges and offer ideas that will move our industry forward. I appreciate and recognize the efforts of the Board to engage and meet with stakeholders, but a formal advisory group will ensure a broad section of credit union interests are addressed real-time on the regulator side and will ensure that future boards approach outreach as seriously as the current Board.

The agency notes that it reviews one-third of its regulations annually. This is incredibly positive! However, given the pace of today’s world, credit unions need the agency to be more nimble.

I would strongly encourage the NCUA to be more active in authorizing pilot programs for certain activities. Credit unions face tremendous competition and marketplace pressures – necessitating the need for regulatory certainty when considering new activities. The quick approval of pilot programs would empower credit unions and enable them to remain competitive.

In addition, I would encourage the Office of General Counsel to issue more risk alerts or legal opinion letters on issues of import to credit unions. Legal risk is a growing concern, with judicial-related issues for credit unions having skyrocketed in recent years. To be clear, the staff at the NCUA is responsive to credit unions’ needs, but I see an opportunity for the agency to provide peace of mind to credit unions on emerging issues through risk alerts and legal opinion letters.

I also want to take a moment and speak to legislative initiatives. In addition to its regulatory review, I strongly encourage the NCUA to take a more active look at needed changes to the Federal Credit Union Act and a more active role in supporting those changes.

The NCUA has its own legislative agenda that it presents during periodic reports to Congress, but it could be more active in soliciting ideas from credit unions on legislative change and supporting credit union initiatives. Issues that come to mind for the agency’s consideration: data security, GSE reform, eliminating pre-payment penalties for commercial loans, supporting enhanced investment authorities, and supporting credit unions’ service to the underserved.

Lastly, I want to focus on support for small credit unions. The NCUA has outlined plans for assistance to small credit unions, which flows from the specific authority cited below.

*(2)(A) The Board is authorized to conduct directly, or to make grants to or contracts with colleges or universities, State or local educational agencies, or other appropriate public or private nonprofit organizations to conduct, programs for the training of persons engaged, or preparing to engage, in the operation of credit unions, and in related consumer counseling programs, serving the poor. It is authorized to establish a program of experimental, developmental, demonstration, and pilot projects, either directly or by grants to public or private nonprofit organizations, including credit unions, or by contracts with such organizations or other private organizations, designed to promote more effective operation of credit unions, and related consumer counseling programs, serving the poor. 12 USC 1766(f)(2)*

I believe the agency should reassess whether its important work in these areas should continue to be conducted directly through the NCUA or if better outcomes might be achieved with partnerships and grants through entities such as state leagues, corporations or other suitable organizations. As a league president, I am proud that Virginia does work in these areas, and as part of the credit union industry, I can point to many leagues, national trades, foundations and other companies that help with this work.

The issues surrounding the survival of small credit unions and their future success are incredibly complex. Training and consulting are important mechanisms in addressing small credit unions’ needs, but creating affordable access to an efficient back-office operation that addresses cybersecurity, mobile banking, and access to consumer-expected products and services is equally important. It would be impossible for the agency to address all the issues relative to small credit unions’ survival and success. However, the agency does touch on some of these issues, and I believe workable solutions for small credit unions’ needs might well be found in broader partnerships. I urge the agency to explore grants to partner entities to serve small credit unions’ needs.

In addition, as noted above, the fostering of pilot programs should not be limited to small credit unions. All credit unions, regardless of size would benefit from programs designed to promote innovation and encourage growth.

In summary, I ask the agency to assess whether it has hit the right balance between protecting against risks, while also fostering innovation. I would ask the agency to assess whether an initiative should reside within the agency, or might the same outcome be achieved through external partnerships, consultants or through other agencies that fill the same space.

My thought on this analysis is to really see if credit unions should shoulder the increased financial burden this budget represents or are there opportunities for the agency to leverage the resources of other organizations to achieve those same goals.

The NCUA budget has increased more than $100 million in 10 years, yet the number of credit unions has dramatically decreased. Moreover, the NCUA budget has increased at a higher percentage rate than credit unions have grown members. Ultimately, credit union members bear all these added costs, and now pay considerably more for examination and insurance than they did a decade ago. This is extremely concerning.

Shouldn’t the NCUA investment result in both an increase in assets and member growth for credit unions? Shouldn’t we expect that investment to result in credit unions capturing a larger percentage of the consumer lending market? Perhaps the experience of the past decade demonstrates our need for a real measure of success.

I truly believe all Americans should have the opportunity to belong to a credit union and experience the cooperative difference. Credit unions do make a difference in helping Americans achieve financial security and pursue their financial dreams. I think it’s critical, however, that NCUA hit upon the right regulatory and exam focus to ensure credit unions’ success, and I respectfully request that the NCUA avoid unnecessary budget increases.

My thanks to you and to the NCUA staff for all your work on this budget and everything you do day-to-day in support of this industry.

Respectfully,

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Carrie R. Hunt  
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Virginia Credit Union League