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National Association of Federally-Insured Credit Unions

May 12, 2020

The Honorable Gregory Meeks
Chairman
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Tomorrow's "Update from Prudential Regulators" Virtual Roundtable

Dear Chairman Meeks and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts ahead of tomorrow's virtual roundtable entitled, "Update from Prudential Regulators." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products. NAFCU and our members welcome the Subcommittee's oversight of financial regulators and ongoing efforts to address the current pandemic.

As we have shared with you previously, credit unions are keenly aware of the hardships their members are facing due to the COVID-19 pandemic and are working around the clock to proactively assist them. First and foremost, credit unions are concerned about the health and safety of their staff and members. Many are taking steps to help minimize person-to-person interaction, such as limiting staff travel, encouraging staff to telework as much as reasonably possible, and reminding members of online and mobile banking resources as well as drive through windows, if available. Furthermore, many credit unions have implemented programs to protect their members' financial health, including skipping payments without penalty, waiving fees, low or no-interest loans, loan modifications and no interest accruals. We are pleased that both Congress and the National Credit Union Administration (NCUA) have taken steps to assist credit unions in these efforts. We hope that the Subcommittee will work with NCUA in upcoming relief to do even more.

Credit Union Relief Measures Supported by the NCUA

Along those lines, NAFCU is supportive of a number of relief measures proposed by NCUA Chairman Rodney Hood. We would urge the Subcommittee to consider these proposals as you craft future pandemic response efforts.

Liquidity for Credit Unions
We echo Chairman Hood and NCUA Board Member Todd Harper's request to make the changes to the Central Liquidity Facility (CLF) in the *Coronavirus Aid, Relief, and Economic Security Act*

(CARES Act) permanent in the next relief package. The CLF is an important liquidity tool for credit unions, and the recovery ahead will likely extend beyond the end of 2020 when the changes are set to expire.

Additionally, we support a statutory change to grant temporary authority to the NCUA Board to allow federally chartered credit unions the ability to lend to other credit unions. NAFCU believes strong liquidity is vital to ensuring loans to struggling families and small businesses continue to flow within the credit union system.

Capital and Prompt Corrective Action (PCA) Flexibility

NAFCU is supportive of Chairman Hood's request to provide more capital relief to credit unions during COVID-19. A temporary reduction in capital standards by reducing the level at which credit unions are considered well capitalized from a net-worth ratio of seven percent to six percent and adequately capitalized from six percent to five percent during the pandemic would provide relief for credit unions on par to what community banks received from changes to the Community Bank Leverage Ratio in the CARES Act.

Additionally, we support NCUA's request to grant the NCUA Board the authority to waive the requirements of a net-worth restoration plan for credit unions that are less than adequately capitalized for up to 180 days. The current pandemic may lead to temporary deterioration in net worth ratios at a small number of credit unions. We appreciate Chairman Hood's recognition that providing greater flexibility in meeting capital restoration requirements could reduce administrative burdens during a time of high operational stress.

We also support Chairman Hood's request to give the NCUA Board greater flexibility to delegate the authority to make decisions to address the changes to capital levels at smaller, otherwise sound credit unions that are experiencing a fluctuation of capital levels as a result of the pandemic.

Member Business Lending (MBL) Cap Relief

NAFCU also echoes Chairman Hood and Board Member Harper's request to temporarily provide relief from the arbitrary MBL cap placed on credit unions. As the country faces recovery from the impact of COVID-19 on the economy, many credit unions have the ability to help small businesses create jobs and stimulate the economy. However, due to the outdated and arbitrary MBL cap, that ability is hampered. Providing relief from the cap would help provide economic stimulus and create jobs without using taxpayer funds to do so. It should be noted that such a proposal has bipartisan support in the House in the form of H.R. 6789, the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020*, and strong support from every member of the NCUA Board.

Credit Union Loan Maturity Limits

We also support Chairman Hood's request to raise the 15-year general maturity limit on loans that is part of the *Federal Credit Union Act* (FCU Act). This limit hampers credit unions' ability to provide certain products, such as student loans and mortgage loans, to those who may be looking to take advantage of great rates and purchase a future home, such as members of the military who may be stationed outside of an area. Bipartisan legislation to help on this issue has been introduced in the House, H.R. 1661, and would be helpful to credit unions who have a long track record of providing provident credit to members during times of uncertainty like many of them are currently experiencing.

Underserved Areas
NAFCU supports Chairman Hood and Board Member Harper's call for Congress to allow credit unions to do more to help underserved populations. Too many Americans are unbanked, underbanked or underserved by financial institutions, and do not have the access that they need to financial services. Credit unions stand ready to help with financial literacy education and access to loans and other financial products, but many are limited in their ability to add underserved areas to their field of membership. This request has bipartisan NCUA Board support, and NAFCU reiterates that allowing all credit unions to add underserved areas to their field of membership is one way to help those who need it most have access to capital without burdening the federal government.

Provide Relief from Outdated Field of Membership Restrictions
Social distancing and the pandemic have put an increased focus on mobile banking as credit unions have had to significantly limit or suspend in person transactions in their branches, or work with members who do not want to get service in person. These restrictions have led many credit union members to conduct all of their financial transactions through online banking and other electronic means. Chairman Hood has highlighted the need for statutory changes to the "reasonable proximity" requirement that a group seeking credit union service from a multiple common bond credit union be in reasonable proximity to a credit union service facility.

Geographic proximity is no longer a significant factor for the formation and purpose of an association in today's environment. Due to the explosive growth of technology and digital communication platforms, today's society is ubiquitous and widespread. Association members can form a cohesive bond and be integrally related regardless of geographic location because modern technology provides platforms on which individuals can connect to one another from anywhere in the world. In today's modern world of teleconferences, Zoom meetings and webinars, association members can participate in activities developing common loyalties, mutual benefits, and shared interests without geographic restriction. Therefore, we are supportive of NCUA's request and agree this change would permit flexibility for members to join a credit union.

Third-Party Vendor Examination Authority is Not Needed
In addition to the above NCUA requests that we support, we would like to express our opposition to NCUA's request on third-party vendor examination authority. NAFCU and our member credit unions believe that cybersecurity is an important issue, including the security of vendors that credit unions do business with; accordingly, we have created our own task force of our members to examine this issue. However, NAFCU is opposed to granting additional authority to NCUA to examine third parties at this time. NAFCU believes in a strong NCUA, but that the NCUA should stay focused on regulating credit unions. There are other tools already in place for the agency to

get access to information about vendors. We believe the agency's time and resources are better focused on reducing regulatory burden by coordinating efforts among the financial regulators.

Additional Areas to Help Credit Unions and Their Members

Current Expected Credit Loss (CECL) Accounting Standard
NAFCU was pleased to see Chairman Hood's April 30, 2020, letter to the Financial Accounting Standards Board (FASB) where he echoed NAFCU's call for a credit union exemption to the new CECL standard. We agree with his assessment that "…the compliance costs associated with implementing CECL overwhelmingly exceed the benefits." We hope the Subcommittee will continue to examine legislative measures to provide relief from CECL and encourage NCUA to take steps to minimize its impact on credit unions.

Additional Funding for CDFI and CDRLF Programs
As you consider additional relief efforts, we encourage the Subcommittee to support increased funding for the Community Development Financial Institutions (CDFI) Fund and the NCUA's Community Development Revolving Loan Fund (CDRLF). These are important tools for credit unions to have access to funds to help those in underserved and low- and moderate-income areas. Providing $1 billion in emergency funding for the CDFI Fund would allow more credit unions to access monies to provide specific programs to help their members, and we appreciate that this funding is included in the recently unveiled *Health and Economic Recovery Omnibus Emergency Solutions Act* (HEROES Act). In regard to the CDRLF, Board Member Harper has specifically called for at least $10 million more for grants in 2020 to help low-income credit unions. We would also urge you to consider measures to make it easier for credit unions to become a CDFI.

Modernizing Outdated Governance Provisions in the FCU Act
A number of provisions relating to the governance of federal credit unions are outdated and need modernizing. For example, provisions requiring an in-person member meeting are particularly concerning during these times of social distancing. At a time when few people may want to congregate in large groups, an outdated provision requiring a group meeting for actions that can be handled by a board or virtually only serves to put credit union volunteers and leadership at risk. There is already bipartisan legislation pending in the Senate, S. 3323, that would remove the requirement for a special in-person meeting of the members of a credit union and replace it with board action to expel a member for threats or criminal acts.

Steps NCUA Can Take to Help Credit Unions

In addition to the legislative requests outlined above, there are a number of other areas where NAFCU has been engaging NCUA to seek relief from the agency.

Exam Modernization
A challenging regulatory issue that we hope Chairman Hood and the NCUA Board will address is exam modernization. NAFCU generally supports the NCUA's commitment to modernizing its examination process so long as it reduces burdens on credit unions, particularly during the current

pandemic. Credit unions have had to shift their strategies to accommodate this public health crisis by adopting flexible telework policies, closing branches, and enhancing online banking platforms. In the midst of the COVID-19 pandemic, those credit unions scheduled for an examination may be facing a multitude of challenges, including technological issues that can make the process more time consuming and burdensome. Considering all credit unions across the country are affected, to some extent, by COVID-19, this extraordinary situation warrants a pause on examination activity until at least the fall of 2020 to allow credit unions an opportunity to focus on working with and meeting the needs of their members. Absent substantial safety and soundness concerns or other urgent circumstances, the NCUA should cease examination activity to align with the banking regulators' recent decision to cease all examination activity for banks under $100 billion in assets, absent a safety and soundness concern. We would urge the Subcommittee to ask NCUA to provide an update on their plans to provide greater examination relief and their continued efforts toward exam modernization.

Examiner Flexibility with PPP Lending

Specifically related to the current pandemic and the Paycheck Protection Program (PPP), we urge the Subcommittee to ask the NCUA for an update on their current work with the Small Business Administration and the Department of Treasury to make sure that credit unions are getting equal access to the PPP and having their questions answered. Additionally, given the extraordinary circumstances, we hope NCUA will provide examiner flexibility in the future review of PPP loans. For example, we would expect the NCUA to not penalize credit unions for minor errors due to uncertainty or a lack of guidance regarding the PPP.

In conclusion, we thank you for your leadership and ongoing oversight of prudential regulators. NAFCU is pleased to see the Subcommittee examining ways to continue regular oversight particularly during these uncertain times. We urge you to also continue to consider additional measures that will help credit unions to better serve their members. We appreciate the opportunity to share our input and look forward to continuing to work with the Subcommittee 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 Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at 703-842-2836.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Consumer Protection and Financial Institutions