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December 7, 2015

The Honorable Jeb Hensarling
Chairman
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

Re: Tomorrow's Hearing: "Oversight of the Financial Stability Oversight Council"

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the federal interests of our nation's federally-insured credit unions, I write today in conjunction with tomorrow's hearing entitled "Oversight of the Financial Stability Oversight Council." NAFCU thanks you for holding this important hearing on the Financial Stability Oversight Council (FSOC). We would like to take the opportunity to share our thoughts on some of our top concerns on key issues that may fall under the purview of tomorrow's hearing.

National Credit Union Administration

In its 2015 Annual Report to Congress, FSOC recommended giving the National Credit Union Administration (NCUA) third-party vendor examination authority. NAFCU and our members strongly oppose this recommendation. As the Committee is aware, NAFCU has consistently and vigorously opposed giving NCUA direct third-party vendor examination authority. Such authority would impose significant costs on credit unions, while providing little benefit and no clear relief to the industry. While NAFCU acknowledges the importance of cybersecurity and risk management, we firmly believe that cybersecurity and third-party vendor examination authority do not go hand in hand.

We view this request as regulatory overreach that would prove costly and create new burdens for the industry. When NCUA previously had this authority for Y2K concerns, Congress specifically had the authority sunset and chose not to renew it. The NCUA budget has already increased over 50% during the past five years. NAFCU is concerned that NCUA's budget would increase even more if granted this additional authority, as the agency would need to contract expertise in all the subject matters for which credit unions utilize third party vendors in order to adequately examine such vendors.

While NCUA has cited cybersecurity as a reason it should have vendor examination authority over technology vendors, NAFCU and our members firmly believe that credit unions, and the agency, already prioritize cybersecurity risk through credit union vendor due diligence protocols, which are required by NCUA regulation and subject to thorough scrutiny during the NCUA examination process. Simply put, NCUA already has the tools it needs to address risk through its examination of credit unions directly. We urge the Committee to reject any calls to grant NCUA this additional authority.

Additionally, credit union data for the third quarter of 2015 continues to show that the industry remains strong and sound. With limits on their powers and fields of membership, no credit union poses a systemic risk to the larger financial system. Still, NCUA continues to expend much time and energy on regulating risk in the system, including with its new risk-based capital rule. While the safety and soundness of the credit union system is a top priority for NAFCU and its members, we urge the Committee to continue to exercise its oversight function to ensure NCUA does not go too far and over-regulate the industry to the point that credit unions and their 101 million members ultimately suffer.

<u>Consumer Financial Protection Bureau</u>

Recently, the Consumer Financial Protection Bureau (CFPB) has started to focus on the growing non-traditional lender industry. Non-traditional financial actors have benefitted by receiving less scrutiny in the post Dodd-Frank environment because they are not covered by the new financial regulations. NAFCU believes that the growth of non-traditional marketplace lenders proves the need for regulators to modernize existing regulations on traditional financial institutions in order to facilitate greater access to credit. At the same time, NAFCU maintains that financial regulators must level the playing field and promulgate rules that require non-traditional market lenders to meet basic consumer protection requirements such as the protections of TILA, underwriting standards for loans, and applicable state usury laws.

Additionally, NAFCU is concerned about growing reputational risk for financial institutions. Unverified complaints filed against financial institutions could be misleading and could create reputational risk issues that cannot easily be mitigated. Credit unions have unique relationships with their members and NAFCU supports resolution and investigation of valid and verified member complaints by credit unions, but the reputation risk brought on by unverified complaints is significant. We urge the CFPB and other regulators to be cognizant of the impact that reputational risk can have on financial institutions from these unverified complaints.

<u>Regulatory Coordination</u>

As members of the Committee are aware, our nation's credit unions are struggling under an ever-increasing regulatory burden. Credit unions, many of which have very small compliance departments, and in some instances a single compliance officer, must comply with the same rules and regulations as our nation's largest financial institutions that have the luxury of employing armies of lawyers. Furthermore, these compliance burdens are often compounded as new rules and regulations flow out of multiple regulators, often with little coordination on when they are released. As member-owned cooperatives, the resources spent on regulatory compliance at credit unions are undoubtedly taking away from the services and products credit unions are able to offer to consumers.

As the tide of regulation rises, there has never been a more critical time for the FSOC to facilitate regulatory coordination among its member regulators. This duty includes facilitating information sharing and coordination among the member agencies of domestic financial services policy development, rulemaking, examinations, reporting requirements and enforcement actions. NAFCU appreciates the Committee's focus on the activities of the FSOC and looks forward to learning more about the steps that have been taken to avoid duplicative and overly burdensome regulation of our nation's credit unions.

Credit unions are proud of their track record of success in helping consumers and the American economy. We ultimately want fair regulation that ensures safety and soundness but does not hamper our ability to provide the services that our nation's 101 million credit union members desire. We again thank you for holding this important hearing. If my staff or I can be of assistance to you, or if you have any questions about credit unions, please feel free to contact myself or NAFCU's Associate Director of Legislative Affairs, Chad Adams, at (703) 842-2265.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee