NAFCU

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

May 15, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

RE: Tomorrow's Hearing on the Oversight of Prudential Regulators

Dear Chairwoman Waters and Ranking Member McHenry:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts ahead of tomorrow's hearing entitled "Oversight of Prudential Regulators: Ensuring the Safety, Soundness and Accountability of Megabanks and Other Depository Institutions." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 116 million consumers with personal and small business financial service products. NAFCU and our members welcome the Committee's oversight of financial regulators.

Since the financial crisis, the credit union industry has lost over 1,500 institutions. This dramatic consolidation is due, in large part, to increased regulatory compliance requirements. We urge you to continue to work to create a regulatory environment where credit unions can grow and thrive. As we have previously communicated to you, NAFCU supports the following five tenets of a healthy regulatory environment:

- **NAFCU supports a regulatory environment that allows credit unions to grow.** NAFCU believes that there must be a regulatory environment that neither stifles innovation, nor discourages credit unions from providing consumers and small businesses with access to credit. Promoting growth-friendly regulation includes protecting the current tax status of credit unions. It also includes the ability of credit unions to establish healthy fields of membership that are not limited by outdated laws or regulatory red tape. All credit unions should have the ability to add underserved areas to their fields of membership without more regulatory red tape. Revised regulations may also be necessary to address structural barriers to growth. For example, credit unions need modernized capital standards that reflect the realities of the 21st century financial marketplace, such as the ability to issue supplemental capital. Additionally, there must be a housing finance system that works for credit unions.

- **NAFCU supports appropriate, tailored regulation for credit unions and relief from growing regulatory burdens.** Credit unions are swamped by unabated regulatory burden from the Consumer Financial Protection Bureau and other regulatory entities, often from rules that are targeting bad actors and not community institutions. NAFCU supports the adoption of cost-benefit analysis in the rulemaking process to ensure that positive regulations may be easily implemented and negative ones may be quickly eliminated. NAFCU also believes that enforcement orders from regulators should not take the place of regulation or agency guidance to provide clear rules of the road. This NAFCU priority includes seeking regulatory relief and reform that allows credit unions to better serve their members. This includes changes to modernize the *Federal Credit Union Act*, such as giving the National Credit Union Administration (NCUA) authority and flexibility to set longer loan maturity limits, improving credit union investment options, and updating outdated statutory credit union governance provisions found in the Act, including the ability for credit unions to deal with threats to the institution in a timely manner.

- **NAFCU supports a fair playing field.** NAFCU believes that credit unions should have as many opportunities as banks and non-regulated entities to provide provident credit to our nations' consumers. NAFCU wants to ensure that all similarly situated depositories and lenders follow the same rules of the road and unregulated entities, such as predatory payday lenders, do not escape oversight. We also believe that there should be a federal regulatory structure for non-bank financial services market players that do not have a prudential regulator, including emerging fintech companies. Additionally, retailers and others who handle personal financial information should be held responsible for protecting that information. Retailers should also pay their share for costs associated with data breaches and for access to a reliable and secure national payments system.

- **NAFCU supports government transparency and accountability.** NAFCU believes that regulators need to be transparent in their actions, with the opportunity for public input, and should respect possible different viewpoints. We believe a bipartisan commission is the best form of regulatory governance structure for independent agencies, and all stakeholders should be able to provide feedback in the regulatory process.

- **NAFCU supports a strong, independent NCUA as the primary regulator for credit unions.** NAFCU believes that the NCUA is the sole regulator equipped with the requisite knowledge and expertise to regulate credit unions due to their unique nature. The current structure of the NCUA, including a three-person board, has a track record of success. The NCUA should be the sole regulator for credit unions and continue to work with other regulators on joint rulemaking and other initiatives when appropriate. Congress should make sure that the NCUA has the tools and powers that it needs to effectively regulate credit unions. However, NAFCU does not support the NCUA expanding its regulatory and examination authority beyond credit unions. We believe the NCUA should focus its resources on regulating and examining credit unions, rather than non-credit union third parties where it may not have the expertise or where there may be duplicative regulatory efforts.

Additionally, NAFCU is pleased to see NCUA Chairman Rodney Hood and Board Member Todd Harper confirmed and sworn in earlier this year. Prior to their swearing in, the NCUA had been without a fully-seated Board of three members for nearly three years. The credit union industry remains vibrant and healthy. Still, there are many challenging issues that we hope that Chairman Hood and the new NCUA Board will address, including a needed review of the pending implementation of a new onerous risk-based capital rule and further consideration of an extended examination cycle for well-run credit unions to put NCUA exam cycles at least on par with recent changes for banks.

Another major concern for credit unions is the Financial Accounting Standards Board's (FASB) Current Expected Credit Loss (CECL) Standard. The CECL standard is the most significant change in accounting rules to hit the financial services industry in decades. NAFCU believes that there is a fundamental misalignment between FASB's objectives in developing the CECL standard and the credit union industry. As not-for-profit member-owned cooperatives, credit unions stand to be severely disadvantaged by this new standard and could be forced to severely curtail certain types of lending because of this standard. NAFCU has urged FASB to reconsider its approach to this proposal and provide an exemption for credit unions because the credit union industry was not responsible for the market conditions that caused the financial crisis. We ask the Committee to work with regulators such as the NCUA to come up with solution so that credit unions and their 116 million members are not harmed by, and have the resources necessary to understand, this new standard.

Finally, with Federal Reserve Board Vice Chairman for Supervision Randal Quarles before the Committee tomorrow, NAFCU renews our call for the Committee to urge the Federal Reserve Board to revisit the transaction limitation requirements for savings deposits under Regulation D. As we have previously testified before the Committee, the six-transaction limit imposes a significant burden on both credit union members in attempting to access and manage their deposits and credit unions in monitoring such activity. Member use of electronic methods to remotely access, review and manage their accounts, as well as the contemporary transfer needs of members and consumers at all types of financial institutions, make a monthly transaction limit an obsolete and archaic measure. We urge Congress to encourage the Federal Reserve Board to act to review and modernize this outdated provision.

Once again, we thank you for your leadership and ongoing oversight of prudential regulators. NAFCU is pleased to see the Committee examining ways to continue regular oversight. We urge you to also continue to consider additional measures that will help credit unions better serve their members. We appreciate the opportunity to share our input and look forward to continuing to work with the Committee to balance minimizing regulatory burden with enhancing the safety and soundness of the credit union system. Should you have any questions or require any additional information, please contact me or Alex Gleason, NAFCU's Associate Director of Legislative Affairs, at 703-842-2237.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee