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B. Dan Berger
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National Association of Federally-Insured Credit Unions

July 29, 2020

The Honorable Rodney E. Hood, Chairman
The Honorable Todd M. Harper, Board Member
The Honorable J. Mark McWatters, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Mid-Session Budget

Dear Chairman Hood and Board Members Harper and McWatters:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in regard to the National Credit Union Administration's (NCUA) mid-year budget review. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve nearly 121 million consumers with personal and small business financial service products. During the past few months, the credit union industry has faced unprecedented obstacles as our nation battles with the COVID-19 pandemic, an economic crisis, and record levels of unemployment, which have had a disproportionate impact on communities of color and low-income individuals. NAFCU appreciates the NCUA's swift regulatory relief efforts and focus on developing a strong virtual examination process during these difficult times. As the NCUA conducts its mid-year budget analysis, NAFCU recommends that the agency ensure it is devoting enough resources toward the programs that will best assist credit unions to be successful.

Coronavirus Relief Efforts and Virtual Examination Process

NAFCU appreciates this mid-session or mid-year budget review as it is essential to fostering transparency around how credit unions' valuable dollars are being used. The 2020 final Operating Budget represented a 3.8 percent increase over the Board-approved 2019 Operating Budget. As the economy continues to stutter and the timing of a future recovery is still uncertain, NAFCU asks the NCUA Board to carefully evaluate how it plans to utilize its remaining resources in 2020 and revisit its 2021 draft budget, which proposed another 3.8 percent increase over 2020.

Given the difficult economic realities facing credit unions across the country, the NCUA should judiciously manage its budget for the remainder of the year and beyond. Without the opportunity to review the year-to-date spending trends and updated estimates of annual funding requirements ahead of this month's Board meeting, it appears that the agency has made efficient use of its resources so far this year. NAFCU appreciates the agency's transparency and looks forward to reviewing the expenditures this year and updated estimates.

Over the past few months, the agency quickly pivoted to investing in technology and the resources necessary to assist credit unions during this uncertain time. The NCUA has taken swift and decisive actions to provide credit unions with immediate relief as they were faced with overwhelming challenges associated with closing or limiting access to branches, transitioning to working from home, and ensuring that they are able to provide their members with the products and services in a primarily virtual environment. The NCUA promptly issued interim final rules to implement provisions of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), expanded access and made other changes to membership requirements for the Central Liquidity Facility, provided credit unions with relief from annual meeting requirements and appraisal requirements, and worked to provide clarity on its approach to supervision and examination and fast-track improvements to its virtual and offsite exam procedures to continue ensuring the safety and soundness of the credit union industry.

Unfortunately, more remains to be done. NAFCU urges the agency to consistently seek feedback from credit unions to find opportunities for further relief measures as institutions continue to combat the impacts of the COVID-19 pandemic. These temporary relief measures have a limited footprint on the agency's budget, do not sacrifice safety and soundness, and could, in fact, lead to cost-savings in the supervision process while providing critical assistance to credit unions.

The agency can ensure cost-savings in the future by utilizing available resources now to perfect its virtual examination procedures. NAFCU is encouraged by the NCUA's deployment of a fully virtual examination process during the COVID-19 pandemic and has heard positive feedback from members. Now is the time to document lessons learned and brainstorm more ways to further improve the examination process to begin transitioning to a predominately virtual examination process going forward.

NAFCU appreciates the agency's recent Request for Information on Strategies for Future Examination and Supervision Utilizing Digital Technology to research how to achieve this objective. However, in this pursuit, the NCUA should continue to engage in robust cost-benefit analysis to determine how to allocate resources to the most immediate priorities and prevent the budget from ballooning uncontrollably, specifically with respect to cybersecurity-related expenses. It is imperative that the NCUA guarantee the secure transfer of information and data from credit unions during the examination and supervision process. NAFCU encourages the NCUA to coordinate with members of the Federal Financial Institutions Examination Council (FFIEC) to discover innovative means of eliminating redundancies in its processes and limiting cybersecurity expenses.

Helping America's Most Vulnerable Communities

Another instance where the agency acted quickly in recent months is in providing urgent needs grants from the Community Development Revolving Loan Fund (CDRLF) for credit unions impacted by the COVID-19 pandemic. Actions that recognize the importance of assisting the communities hardest hit by unprecedented, national emergencies such as this will provide long-term relief for the entire industry. NAFCU encourages the agency to continue to take such actions and focus on ways to help our nation's most vulnerable individuals. NAFCU also supports expanding

the funding allocated to the CDRLF and encourages the NCUA Board to continue to ask for additional appropriations for these important grants for the remainder of this year and beyond. This is critical in assisting more minority depository institutions (MDIs) and Community Development Financial Institutions.

The NCUA currently offers mentoring grants to help MDI credit unions establish mentoring programs with larger low-income credit unions. However, our understanding is that these grants are undersubscribed because, in part, they are not meeting the true needs of MDI credit unions. NAFCU recommends the NCUA undertake an information request from MDI credit unions to discover what they need to improve their resiliency. Using those findings, the NCUA should ensure money is allocated towards meaningful steps to preserve and grow these institutions, as well as support requests for Congress to provide further funding towards these goals.

The NCUA should also detail how it plans to allocate resources to the Office of Credit Union Resources and Expansion for the rest of the year to ensure all credit unions remain healthy and grow should they wish to expand their fields of membership. NAFCU is very supportive of the NCUA's efforts to modernize field of membership rules. The agency can effectively use already budgeted resources to quickly approve charter changes so these institutions are best positioned to continue their important work in supporting all consumers, including those who have been traditionally underserved.

Conclusion

NAFCU and its member credit unions applaud your leadership and encourage you to continue to make investments in programs that will help the most vulnerable Americans to overcome the challenges posed by the COVID-19 pandemic. This mid-year review of the budget is an important time to reflect on what already works well and identify areas for additional growth and opportunity. Providing more opportunities for direct feedback from credit unions and their members, whether during the budget process or otherwise, is an important method for determining how to provide relief measures that will best help credit unions recover from this crisis.

The NCUA should expand its role in providing credit unions with the necessary tools to better assist their communities, especially those most impacted by the COVID-19 pandemic. I look forward to continuing the conversation on how to equip the NCUA and credit unions to do even more to promote diversity, equity, and inclusion; to reach consumers who have not been able to join a credit union; and to continue to create a strong industry. If you have any questions or concerns, please do not hesitate to reach out to me directly, or Ann Kossachev, NAFCU's Director of Regulatory Affairs, at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,



B. Dan Berger
President and CEO