3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

December 8, 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: Proposed 2022-2023 Budget

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

Thank you for the opportunity to deliver remarks before you regarding the 2022-2023 Staff Draft Budget Justification. On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I would like to thank the National Credit Union Administration (NCUA) Board for its leadership and ongoing commitment to ensuring a safe and sound credit union system and improving the lives of over 127 million credit union members across the country. Additionally, thank you to the NCUA staff who prepared this budget justification and other budget materials. NAFCU supports the NCUA Board's transparency surrounding the budget and applauds the NCUA for publishing a detailed draft budget, hosting an open budget hearing, and providing an opportunity for feedback from the industry to improve the efficient use of credit union dollars. However, despite this transparency, NAFCU would like to stress that policy changes should not be announced in budget documents, but rather released through a separate notice and request for comment.

Furthermore, the agency's commitment to credit unions should spur efforts to achieve year-over-year budget decreases and not increases. The NCUA must not forget the lessons learned from the pandemic and constantly seek to improve the supervision and examination process to achieve efficiencies that benefit both credit unions and the agency. NAFCU requests revisions to this draft budget to achieve a more appropriately tailored approach that continues to incorporate lessons learned from the COVID-19 pandemic as an opportunity for cost-savings rather than a reason for budget increases to return to pre-pandemic business-as-usual. NAFCU, its credit unions, and their members are all eager for a post-pandemic world but recognize that certain necessities during the pandemic carry great promise for the future following the pandemic.

General Comments

The NCUA crafts its annual budget to execute the agency's mission, goals, and strategic objectives. The 2022 and 2023 proposed Budget Justification clearly outlines projected expenditures for important agency programs and initiatives. NAFCU commends the agency for utilizing the savings achieved in 2020 and in 2021 to fund its day-to-day operations and continues to stress the need to fully adopt lessons learned in its approach to examinations to achieve long-term budget reductions. Pandemic-related savings aside, the NCUA's budget continues to increase and this 2022-2023 draft budget overlooks opportunities to incorporate more efficient processes with potential cost-savings. In fact, the 2022 Operating Budget would increase by 3.6 percent and the 2023 Operating Budget would increase by over 13 percent. But the Operating Budget currently contains a surplus and NAFCU reiterates its recent request, in a letter dated September 21, 2021, to return any surplus funds to credit unions directly or via a credit against 2022 budgeted expenses. NAFCU appreciates Board Member Hood's recent calls for a return of credit union money sitting in surplus in the Operating Fund and urges the entire NCUA Board to support a refund to credit unions.

Additionally, the draft budget calls for a total of 48 new full-time equivalents (FTEs) in 2022, with the majority of these staff being added examiners. This budget exhibits a focus on unnecessarily beefing up the number of examiners to mitigate risks and prevent against credit union failures without first clearly explaining which risks it seeks to mitigate, the cost of expected failures in the absence of mitigation efforts, and why current resources do not allow the agency to adequately address those risks.

Time and time again, the NCUA points to a decline in the relative size of its budget compared to the balance sheets at federally-insured credit unions. But industry asset growth alone does not mean the budget is more efficient. Considering the NCUA examines and supervises credit unions, not assets, NAFCU urges the NCUA Board to commit to seeking and implementing cost-savings approaches and budget reductions year-over-year. To clearly demonstrate this commitment to the prudent management of credit union dollars, the NCUA should always engage in cost-benefit analysis as it looks at existing and future programs. Much like last year, NAFCU recommends the agency focus on implementing lessons learned from the pandemic and not losing sight of the cost-savings achieved during this difficult time in the interest of returning to pre-pandemic spending and travel.

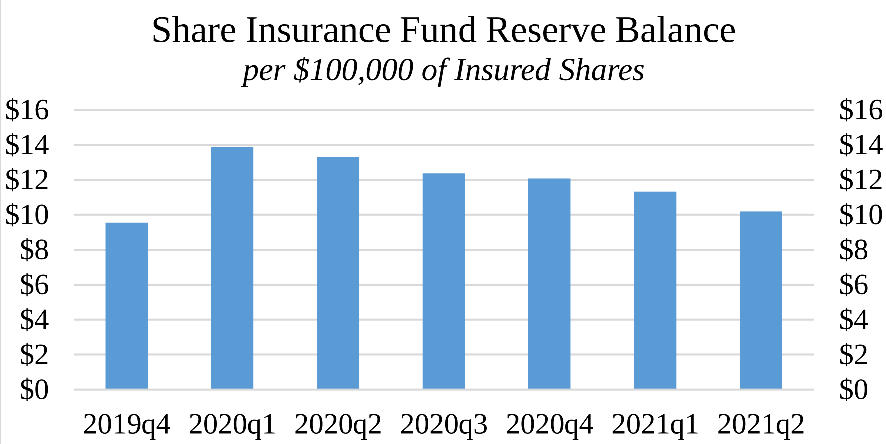
Accordingly, NAFCU offers the following recommendations to enhance the efficiency of the NCUA's 2022-2023 budget:

1. Preserve the strength of the National Credit Union Share Insurance Fund (SIF) without overburdening credit unions with exorbitant operating fees or unnecessary SIF assessments;
2. Maintain the existing Exam Flex criteria for credit unions to qualify for extended exams and incorporate exam modernization efforts, including a hybrid, virtual and in-person exam posture;
3. Achieve greater transparency regarding cybersecurity expenses; and
4. Continue to support financial inclusion through the Advancing Communities through Credit, Education, Stability, and Support (ACCESS) Initiative with a focus on enhancing field of membership (FOM) and other growth opportunities.

Industry Economic Conditions and Risks

The COVID-19 pandemic has placed tremendous stress on credit unions. Near-record levels of unemployment led to steep interest rate cuts and depressed net interest margins, a rush of shares and deposits diluted capital, and supply chain issues severely dented automobile production and sales, which represent roughly one-third of the industry's loan portfolio. Once it became clear that the U.S. would not be spared from the virus, it was widely expected that the economic fallout would place enormous burdens on credit unions, but how it played out was in many ways unexpected.

Despite these challenges, financial conditions of the industry are remarkably solid. This year's draft budget classifies industry performance over the prior year as "solid" and considers the system to be "very well-capitalized."[1] The NCUA projects that the equity ratio for the SIF will end the year at 1.28 percent, comfortably above the statutory minimum. Loss reserves in the SIF, scaled to insured shares, rose sharply in the first quarter of 2020 but have since trended back down near pre-COVID levels. The agency considers the outlook for both the overall economy and the industry to be "generally favorable"[2] and notes that this is in line with the consensus view of economic forecasters. That the credit union industry has weathered such a severe economic and societal shock with such aplomb demonstrates its inherent strength.



Source: NCUA Share Insurance Fund Financial Reports and Statements,

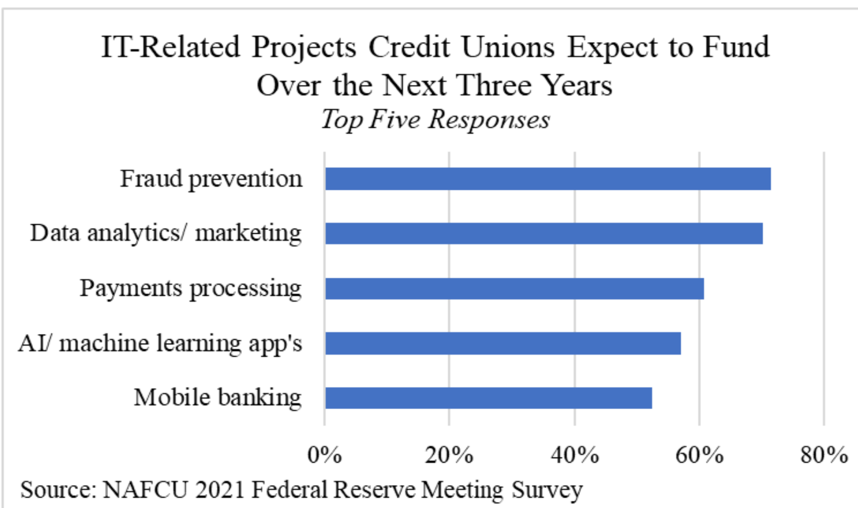
The NCUA's budget documents highlight several risks beyond those associated with the general economy. A recent NAFCU survey[3] shows that credit unions are generally aligned in viewing these areas as ones that warrant extra attention, and they are making tangible investments to monitor and mitigate risks.

- **Cybersecurity** – Cybersecurity risk was identified as the top risk management concern among NAFCU members over the next three years, with over 80 percent of respondents considering it a "significant" concern. The share of respondents' operating budget devoted to cybersecurity was 7.9 percent, which was an all-time high and more than double the share devoted to the area five years ago (3.3 percent).

[1] National Credit Union Administration. *Staff Draft: 2022-2023 Budget Justification* (November 17, 2021). https://www.ncua.gov/files/publications/budget/budget-justification-proposed-2022-2023.pdf.
[2] *Id*.
[3] NAFCU *Federal Reserve Meeting Survey*, conducted August 24 – September 17, 2021.

- **Lending Trends –** The draft budget cites as a key risk "increasing concentrations in select loan types." One area where credit unions are eager to grow their loan portfolio in a manner that would offset existing concentrations is small business lending. Over 900 credit unions participated in the Small Business Administration's (SBA's) Paycheck Protection Program, many of which had no prior experience as SBA lenders. Sixty percent of respondents to NAFCU's survey said they expect to sustain pandemic-level small business loan volume over the next two to three years. However, the proposal to grant the SBA direct lending authority within the *Build Back Better Act* threatens to cut out the private sector from small business lending. Longstanding legislative hurdles, such as the cap on small business loan concentrations, also impact the business case for credit unions to add small business loan products. Clearing these obstacles would allow for greater diversification in the industry loan portfolio and allow credit unions to better serve their communities.

- **Financial Landscape and Technology** –The agency cites risks posed by financial technology (fintech) companies that offer products similar to credit unions, but which "may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face."[4] The section goes on to surmise that "credit unions may have to be more active in marketing and rethink their business models." The strategic investments of NAFCU's members reinforce this general view; 90 percent of survey respondents anticipate investments in technology to be a key driver of spending over the next three years. Among various specific types of projects for those investments, 70 percent of respondents expect to invest in data analytics and marketing, which was the second highest response behind only fraud prevention. Payments is another area where fintech competition potentially threatens credit unions. Sixty-one percent of respondents anticipate making investments in payments processing in the next three years.



- **Fraud** – NAFCU members identified fraud prevention as the top area for technology investments over the next three years. Seventy-one percent of respondents anticipated

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[4] *Id*.

making such investments in the 2021 survey, which was up from 65 percent in the 2020 survey.

- **Membership Trends –** The 2022-23 budget notes that more than half of credit unions experienced a decline in membership over the prior 12 months and opined that "demographic changes are likely to lead to further declines in membership at some credit unions." Twenty-eight percent of NAFCU survey respondents reported an aging member base to be a significant strategic challenge at their credit union. NAFCU supports specific legislative and regulatory changes to FOM restrictions that would provide a path forward for many FOM-constrained credit unions. The association's latest Report on Credit Unions[5] outlines several proposals, including (1) updating the service facility definition; (2) allowing all credit unions to add underserved areas to their FOM; (3) guidance to credit unions on meeting the concentration of facilities ratio test; and (4) greater clarity on satisfying the required overlap analysis.

  The addition of underserved areas to all credit union FOMs would require legislative changes to the *Federal Credit Union* (FCU) *Act*. Some Board members have recently advocated for legislative changes to gain greater authority over the SIF,[6] but these efforts would be better spent highlighting those areas where statutory restrictions are creating stresses which threaten the safety and soundness of the system.

- **Smaller Credit Union Challenges and Industry Consolidation –** The agency states: "Small credit unions face challenges to their long-term viability for a variety of reasons, including weak earnings, declining membership, high loan delinquencies, and elevated non-interest expense. These challenges have contributed to the steady downward trend in the number of small, federally insured credit unions in operation." The consolidation trend cited in the report is undeniable, as one in three credit unions that existed when the *Dodd-Frank Wall Street Reform and Consumer Protection Act* went into effect are no longer active. While economic conditions have likely contributed to this trend, regulatory burdens have also played a key role. The median credit union has fewer than 10 employees but must nevertheless contend with a barrage of regulations. NAFCU's survey respondents said that a staggering 24 percent of total staff time was devoted to compliance-related activities, and that figure was even higher among smaller credit unions. And while small credit unions were just as likely to say that they expect compliance burdens to increase over the next five years, they were less likely to say that they expected to hire new staff to meet those needs.

- **Climate-Related Financial Risks –** The NCUA 2022-23 budget asserts that "credit unions will need to consider climate-related financial risks and how they could affect their membership and institutional performance," and that the "NCUA Board will determine the appropriateness of adapting its risk monitoring framework to account for climate-related threats to financially stability, the credit union system, and the Share Insurance Fund." NAFCU looks forward to engaging with the agency as it develops an approach to climate risk supervision that is tailored to the risks presented to the industry.

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[5] https://www.nafcu.org/data-tools/nafcu-annual-report-credit-unions

[6] NCUA Chairman Todd M. Harper's Statement on Share Insurance Fund's 2021 Normal Operating Level (December 17, 2020), available at https://www.ncua.gov/newsroom/speech/2020/ncua-board-member-todd-m-harperstatement-share-insurance-funds-2021-normal-operating-level.

The credit union industry is in solid condition and attuned to the key risks facing it. As the NCUA considers its supervisory stance on specific risk areas and in a more general sense, it should do so in a holistic manner. Every dollar that credit unions spend funding agency operations is a dollar that will not go towards investments in cybersecurity, or diversifying product offerings, or enhancing mobile banking platforms. Every staff hour spent fulfilling compliance requirements or assembling exam documentation is an hour that will not be devoted to expanding the credit union's membership. NAFCU recognizes that the NCUA has an important, dual function as a regulator and in protecting the SIF. But the agency must recognize the scarcity of credit union resources and the impact that regulatory burdens play in preventing credit unions from making more progress in meeting shared challenges.

Exam-Related Expenses

Following the finalization of the 2021-2022 budget, the NCUA Board committed to adopting lessons learned from the pandemic to save valuable credit union dollars. In 2021, travel expenses were still unusually low, again saving the agency and the industry money. But now the agency assumes that travel restrictions will be lifted in 2022 and has proposed to increase its travel budget by nearly 70 percent or $8.5 million in 2022 to resume both internal and external meeting events. The 2023 budget increases another 17.5 percent to reflect a full year of travel spending. Although NAFCU supports critical staff training and stakeholder outreach events, many of these events may be conducted remotely and be just as effective. Moreover, virtual exams work. The NCUA should continue to transition to offsite exams to minimize travel expenses and maintain a more efficient workforce.

The increase in proposed 2022 travel costs should be scrutinized using cost-benefit analysis that considers the benefit of focusing on improving the agency's virtual exam process now versus the cost of sending examiners across the country for in-person exams. Finally, the agency has not yet announced its reopening plans. Without an NCUA headquarters fully open for business, NAFCU questions why the agency is so eager to allocate such a substantial amount of funds for travel.

Virtual Exams

The COVID-19 pandemic has required the agency to conduct virtual exams and begin gathering more information for the transition to primarily virtual exams within the next few years. Considering the cost savings from 2020 and 2021 due to reduced travel expenses, the NCUA should quickly pivot to more virtual exams going forward, and incorporate lessons learned to achieve reductions by cutting unnecessary travel and other expenses. NAFCU supports the use of more virtual exams, but also recognizes the value of in-person interactions; therefore, a hybrid approach that maintains some in-person meetings is in the best interest of credit unions, the agency, and the agency's budget.

In-person meetings between examiners and credit union management and quick opportunities to ask staff responsible for coordinating the exam questions about additional documents or information are important. Such interactions are key to ensuring that examiners have a clear understanding of the credit union's processes, particularly on instances where exceptions may have been identified. Although email is an effective method of communication, it is not a substitute for live conversations with credit union staff and management. It is important that examiners put in the time necessary to develop a good working relationship with credit unions to understand their unique needs and circumstances as well as to keep management informed throughout the examination.

A concern that should prompt reconsideration of the agency's proposed travel budget is the potential for prolonged, pandemic related uncertainty that may reduce the feasibility of travel for a large segment of the agency's workforce. 2022 presents yet another opportunity to determine how much travel is ideal for examiners and credit unions, reduce costs by cutting travel expenses across the board, and transition to more offsite, virtual examinations as the infrastructure has already been established. Examiners and the agency overall have seen that much of the day-to-day work can be achieved remotely and should be moving forward, as many industries rely on more remote work. The third largest portion of the NCUA's Operating Budget is travel expenses, so considering the lessons learned from 2020 and 2021 regarding the extent to which supervisory and examination operations can be conducted offsite, NAFCU urges the NCUA to cut travel across the board going forward.

