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B. Dan Berger
President & Chief Executive Officer

National Association of Federally-Insured Credit Unions

January 9, 2019

The Honorable J. Mark McWatters, Chairman
The Honorable Rick Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Priorities of our Nation's Credit Unions

Dear Chairman McWatters and Board Member Metsger:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I would like to share with you the top priorities of our nation's credit unions. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 115 million consumers with personal and small business financial service products. Each year, the NAFCU Board, made up of credit union CEOs from across the nation, identifies the top issues in the upcoming year that impact credit unions.

Below, NAFCU outlines these general priorities, which touch upon both legislative and regulatory concerns, followed by a more detailed discussion of the priorities that specifically concern the National Credit Union Administration (NCUA). We hope that you will work with us to address these top legislative and regulatory issues for credit unions.

1. **Growth.** Support legislation and regulation that helps credit unions grow and better serve their membership.
2. **Strong NCUA.** Advocate for the NCUA to be the sole credit union regulator, including exempting credit unions from the Bureau of Consumer Financial Protection's (Bureau) authority.
3. **Regulatory Relief.** Fight for clear, streamlined regulations that allow credit unions to put more resources toward serving their members.
4. **Fair and Innovative Market.** Promote innovation, create national data security standards, and push back against big banks' baseless attacks on credit union growth.
5. **Promote Transparency.** Encourage government accountability, including reducing the NCUA's overall operating budget, establishing a commission at the Bureau and pushing for additional National Credit Union Share Insurance Fund (NCUSIF) distributions for credit unions.

6. **Tax Exemption.** Preserve the credit union tax exemption to save U.S. consumers \$16 billion annually, protect nearly 1 million jobs and keep the focus on credit union members, not shareholders and profits.

NCUA-Specific Priorities

Field of Membership

Strengthening the federal charter and pursuing regulatory relief for federal credit unions is at the core of NAFCU's advocacy efforts. NAFCU fundamentally believes the industry's dual chartering system works best when the state and federal charters keep pace with each other. Several states, however, have been much more progressive in modernizing their field of membership (FOM) rules to recognize today's dynamic and ubiquitous marketplace. Additionally, NAFCU supports broader FOM relief, including: 1) eliminating or increasing the population limits applicable to community charter credit unions; 2) establishing a formal notification process for credit unions making FOM-related applications; and 3) considering new ways to efficiently address mergers. NAFCU is committed to supporting the NCUA as it works to modernize the FOM rules in order to help credit unions grow and better serve their communities.

Such support includes standing by the NCUA as the banking trade groups continue to challenge the legality of the agency's 2016 FOM rule and partially invalidated provisions aimed at granting community charters relief. NAFCU maintains that the NCUA's FOM reforms fall well within the bounds of its legal authority. NAFCU is committed to ensuring the swift and smooth implementation of the FOM rules and defending the interests of credit unions.

NAFCU is also committed to working with the NCUA and members of Congress to push for legislative improvements to sections of the *Federal Credit Union Act* (FCU Act) that restrict the ability of credit unions to serve their desired fields of membership, including allowing all credit unions to add underserved areas. NAFCU appreciates Chairman McWatters's support of such a legislative reform and is optimistic that Congress will make changes to help the credit union industry serve those Americans in need of access to financial services.

Capital/Risk-Based Capital Reform

NAFCU remains concerned about the impact the risk-based capital (RBC) rulemaking will have on the credit union industry, including regulatory burden and increased costs. Considering the changes to bank capital in the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (S. 2155), from a parity perspective, the appropriate level of credit union capital requires further study. NAFCU appreciates the NCUA's recently finalized one-year delay of the implementation date and its fresh approach to the definition of "complex" credit union that would exclude more credit unions from the RBC rule; however, the NCUA should make further changes to its RBC rule. NAFCU opposes an approach to complexity that arbitrarily divides the industry based on an asset threshold in favor of a case-by-case determination of complexity and exemptions for those credit unions whose net worth ratios provide adequate protection from material risks, regardless

of their asset size. Therefore, NAFCU will continue to advocate for the NCUA to revise or withdraw the agency's RBC rule or for Congress to step in and delay the rule's effective date until 2021.

NAFCU will also continue to advocate for improved access to subordinated debt (formerly known as alternative capital), including both secondary capital and supplemental capital. NAFCU supports changes to the secondary capital plan approval process and a streamlined application to help low-income designated credit unions access capital faster. NAFCU also supports changes to the FCU Act that would permit credit unions to count certain forms of supplemental capital towards the net worth ratio calculation to alleviate current constraints on building net worth.

