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National Association of Federally-Insured Credit Unions

January 21, 2022

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Draft NCUA Strategic Plan 2022–2026

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to you regarding the National Credit Union Administration's (NCUA) draft 2022–2026 Strategic Plan. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products. NAFCU urges the NCUA to carry out its regulatory and supervisory mission while providing credit unions the necessary flexibility to adapt to new technologies, and to find new ways to reduce credit unions' regulatory compliance burdens. To the extent that the Strategic Plan mirrors the agency's final budget, NAFCU urges the NCUA to adjust its goals and objectives accordingly to ensure it aligns with the final budget, recognizes lessons learned from the COVID-19 pandemic, and maintains the efficient use of credit union dollars.

Strategic Goal 1 – Ensure a safe, sound, and viable system of cooperative credit that protects consumers

Share Insurance Fund, NCUA Operating Fund & Corporate Asset Management Estates

The NCUA Board's recent action to set the Share Insurance Fund's normal operating level (NOL) at 1.33 percent was a partial recognition of the credit union industry's financial strength, and NAFCU is appreciative of the Board's commitment to seek public comment when adjusting the NOL by more than one basis point. However, NAFCU continues to advocate for an NOL of 1.30 percent, particularly in light of the "favorable" outlook for "solid economic growth" presented in the draft Strategic Plan.[1] An NOL of 1.30 percent would strike an appropriate balance between protecting taxpayers against financial risk in the credit union system and allowing credit unions to access the funds they need to continue providing quality, affordable financial services to their member-owners. NAFCU urges the NCUA Board to reevaluate the most appropriate NOL at this time and promptly return it to its historic level of 1.30 percent.

[1] National Credit Union Administration. *Draft NCUA Strategic Plan 2022–2026* (November 18, 2021). https://www.ncua.gov/files/agenda-items/AG20211118Item2b.pdf.

In further recognition of the strength of the credit union system, the NCUA Board recently announced that as a result of its unanimous approval of the 2022-2023 final budget at the December 2021 meeting, it will be returning money to credit unions from the surplus in the Operating Fund in the form of a credit toward the operating fee. NAFCU advocated for this and thanks the NCUA Board for its acknowledgment that surplus Operating Fund monies can be better utilized by credit unions to serve their members and communities, especially as the pandemic continues to impact many Americans and small businesses. Going forward, NAFCU encourages the NCUA to consistently evaluate the balance of the Operating Fund and return any unnecessary surplus to credit unions through a refund or credit against future operating fees.

Similarly, the NCUA should issue distributions to capital claimants of the failed corporate credit unions as quickly as possible. When it comes to the timing of liquidating legacy assets, NAFCU recognizes the need to consider multiple factors, including the market value of the assets and any legal claims. In those instances where the NCUA deems it appropriate to delay liquidation, NAFCU asks for transparency regarding the rationale as well as when the agency anticipates liquidation to occur.

Examinations

Greater familiarity with virtual examination technology should allow the NCUA to conduct more efficient remote examinations and make further improvements to consistency, which NAFCU members continue to cite as an area of concern.[2] The continuing rollout of the Modern Examination Risk Identification Tool will help in the effort to streamline examinations and NAFCU members look forward to observing these efficiencies. Additionally, expanding the scope of the Exam Flex Initiative to include all well-run, low-risk credit unions under $3 billion in assets, rather than the current $1 billion asset cap, will reduce compliance burdens and permit NCUA examiners to devote more of their time and attention to higher-risk institutions. The NCUA should act expeditiously to achieve parity with the other banking regulators and increase to $3 billion the cap for credit unions eligible for extended exams.

An improved examination process should adopt a hybrid model that incorporates both virtual and in-person examinations. Such an approach would increase efficiency and maximize cost savings by limiting travel while facilitating communication and the development of positive working relationships between examiners and credit union staff as it preserves face-to-face interaction. NAFCU appreciates the NCUA’s incorporation of NAFCU’s suggestions for reducing examination-related expenses in the agency’s 2022–2023 final budget. Adopting lessons learned from the pandemic to further modernize the agency’s approach to examinations by transitioning to a hybrid model is the most cost-effective and forward-looking approach. Additionally, NAFCU welcomes the NCUA’s goal of incorporating feedback from external stakeholders to improve examination quality and consistency and hopes that the NCUA will continue to consider the views of supervised credit unions on these matters.

[2] NAFCU’s Economic & CU Monitor (Oct. 2021).

Emerging Risks

The risks and opportunities identified by the NCUA related to climate change, new financial technologies, and increased cybersecurity threats are all complex issues that can only be addressed through cooperation and open dialogue between the NCUA and credit unions as well as other financial regulators. Any NCUA adoption of climate policy should be the result of a notice-and-comment rulemaking process and should reflect credit unions' lower exposure to systemic climate risk compared to other sectors of the financial services industry. Regulations and other policies that are meant to manage climate risks for insurers and large banks will not be well-suited to the credit union system, so the NCUA should consider a more tailored approach.

The NCUA should also avoid imposing large compliance burdens on credit unions for policies that duplicate work already being done by other institutions that face far more significant climate risks. The NCUA should continue working with other regulatory agencies through the Financial Stability Oversight Council to develop an approach to mitigating climate risk in financial services that appropriately reflects the differing risk levels faced by different types of institutions. To address credit unions' concentration risks associated with climate change, the NCUA should continue to call on Congress to enact legislation amending the *Federal Credit Union Act* (FCU Act) allowing all credit unions to add underserved areas to their fields of membership (FOM).

For challenges arising from innovation and the implementation of new technologies, the NCUA can assist credit unions by establishing clear standards and engaging Congress and other regulators to protect credit unions' ability to compete. NAFCU has called on the NCUA to allow credit unions to offer custodial services for digital assets, an action the Office of the Comptroller of the Currency took more than a year ago for banks. Concerningly, the recent Report on Stablecoins from the President's Working Group on Financial Markets omitted credit unions from its call to restrict the ability to issue stablecoins to institutions with a bank charter. The NCUA should be more vocal in its support of credit unions' ability to provide innovative technology services so that decisions made by Congress and other regulators do not unfairly, and perhaps unknowingly, restrict credit unions from being able to offer the services their members want. Silence or inactivity in the area of innovation and digital assets only further compounds competitive pressures, making it harder for credit unions to serve their communities and very challenging for smaller credit unions to survive in the face on ongoing consolidation trends.

NAFCU members continue to make substantial investments in cybersecurity to address evolving risks and improve operational resiliency. Given the pace at which cybersecurity costs have risen in recent years, NAFCU hopes that the NCUA will provide more cybersecurity resources to help credit unions improve their capabilities while recognizing that the additional administrative burden of new regulatory reporting may be counterproductive to the objective of effective, day-to-day cybersecurity. The Automated Cybersecurity Evaluation Toolbox has proven to be a helpful voluntary resource for credit unions' self-assessment, but NAFCU members have also reported that cybersecurity examination components involve more time and document requests than in recent years.[3] Further development of the InTREx-CU program should aim to improve exam

[3] NAFCU's Economic & CU Monitor (Nov. 2021).

efficiency by focusing attention on high-risk areas and calibrating the scope of targeted reviews based on the complexity of the credit union and its products.

The NCUA should also work together with the Consumer Financial Protection Bureau (CFPB) to educate credit unions nearing $10 billion in total assets about how the CFPB's Compliance Management System – Information Technology (CMS-IT) exam component may be distinct from traditional cybersecurity examinations administered by the NCUA. The NCUA and the CFPB should also consider hosting a joint webinar to describe how the CMS-IT examination procedures published by the CFPB in September 2021 compare with the normal scope of a cyber exam performed by the Office of National Examinations and Supervision. Close collaboration with the CFPB should also address potential areas of examination overlap with the goal of reducing duplication in document requests or targeted review areas.

Strategic Goal 2 – Improve the financial well-being of individuals and communities through access to affordable and equitable financial products and services

NAFCU agrees with the NCUA that increasing financial inclusion is a core component of credit unions' mission and NAFCU is strongly supportive of the NCUA's commitment in this area, particularly the work done through the Advancing Communities through Credit, Education, Stability, and Support (ACCESS) Initiative. One significant step the NCUA can take in its efforts to continue broadening the accessibility of financial services is revisiting the service facilities rule to include ATMs as well as mobile and online banking services in the definition of service facility for the addition of underserved areas. Credit unions want to expand their FOM to include underserved areas, and regulations should recognize technological developments that enable credit unions to offer the services that these communities need in a cost-effective manner. This is yet another reason why the NCUA should publicly support legislation allowing all credit unions to add underserved areas to their FOM.

The NCUA can also help advance financial inclusion by easing barriers to the formation of new credit unions. NAFCU supports streamlining the chartering process, offering assistance to groups attempting to establish a new credit union in earlier stages, and providing newly formed credit unions with additional flexibility in meeting regulatory requirements. NAFCU also supports legislation that would update the FCU Act to promote the chartering of *de novo* credit unions, and the NCUA should consider articulating a set of principles on this issue that it would support in a legislative package.

In addition to expanding access to credit union membership, the NCUA can also strengthen credit unions' ability to serve their existing members. Small dollar payday alternative loans (PALs) allow credit union members to access affordable credit and avoid predatory lenders, and these services are especially important for younger and lower-income members. The NCUA should continue its work on a PALs III rule and engage with the CFPB to exempt all PALs loans from the Payday Lending rule. Other steps the NCUA should take to help credit unions increase access to financial services include further improvements to the Community Development Financial Institution (CDFI) application process, working with Congress and the U.S. Department of the Treasury to address the CDFI application backlog, and increasing assistance to credit unions in determining their status as a minority depository institution (MDI) or a low-income credit union (LICU). The

NCUA should also take proactive steps to engage with credit unions that have received an MDI or LICU designation so those institutions are fully informed of available grants and other forms of assistance. The Community Development Revolving Loan Fund (CDRLF) is another important tool for assisting LICUs. NAFCU continues to advocate before Congress for both increased CDFI Fund and CDRLF funding and appreciates the NCUA Board's consistent support on this issue.

Strategic Goal 3 – Maximize organizational performance to enable mission success

Improvements in the skill and technical capability of the NCUA's workforce, as well as advances in the diversity of the agency's workforce, will benefit credit unions by promoting examination efficiency and strengthening the agency's internal governance. As new technologies emerge and financial services grow more complex, NCUA examiners will need to develop more subject matter expertise to conduct supervision without compounding credit unions' regulatory burdens. Similarly, modernizing technologies and systems will support the effective use of virtual examinations, enabling the NCUA to reduce examination lengths and improve consistency while reducing travel expenses and still fostering communication between NCUA examiners and credit union staff.

Conclusion

NAFCU appreciates the opportunity to share our thoughts on the issues addressed in the draft 2022–2026 NCUA Strategic Plan. The credit union industry has emerged from the economic tumult of the COVID-19 pandemic in strong financial condition and is ready to meet emerging risks. With clear and reasonable regulation and supervision that protect the industry's safety and soundness while encouraging responsible growth and innovation, the NCUA can help to ensure a bright future. NAFCU looks forward to continuing to work with the NCUA to strengthen and promote the credit union industry. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,

Ann C. Kossachev
Vice President of Regulatory Affairs