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

February 25, 2021

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
& Urban Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Pat Toomey
Ranking Member
Committee on Banking, Housing,
& Urban Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Re: The National Credit Union Share Insurance Fund

Dear Chairman Brown, Ranking Member Toomey, Chairwoman Waters, and Ranking Member McHenry:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to share NAFCU's perspective on the health of the credit union industry, including the National Credit Union Share Insurance Fund (SIF). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 123 million consumers with personal and small business financial service products. NAFCU was pleased to see that all of the National Credit Union Administration's (NCUA) funds received clean audits for the year-end 2020 financials. In a testament to both the NCUA and the overall strength of the credit union industry, there was just one credit union failure during 2020.

Credit unions are here to serve. NAFCU strongly supports a strong independent NCUA. Included in that is a strong Share Insurance Fund. In fact, NAFCU was created in the 1960's to support the creation of federal insurance for credit unions, so it is a matter close to us. We are pleased to see that the current structure of the fund is working for both the NCUA and credit unions.

Current Condition of the Share Insurance Fund

NAFCU and the NCUA have been closely watching the Share Insurance Fund in regard to whether or not credit unions will need to pay a premium into the fund to increase the equity ratio to get above required levels. Due to the decline in consumer spending and the influx of COVID-19 relief payments, credit unions are experiencing an artificial increase in shares. This has led the equity ratio for the SIF to end 2020 at 1.26 percent, which is below the 1.3 percent statutory threshold at which the NCUA Board *may* assess a premium (but still well above the discretionary minimum of

1.2 percent where the NCUA *must* restore the level of the SIF). However, this current dip below 1.3 percent is deceptive, as it is purely the result of a timing mismatch in the calculation of the ratio. The key mechanism for funding the SIF is credit unions' capitalization deposit, which is established by the *Federal Credit Union Act* (FCU Act) as equal to one percent of insured shares. It is this provision that makes the fund unique as a mutual entity, that all credit unions have stake in, and gives it strength.

However, there is a persistent lag in the recognition of changes in the one percent capitalization deposit, as the NCUA must certify call report data for the end of the period and generate invoices to credit unions for changes to their capitalization deposit before those amounts are recognized as equity in the SIF. The result is a temporary mismatch between the timing of the numerator and denominator of the equity ratio in the fund. As it pertains to the year-end equity ratio, the denominator reflects estimated insured shares as of December 31, 2020, but the numerator only includes capitalization deposit balances of credit unions as of June 30, 2020. This mismatch only persists for a brief time until the capitalization deposit adjustments are billed to credit unions, but it does span the period of time where the audited equity ratio is calculated. Once the NCUA generates invoices for those deposit true ups in March, the agency estimates it will add 5 basis points to the equity ratio, which would place it at 1.31 percent—beyond the range where the Board has the statutory discretion to assess a premium. Even though the year-end audited equity ratio of the SIF fell into the discretionary range to charge a SIF premium, the true health of the SIF continues to indicate that any premium is not warranted at this time. Pulling money from Main Street to send to Washington to address a temporary problem is not a way to help spur an economic recovery.

Changes to the SIF Are Not Necessary at This Time

NAFCU applauds NCUA Chairman Todd Harper, the NCUA Board and the agency's leadership for their prudent oversight of the SIF during the pandemic. The fact that the SIF has fared so well during the past 12 months provides ample evidence that the fund is strong and that credit unions were well-capitalized and had strong balance sheets entering the crisis. This provided them with the necessary scope to extend assistance to their members during the pandemic. The current language of the FCU Act creates this strong insurance fund for credit unions.

The FCU Act creates a SIF that is structured fundamentally differently than the Deposit Insurance Fund (DIF) run by the Federal Deposit Insurance Corporation (FDIC). NAFCU is opposed to any efforts that call for legislative changes to the FCU Act to give NCUA the powers to manage the SIF similar to the DIF, such as allowing new premium assessments when they are not needed, removing upper limits on the normal operating level, or making changes that threaten the mutual nature of the fund. The FCU Act recognizes the importance of not hitting credit unions and their members with an unnecessary premium through very specific language that gives the NCUA an eight-year (or longer) window to restore the SIF equity ratio to 1.2 percent should it fall below that level. We caution against any calls for statutory changes to the SIF that go against the spirit of this provision in the Act—a provision that is designed not only to keep credit unions healthy, but also to keep funds available to credit union members.

Conclusion

Credit unions remain committed to working with their members and small businesses to help them survive the economic impacts of the pandemic. Many have instituted their own programs to help consumers and opened their doors to new small businesses to help them get access to Paycheck Protection Program (PPP) loans. The spike in deposits at credit unions during the pandemic has created challenges beyond just the SIF, including changing capital ratios and the need for new investment options for credit unions to earn a return. While we do not believe a SIF premium or changes to the SIF via the FCU Act are warranted at this time, we do support giving the NCUA additional capital flexibility and the ability to approve expanded investment options for federal credit unions similar to what is allowed for some state-chartered credit unions. These steps will help federal credit unions better manage the influx of deposits during the pandemic and earn a better return, allowing them to provide more products and services to their members.

Thank you for your attention to this matter, and we would be happy to discuss our thoughts on the Share Insurance Fund in more detail. If you have any questions, please do not hesitate to contact me or Brad Thaler, NAFCU's Vice President of Legislative Affairs, at 703-200-8479.

Sincerely,

Curtis Long

Curtis Long
Vice President of Research and Chief Economist

cc: Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs
Members of the U.S. House Committee on Financial Services