Current Expected Credit Losses (CECL)

In the NCUA's recently released 2019 Supervisory Priorities, credit unions are informed that examiners will inquire about efforts taken to prepare for the implementation of CECL. NAFCU still maintains that credit unions should never have been included within the scope of CECL because they did not engage in the poor lending practices that precipitated the financial crisis. Nevertheless, NAFCU greatly appreciates the NCUA's efforts to educate the industry about CECL. As the implementation date draws nearer, it has become apparent that more needs to be done. NAFCU remains focused on coordinating its efforts with those of the NCUA to provide credit unions with access to the resources they need to prepare for this comprehensive change to estimating allowances for credit losses. NAFCU will work with the NCUA to find ways to ensure that credit unions are not overly-burdened by CECL's impact on regulatory capital. NAFCU will also look for additional opportunities to partner with the NCUA to educate the industry about future implementation challenges.

Exam Fairness

NAFCU has consistently urged the NCUA to reduce examination burden by expanding eligibility for extended exam cycles to more credit unions and by conducting more efficient, virtual examinations. Although NAFCU is encouraged by the positive developments documented in the NCUA's 2019-2020 Budget Justification, recent outreach to our membership suggests that smaller credit unions are not seeing a meaningful reduction in exam duration. NAFCU generally supports the NCUA's long term exam modernization plans, which seek to leverage new technology, analytics, and monitoring capabilities to reduce examination burden. More specifically, NAFCU supports reforms to the examination process to improve consistency, speed, and cost savings for both credit unions and the NCUA. NAFCU encourages the NCUA to fervently continue to pursue its exam modernization efforts in a transparent fashion that allows credit unions to provide feedback. Additionally, NAFCU will work with the NCUA as it advances its continuous supervision program to ensure that the enhanced monitoring techniques do not threaten the autonomy of credit unions and interfere with their day-to-day operations.

Cybersecurity

NAFCU supports the NCUA's focus on protecting the security, confidentiality, and integrity of credit union member information. In 2018, the agency started formally testing its Automated Cybersecurity Examination Tool (ACET), which is largely based on the Federal Financial Institutions Examination Council (FFIEC) Cybersecurity Assessment Tool. The NCUA recently announced it would integrate the ACET with the standardized Cyber Security Evaluation Tool (CSET), used by the Department of Homeland Security, and continue to expand deployment of the tool at credit unions of different asset sizes. NAFCU will work with the NCUA to ensure that it employs a risk-based approach to cybersecurity that provides the necessary flexibility for a credit union to adopt controls based on their complexity as an institution and objective risk management principles. NAFCU fully expects the NCUA to continue to examine its own cybersecurity procedures to produce a safer and stronger credit union system.

Loan Maturities

NAFCU has long advocated for the NCUA to grant credit unions additional flexibility with respect to loan maturity limits. In August 2018, the NCUA issued a proposal inviting comment on extending maturity limits for certain types of loans. NAFCU recognizes that extending the general 15-year maturity limit requires legislative action and continues to urge the NCUA to support any legislative efforts that would amend the general maturity limit. The current 15-year limit is not on par with that of other lenders in the marketplace, and credit unions are at a competitive disadvantage. NAFCU encourages the NCUA to re-evaluate its definition of "principal residence" to conform with recent amendments to the FCU Act.

Interest Rate Ceiling

The fixed 18 percent interest rate ceiling has been in place since 1987. NAFCU has long advocated for a variable interest rate, specifically a 15 percent spread over Prime. Growth opportunities are stifled by credit unions' inability to take reasonable amounts of risk to lend to those members not suitable for an 18 percent rate. A variable interest rate will eliminate the need for credit union members to pursue higher rate alternatives, such as high-cost, traditional payday loans, or high interest credit cards. In addition, credit unions will be able to utilize tailored risk-based pricing, which reduces risks to the NCUSIF. NAFCU will continue to provide the NCUA with detailed feedback from its members regarding the potential benefits of a variable interest rate and collaborate with the NCUA to find other areas of opportunity to help credit unions grow and help their members access the credit they need.

Refunds of Stabilization Assessment Monies

Although NAFCU appreciates the NCUA's commitment to reevaluating the normal operating level (NOL) on an annual basis and the recently announced decrease to 1.38 percent, NAFCU continues to question the NCUA Board's original decision in to raise the NOL to 1.39 percent. The 2018 rebate to credit unions was a good first step, but NAFCU will continue to urge the agency to

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focus on ways to provide additional refunds to credit unions and return the NOL to its customary level of 1.30 percent as soon as possible. Returning additional funds will allow credit unions to put those dollars to work helping their members.

Conclusion

NAFCU would like to thank the NCUA for its dedication to helping credit unions grow and improving the regulatory structure while ensuring a safe and sound system. NAFCU is also pleased to see the NCUA continually expanding the breadth of its credit union resources so that credit unions stay alert and informed. Thank you for your consideration and attention to the above-referenced matters. We look forward to working with you to address these priorities. If we can answer any questions or provide you with additional information on any of these issues, please do not hesitate to contact me.

Sincerely,



B. Dan Berger
President and CEO