NASCUS
The National Association of State Credit Union Supervisors

Good afternoon, Chair Harper, Vice Chair Hauptman, and Board Member Hood. On behalf of the National Association of State Credit Union Supervisors' (NASCUS)[1] members, thank you for holding today's briefing on the NCUA's proposed 2024 budget.

Today represents the eighth annual review since NCUA resumed public budget briefings. This annual dialogue enables stakeholders to provide valuable insight to the Board and NASCUS welcomes the opportunity.

It remains NASCUS's stance that a regulatory agency is generally best positioned to know the resources it needs to maintain an effective supervisory program. Of course, credit unions and stakeholders who pay those costs have valid interests and concerns worthy of consideration and therefore an agency's discretion is not without limit. That is why checks and balances, such as today's hearing, are so vital.

I will leave it to other stakeholders to opine on the prudence of NCUA's proposed budget line items for the ensuing year. However, I would offer that it may be prudent for NCUA to follow other state and federal regulators and raise the asset threshold requirements for annual examinations to preserve resources and reduce regulatory burden without materially increasing risk to the Share Insurance Fund (SIF). Beyond that, my comments today will address tangential, but important, issues related to how NCUA allocates the cost of its operations and presents its analysis of the cost burden borne by credit unions to fund supervision. I, of course, refer to the Overhead Transfer Rate or OTR.

NASCUS is pleased to note a 60-basis point decline in the OTR, and we commend NCUA for this step to return the OTR to a more equitable ratio. The 2024 reduction represents a positive improvement, but given the Federal Credit Union Act (FCUA) mandate that the SIF rely on Title I examinations, we believe the OTR should be further reduced, and additional work remains to better calibrate the OTR methodology toward ensuring equitable management of the SIF for all charters.

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[1] NASCUS is the professional association of the nation's 46 state and territorial credit union regulatory agencies that charter and supervise 1,856 state credit unions. Our mission is to forge a vibrant dual charter system by promoting a relevant, growth-oriented, and healthy state charter option.

Impact of the State Supervisory Programs to the SIF

The 46 State and Territorial credit union supervisory agencies are the prudential regulators of approximately 2,000 state-chartered credit unions across the country, representing 68 million members and slightly more than half of the assets in the domestic credit union system. NCUA, and the SIF, benefit tremendously from the supervisory efforts of state regulators. State supervision is primarily funded by state credit unions: not the SIF, nor the NCUA.

Based on NCUA's published December 2022 call report data, state-chartered credit unions reported paying $94 million in state operating fees compared to $109 million in operating fees paid by federal credit unions to NCUA. Those state credit union funds ensured robust, independent oversight throughout the country, funded over 440,000 state examiner hours, and resulted in more than 1,500 state generated reports. Much of this state credit union funded work is safety and soundness supervision that benefits the SIF as NCUA is able to rely on much of this work and save itself the direct costs of onsite examination in many FISCUs. This is precisely what Congress envisioned when it directed the SIF to rely on examinations done by states and NCUA under its Title I authority.

We raise this point because NCUA's budget justification illustrates what it purports to be the relative contributions by state and federal credit unions to fund supervision which fails to represent the impact of the savings afforded the NCUA budget by the application of the aforementioned state related resources. This is most evident when the draft budget notes[2] that state credit unions pay only 30.8 % of NCUA's operating budget with a footnote mildly acknowledging state credit unions pay a supervisory fee to their state regulator. In the narrow context of the direct funding of the NCUA budget this may be true, but it significantly misrepresents the material expenses borne by state credit unions to fund supervision, understates the significant reliance of those programs by the SIF, and presents an incomplete picture of the beneficial impact state supervisory programs have on the SIF.

The OTR is the delicate balance Congress struck in Title II of the FCUA. Congress clearly intended the SIF to pay costs for its administration.

[2] NCUA 2024–2025 Staff Draft Budget Justification, page 35, footnote 35.

However, Congress also clearly intended the SIF administration to be managed economically, relying on work NCUA was doing as the federal chartering authority and saving costs. In essence, relying on the federal regulator just as it does the state regulator.

This is important, because every dollar transferred from the SIF by the Overhead Transfer, is one less dollar available to cover current losses and diminishes the SIFs future earnings potential. At a time when some have suggested the SIF equity ratio needs to be raised, diverting funds out of the SIF could be counterproductive, particularly when credit union income is under pressure.

To be clear, costs associated with administering the SIF should be allocated to the Fund. That is what Congress intended when it established the SIF. Whether driven by supervisory necessity or due diligence, the SIF must directly fund the examination of some federally insured credit unions. But the SIF's reliance on examinations funded directly by credit unions and the minimization of its expenses should also be formally acknowledged, documented and made part of the OTR setting process.

Closing Remarks

NCUA remains a strong partner of the state regulatory agencies in maintaining a safe and sound credit union system. We also recognize the tremendous effort NCUA has undertaken to develop a modern supervision system, and to work with state regulators on numerous working groups to strengthen both state and federal supervisory programs. We certainly appreciate that robust and effective supervision comes with a cost for NCUA, just as for all our state agencies.

It has been an honor to provide these comments to you today. I, the NASCUS Regulator Board, NASCUS Credit Union Advisory Council, NASCUS staff, state credit union regulators, and our credit union and system stakeholders thank you for your collegiality and commitment to collaborate on forging robust federal and state systems. Together, our dual credit union systems are stronger and better positioned to serve and protect consumer-members with strong and viable charter options.

Thank you.