As the agency works toward its long-term goal of shifting to more virtual exams, NAFCU hopes the agency will leverage advancements in technology to reduce the length of exams, improve consistency, and reduce the overall burden on credit unions. For example, in an August 2018 Letter to Credit Unions, the agency explained that the use of virtual exams "should result in more consistent and accurate supervisory determinations, provide greater clarity and consistency." In a 2019 NAFCU survey,[7] over half of member respondents said that they were at least somewhat concerned with exam consistency and 43 percent indicated that their highest priority for exam reform was more consistent examiner interpretation and application of rules and guidance. Credit unions also reported that accessing exam-related guidance is challenging, which likely contributes to examiners' misunderstanding and divergent application of the agency's rules and guidance. NAFCU's 2020 survey[8] and 2021 survey[9] on exams both indicate continued concerns with exam consistency, including shifting and unexpected topics of focus and uncertainties related to the pandemic. Respondents indicated a need for more consistent exams and improvements to the technology used for sharing and reviewing documents with examiners. These concerns highlight an area for improvement in the exam process as well as an opportunity for the use of technology through virtual exams to eliminate examiner subjectivity and inconsistency.

Exam Flexibility Initiative

The draft budget includes 29 FTEs for additional examiners to conduct more annual exams of credit unions that might otherwise qualify for an extended exam. Currently, the NCUA's extended exam cycle applies only to credit unions that meet the Exam Flexibility Initiative criteria, including assets less than $1 billion. The extended examination cycle became effective for credit unions on January 1, 2017. According to NAFCU's recent survey,[10] on average, the time between respondents' last two exams was 16 months, which was above the reported period of 14 months in

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[7] NAFCU's Economic & CU Monitor (Nov. 2019).
[8] NAFCU's Economic & CU Monitor (Nov. 2020).
[9] NAFCU's Economic & CU Monitor (Oct. 2021).
[10] NAFCU's Economic & CU Monitor (Oct. 2021).

a 2020 survey. In 2020, slightly less than half of credit union respondents under $1 billion in assets had an examination cycle of 18 months or greater.[11]

These responses indicate that the NCUA is still far from fully implementing its Exam Flex program, yet now, in this draft budget, the NCUA seeks to pull back on the progress it has made to address unsubstantiated concerns about changing future economic conditions. The proposed budget would expand annual exams to credit unions between $500 million and $1 billion in assets that otherwise qualify for extended exams and those credit unions over $250 million in assets that are facing a higher risk of business or economic challenges. This proposal is unaccompanied by data or a justification beyond the specter of future economic uncertainty.

However, even during one of the most uncertain and troubling periods of the pandemic, the agency announced that extended exam schedules would continue for qualifying credit unions.[12] Now, despite an improving economy and well-capitalized industry, the NCUA is suddenly concerned about extended exams. Even more confounding is that the agency's speculative concerns about the economy contradict statements made in the Economic Outlook section of the budget proposal, including that (1) the "near-term outlook for the U.S. economy and credit unions is generally favorable"; (2) credit unions "turned in a solid performance" during the pandemic and associated recession; and (3) "improving economic conditions should benefit credit unions."

NAFCU opposes the proposed 29 new FTEs and is concerned about the less than transparent fashion in which the NCUA has chosen to pursue this change. This is an entirely inappropriate avenue to propose changes to the criteria for extended exams. Instead of burying this proposed change in the draft budget, the NCUA should release this proposal to the Exam Flex criteria through a separate notice and request for comment or Letter to Credit Unions, with a thorough justification for the change.

To be clear, NAFCU supports a strong, safe and sound credit union system and appropriate supervision of systemic risk is critical; however, this attempt to expand examinations for a large swath of the credit union industry without evidence of tangible risks to the SIF or the industry is improper and unwarranted. Instead, the NCUA should continue its work to achieve the goals of the Exam Flex Initiative considering many well-run, low-risk credit unions that qualify have still not been cycled onto an extended exam.

Moreover, NAFCU urges the NCUA to eliminate any asset threshold requirement for extended exams, or at the very least finally achieve parity with community banks by increasing the threshold. In August 2018, the Federal Deposit Insurance Fund (FDIC), Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (collectively, "other banking agencies") issued a final rule implementing Section 210 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act*, which makes qualifying banks with up to $3 billion in assets eligible for an 18-month onsite exam cycle. Consequently, banks now have greater exam flexibility despite credit unions generally having less complex balance sheets. The NCUA has previously justified maintaining the annual exam cycle for credit unions greater than $1 billion in assets on the basis

[11] NAFCU's Economic & CU Monitor (Nov. 2020).
[12] Update to NCUA's 2020 Supervisory Priorities (July 2020), https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/update-ncuas-2020-supervisory-priorities.

that such a policy would be consistent with thresholds set by the other banking agencies. Now, that rationale is no longer applicable, and the NCUA has yet to present a convincing reason why the threshold should not be increased to match that of community banks.

