

ORAL REMARKS

Good morning.

My name is Jeanne Kucey and I am the President and CEO of JetStream Federal Credit Union in Miami Lakes, Florida and Chair of the National Association of Federally-Insured Credit Unions Board of Directors. I am speaking today on behalf of NAFCU. Before I begin my remarks, I want to sincerely thank the NCUA Board for its unwavering leadership and continued commitment to examining the operating budget in a public and transparent manner. NAFCU urges the agency to continue to be the leader among all other federal banking agencies in this respect. NAFCU and the industry appreciates that Board Member Metsger initiated this transparency as Chairman, and that Chairman McWatters has continued this effort, even before the requirement to do so was passed as part of S. 2155 earlier this year.

In late September, the NCUA released its 2019 and 2020 proposed budget and budget justification materials. NAFCU greatly appreciates the agency's continued trend toward increased transparency and a culture that values efficiency over the size of its footprint. The budget materials indicate that the Operating Fund Budget is \$304 million for 2019. This figure represents a real dollar decrease of 0.2 percent, or \$624,000, from the 2018 Board-approved budget. Despite a reduction in the rate of year-over-year budget growth, the credit union industry remains focused on the

efficient use of resources and reminds the NCUA that it should make every effort to do so as well.

Unfortunately, the proposed budget includes several increases for 2019 and 2020, including a \$3.1 million increase for contracted services. If approved, the proposed 2019 budget would represent yet another year that the NCUA has approved a spending increase in the overall budget. Although it is a statement often repeated, it is never more pertinent than at a meeting to discuss the NCUA's proposed budget: *every dollar spent by the agency is a dollar that credit unions are unable to put towards serving their members.*

As a credit union CEO, I am fully aware that the agency requires a sufficient budget to support its dual mandate of prudential regulator and insurer, a duty that includes the hiring of experienced personnel and investment in new technologies. The credit union industry is currently well-capitalized and strong, meaning credit unions can continue to provide their members with the highest-quality products and services in the market. But credit unions are also constantly under attack by the very institutions that precipitated the worst financial crisis since the Great Depression.

It is crucial that the NCUA evaluate all potential measures to ensure credit unions remain competitive because, short of the passage of a modern Glass-Steagall Act, the largest banks will continue to look for ways to stunt the growth of the credit

union industry. I commend NCUA staff and the NCUA Board members that have played a role in the success of the industry; however, I caution you to stay vigilant for outside threats and discover opportunities to promote sustained growth for credit unions.

The industry needs a strong NCUA, so I am not suggesting the budget be arbitrarily slashed. What I *am* suggesting though is that there be an ongoing, agency-wide commitment to eliminating duplicity and creating an efficient budget that can be maintained long-term without relying on annual increases. The NCUA appears to be working towards this goal through its reorganization plan and examination modernization initiatives, but the agency's conservative approach to supervision—including its pursuit of third-party vendor authority and the increased costs it would entail—may significantly derail the goal of minimizing budget increases.

To that end, I would like to pose a series of questions for the Board to consider.

1. At an estimated \$304.3 million, the proposed 2019 Operating Budget represents a 71 percent increase in the NCUA's budget in only a decade – a decade that has seen a reduction of credit unions by 25 percent. In what environment, economic or otherwise, would the NCUA envision its budget seeing a true long-term reduction?

2. In a consolidating industry that is moving towards a virtual supervision model, when, if ever, can the agency expect to return the Normal Operating Level (NOL) of the National Credit Union Share Insurance Fund (NCUSIF) to its customary historical level of 1.3 percent?
3. Given the agency's desire to obtain third-party vendor authority, what impact will this authority and the need to have expertise (either internal or contracted) to effectively use it have on future budget projections if such authority is granted?

The NCUA continues to cite the growth of credit union assets as a reason for year-over-year increases to its operating budget, while pointing out that the overall budget has decreased relative to federal credit union balance sheets. But the *NCUA examines and supervises credit unions, not assets*. Although the consolidation of the industry has led to growth in the number of large credit unions, balance sheet complexity has not reached a level that necessitates an artificially low tolerance for risk. NAFCU does not consider year-over-year increases in supervisory expenditures as necessary to oversee the safety and soundness of a maturing industry. To preserve safety and soundness in the credit union system, the NCUA cannot realistically eliminate all risks as credit unions accumulate more assets. Accordingly, NAFCU urges the NCUA to moderate supervision based on objective indicators, as opposed to the specter of cybersecurity risk or future competition from fintech companies.

The NCUA's budget justification references initiatives which NAFCU agrees will benefit the entire industry and support long term reduction in operating expenses. For example, we strongly support the NCUA's ongoing reorganization and restructuring plan, which will continue to strengthen agency operations while increasing efficiency. NAFCU also supports the NCUA's commitment to modernizing the examination process. The various initiatives the NCUA described in its August 2018 Letter to Credit Unions lays out a promising roadmap for achieving more efficient examinations and reducing burdens on credit unions. We hope the agency can keep credit unions updated on the progress of these initiatives.

In addition to the projected cost savings, we are also pleased to see an emphasis on obtaining consistent and accurate supervisory determinations, enhancing coordination with state supervisory authorities, and continuing to improve upon existing pilot programs such as the Flexible Examination Program (FLEX) and joint examinations. NAFCU encourages the NCUA to work diligently to leverage technological resources as it implements more virtual examinations to improve examination scheduling flexibility and ease the burden of onsite examinations. Similar to the agency's increased transparency, these initiatives are practical changes that NAFCU has sought for a long-time, and we appreciate the Board's commitment to ushering-in these critical improvements.

Regarding the details of the budget, NAFCU believes that the NCUA has once again demonstrated its commitment to improving transparency and facilitating meaningful stakeholder engagement. The proposed budget justification is thorough, accessible, and provides an appropriate blend of summary and detail to inform stakeholders of important changes and improvements. In particular, we are pleased to see the Board's detailed descriptions of its staffing plan for 2019 and capital projects in Appendix B. I would also like to thank the NCUA for achieving a steady reduction in staffing levels since 2015. In order to continue this trend into 2020 and promote future efficiency, I am pleased to offer the following recommendations:

First, I would like to draw attention to a recommendation that NAFCU made at last year's budget briefing, which is relevant today. In 2017, we asked the NCUA to expand eligibility for an extended 18-month exam cycle for all well-run, low-risk credit unions to reduce burdens and achieve additional savings. The benefits of an 18-month exam cycle, which began in 2017, appear to have positively influenced the agency's 2019 proposed staffing levels and proposed travel budget. The NCUA should take this process one step further and evaluate and report upon the estimated cost savings of extending an 18-month exam cycle to all well-run, low-risk credit unions above \$1 billion. Expanding eligibility for extended exams could materially decrease the agency's operating budget. It must also be noted that Congress recently

expanded extended exam cycles to more banks above \$1 billion as part of S. 2155. The NCUA should follow suit and take action to do so for credit unions as well.

We also ask that the NCUA consider ways to reduce expenses related to contracted services. Besides administrative expenses, contracted services for 2019 have seen the largest percent increase relative to the 2018 budget. While it is understandable that the NCUA must obtain new services and subject matter experts to ensure that staff are equipped to carry out the agency's core functions, we worry that cybersecurity related expenditures—which have no clearly articulated limits—may be driving costs disproportionately and will continue to result in yearly budget increases. We ask that the NCUA delineate a clear standard for measuring the impact and efficacy of cybersecurity investments relative to risk reduction to ensure that such investments are serving their intended purpose.

We also encourage the NCUA to leverage the cybersecurity expertise of other regulators, including the Federal Financial Institutions Examination Council (FFIEC), to find a collaborative means of reducing cybersecurity related expenditures. To a large extent, the NCUA has already followed this path, and we appreciate the agency's desire to harmonize standards and adopt proven tools. For example, the NCUA's Automated Cybersecurity Assessment Tool is substantively very similar to the FFIEC's Cybersecurity Assessment Tool. The NCUA should

continue to coordinate with other regulators to eliminate overlap and duplication of effort.

NAFCU supports the NCUA's investments in technologies that can achieve long term cost reduction and improved efficiency. We expect that these capabilities will enhance the NCUA's ability to identify troubled or stressed credit unions more often and earlier, thus reducing the risk to the NCUSIF. Investments in new services and data tools can also facilitate expanded use of remote examinations. However, based on surveys NAFCU has conducted this year, many credit unions have yet to see a meaningful reduction in the number of examiners that come on-site. NAFCU encourages the agency to assess whether its exam modernization initiatives are meaningfully reducing onsite examiner presence.

As the NCUA considers transforming the examination and supervision program into a predominately virtual program, NAFCU asks the NCUA to be particularly mindful of the need to balance enhanced monitoring with respect for credit union autonomy. Future development of the Office of National Examinations and Supervision's data-driven, continuous supervision model should aim to achieve a similar balance. As the NCUA acknowledges, increased communication between examiners and credit union management to support virtual supervision should not interfere with day-to-day operations.

An additional item not addressed in the budget are future costs associated with the NCUA's goal of acquiring third-party vendor authority to manage cybersecurity risks. The NCUA has already devoted a considerable amount of its budget to modernizing credit union cybersecurity examinations through the development of new tools and examiner training programs. The NCUA, as the primary regulator of credit unions, is tasked with examining credit unions to preserve safety and soundness in the industry, but overseeing vendor cybersecurity or the undefined universe of fintech companies is not part of this mission. Although the budget acknowledges that fintech companies may present new competitive pressures, this does not justify future vendor examination authority. Exercising such authority would only serve to create additional obstacles for credit unions seeking to partner with fintech companies and CUSOs, without meaningfully enhancing credit unions' existing vendor due diligence requirements.

Before I close my remarks, I want to take this opportunity to briefly address the Board's decision to raise the NOL to 1.39 percent. Even though we believe the 2018 rebate to credit unions was a good first step, we ask that the NCUA focus on ways to provide additional refunds to credit unions and return the NOL to its customary, historical level of 1.30 percent as soon as possible. Returning additional funds to credit unions will allow credit unions to put those dollars to work helping their members. Furthermore, a reduction in the NOL would be appropriate given overall

improvements to the supervisory process, which is reflected in steadily decreasing personnel levels for the past three years. Reduction in staff levels is the result of several factors, such as industry consolidation, improvements in examination efficiency, and greater use of data analytics to conduct continuous monitoring. Together, these factors indicate that industry risk is trending lower and should support a quick return of the NOL to its customary level.

In conclusion, we believe that today's briefing reflects the NCUA's continued, strong commitment to improving budget transparency and stakeholder engagement. The opportunity to offer ideas and recommendations in a public forum is something that our industry greatly values, and I believe the credit union system will be made better and stronger through open discourse regarding the budget. The NCUA has made significant strides in recent years by carefully executing long-term restructuring plans and laying the groundwork for future modernization initiatives. The scope of these critical efforts is reflected in the process and substance of the budget. I commend Chairman McWatters and Board Member Metsger, as well as NCUA staff, for the many hours spent preparing budget materials, while still seeking ways to curb budget inflation.

Thank you for the opportunity to appear before you today.