To better achieve its goal of reducing burdens on credit unions during the exam process, future virtual exams should be deployed on an 18-month or longer extended cycle for all low-risk, well-run credit unions. NAFCU supports extended exams for all low-risk, well-run credit unions, regardless of their size. However, at a minimum, the agency should seek to maintain parity with the extended examination threshold used by the other banking agencies.

Exam Modernization

Yet another reason why the additional 29 FTEs are unnecessary is because the agency's ongoing exam modernization initiative should create a more efficient supervision processes, eliminating the need for additional examiners. NAFCU strongly supports the NCUA's commitment to modernizing its examination process and applauds the agency for being a leader among the banking regulators in adopting a modern examination system. The deployment of the new Modern Examination Risk Identification Tool (MERIT) to all NCUA examiners in the fall of 2021, coupled with additional capital investments in 2022 to address rollout issues and allow for continued enhancements to MERIT, should permit the agency to achieve a more effective and efficient exam process.

Fair Lending Exams

Credit unions remain committed to fair lending compliance and ensuring equal access to mortgage credit. However, NAFCU is concerned about the dramatic increase to fair lending exams in 2022. As proposed, the budget specifies an increase of fair lending exams by 50 percent and fair lending supervision contacts by 25 percent. To support this increased examination goal, the budget requires an additional four FTEs dedicated to fair lending. The budget stresses that that the NCUA is emphasizing a compliance approach over an enforcement approach and seeks to resolve fair lending issues through the examination process. Although we appreciate efforts to proactively resolve problems, the overall increase to fair lending exams seems substantial and unwarranted. The NCUA should return to only conducting fair lending exams when there is substantial evidence of a need, provide greater transparency regarding its exam selection process, and offer more lead time for credit unions selected for these exams. In terms of adding FTEs, NAFCU suggests that the NCUA implement a gradual increase over the next few years to better use existing resources and weigh the costs and benefits of additional FTEs.

Transparency Regarding Cybersecurity Expenses

A significant portion of the NCUA's proposed budget provides funding for cybersecurity related improvements designed to enhance the agency's overall security posture and compliance with Executive Order 14208: Improving the Nation's Cybersecurity. NAFCU supports efforts to strengthen the NCUA's cybersecurity and resilience to security threats. At the same time, the added value of new cybersecurity investments included in each budget cycle should be benchmarked using transparent metrics.

The draft budget maps cybersecurity enhancements to the functional areas described in the National Institute of Standards and Technology's (NIST) Cybersecurity Framework. However, the broad descriptions provided for certain investments make it difficult to assess how they are achieving their intended results. For example, the budget proposes investments in cybersecurity situational awareness through "big data" analytics; a term that could encompass a variety of techniques, data sources and capabilities. The NCUA should commit to providing a more complete description of these types of investments, potentially through a briefing with credit unions, to improve budget transparency and establish industry confidence in the NCUA's cybersecurity capabilities. An industry briefing could also facilitate future consideration of ways in which credit union can leverage the agency's new analytic capabilities to augment their own cybersecurity.

For certain investments, the NCUA does use a standard metric for benchmarking return on technology infrastructure investment (ROTII). The use of similar metrics should be encouraged for all types of IT security related investments and projects. Additionally, it would be helpful to provide a ranking of IT projects by their ROTII score, along with a more complete description of the inputs used to calculate the ROTII. The ROTII's numerator is calculated as the reduction in economic loss less the cost of the solution. However, credit unions would be interested in learning more about the variables and assumptions that are used to model the reduction in economic loss, particularly as the agency improves its resiliency and the probability of catastrophic failure decreases with each subsequent cybersecurity investment.

Although the budget itself may not be the best vehicle for communicating such information, the NCUA should consider providing it by other means, such as industry briefings, in order to advance the overall objective of budget transparency. Like credit unions, the NCUA faces rising cybersecurity costs, and the agency would benefit from hearing the feedback of credit unions on how it is benchmarking the performance of IT security investments.

Financial Inclusion

NAFCU applauds the NCUA's ongoing commitment to financial inclusion and supports the efforts of the NCUA's ACCESS Initiative. The advancement of Diversity, Equity, and Inclusion (DEI) is of utmost importance to the strength of our financial system, and the financial inclusion championed by the ACCESS Initiative is foundational to the progress of DEI. From its inception, NAFCU has expressed hope that the ACCESS Initiative's goal of expanding access to credit, financial literacy education, financial stability, and employment for communities most in need would help to close the gap that leaves many communities unserved and underserved. NAFCU supports the addition of one Financial Inclusion and Outreach Analyst and one ACCESS coordinator position in the draft budget and hopes that they will help the initiative move forward on its five focus areas. The NCUA should also continue to provide educational webinars and assist credit unions with the identification of grants and other financial resources to support the development and implementation of financial products and services to help members experiencing financial hardship.

Payday Alternative Loans (PALs)

Despite the commendable work that the NCUA has undertaken thus far through the ACCESS Initiative, the agency can still do more to advance financial inclusion. NAFCU has continually advocated for small dollar loan programs that make economic sense to credit unions and provide members with access to safe alternatives to payday lenders. Unfortunately, due to restrictions from the NCUA and the Consumer Financial Protection Bureau, short-term lending programs such as PALs have yet to gain widespread adoption and serve their intended purpose. In NAFCU's 2021 Federal Reserve Survey, 16 percent of respondents indicated that their small dollar lending programs operate at a loss.[13] Furthermore, according to NCUA Call Report data, the demand for PAL loans decreased in 2020 compared to 2019. Although government stimulus programs and increased unemployment benefits may have contributed to this decrease, NAFCU's members have indicated that the rigid structure of the programs has reduced willingness to offer PAL loans.

As a result, NAFCU has sought additional regulatory flexibility from the NCUA that recognizes credit unions' good conduct as small dollar lenders. The NCUA should consider a PALs III to provide additional options for credit unions to help members in need of responsible short-term, small-dollar loans. Small-dollar loans are disproportionately relied on by lower-income and younger households who face financial and liquidity challenges and are rationed from gaining access to sufficient levels of mainstream credit to meet their needs. Credit unions stand ready to help with financial literacy education and access to loans and other financial products, including PALs, but many are limited in their ability to add underserved areas to their FOMs.

Field of Membership

Continued modernization of the FOM rules is one way to help those who need it most have access to financial services. NAFCU appreciated the Board's recent decision to amend the definition of service facility for multiple common bond (MCB) FCUs to include shared branches or shared electronic facilities for purposes of underserved areas. However, NAFCU and its member credit unions were extremely disappointed in the NCUA's concurrent decision to exclude ATMs under the definition of a service facility for adding underserved areas. The final rule fell short in helping credit unions, especially smaller institutions, expand access to products and services in disadvantaged communities that are often left behind by big banks. In order to achieve the goals of the ACCESS Initiative, the NCUA must not undercut modernization efforts like these that are permissible under the FCU Act and which have the potential to expand access to financial services to communities most in need. Instead, the NCUA should continually work to increase inclusion by allowing credit unions to better serve individuals in underserved areas, including through online and mobile banking platforms.

In addition, the NCUA must continue to ensure that CURE is well funded and possesses the ability to support low-income designated credit unions, minority credit unions, and any credit union seeking to expand its field of membership or to pursue these designations. NAFCU is pleased to see the addition of two FTEs for CURE in the draft budget. Approving pending FOM expansions and considering additional methods for modernizing the agency's FOM requirements are critical to expanding credit unions' reach to the populations that need them most. The NCUA should closely evaluate its proposed budget to ensure that appropriate funding is devoted to helping credit unions remain strong and equipped with the tools they need to continue growing.

[13] NAFCU *Federal Reserve Meeting Survey*, conducted August 24 – September 17, 2021.

Conclusion

The credit union industry remains focused on the efficient use of resources and encourages the NCUA to do so as well by achieving year-over-year budget reductions. NAFCU urges the agency to carefully consider and adopt the detailed suggestions outlined above in its final 2022-2023 budget. NAFCU thanks the NCUA Board and recognizes the NCUA staff's hard work in preparing this budget justification and other budget materials. Thank you again for the opportunity to deliver remarks before you and submit this more detailed letter. I look forward to reviewing the final budget documents during this month's Board meeting.

Sincerely,

Ann C. Kossachev
Vice President of Regulatory Affairs