October 26, 2018

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Comments on 2019-2020 Proposed Budget

Dear Chairman McWatters and Board Member Metsger,

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), one of the largest state trade associations for credit unions in the United States, representing the interests of 250 credit unions and their approximately 10.7 million members/consumers.

The Leagues welcome the opportunity to provide comments to the National Credit Union Administration (NCUA) on their proposed 2019-2020 budget. The Leagues thank the Board for providing the industry with budget justification materials, holding a budget briefing, and soliciting comments on the proposed budget. We thank and commend the Board for their transparency in the budget process.

The agency's 2018-2022 Strategic Plan helps drive the draft 2019-2020 budget. The Leagues support the NCUA's strategic goals of ensuring a safe and sound credit union system, providing a regulatory framework that is transparent, efficient and improves consumer access, and maximizing organizational performance to enable mission success. In particular, we support allocating the necessary resources to initiatives designed to increase agency efficiency, reduce examination and reporting burdens, and improve examination quality and consistency.

The Leagues are generally supportive of the draft 2019-2020 budget; however, we respectfully offer the following comments.

Transparency

In determining the agency's budget, the NCUA must consider and anticipate, to the extent possible, economic conditions that will affect the credit union system. We recommend the NCUA takes steps to ensure the agency's balance sheet can withstand stress in the economy.

It would be helpful to understand the draft budget variances to actual costs. The draft budget includes comparisons to the 2018 approved budget, but not to the 2018 actual expenses. The Leagues recommend the agency provide more detailed, granular information, showing actual variances and including factual explanations of what the budget looks like moving forward. What are the variances from 2018 actuals, and why? The draft budget should include line item detail over several years so that credit unions can see the trends on a more granular level. The NCUA demands this information from credit unions, so credit unions should expect the same from their insurer and/or regulator.

The agency provided a two-year budget forecast. The Leagues suggest that a three-year forward-looking forecast would be more relevant.

Chairman McWatters is advocating for the agency to have examination authority of third-party vendors. If the agency is successful in obtaining this authority, what will be the impact on the budget?

Staffing

Employee pay and benefits account for nearly three-quarters of the agency's proposed budget and individually they are the two largest groups of expenditures. The budget supports 1,178 full-time equivalents (FTE) in 2019, a decrease of ten FTEs from 2018. For 2019, the reorganization plan eliminated 15 positions in the NCUA's regional offices, and the budget proposes five new positions in the Offices of Examination and Insurance, the Chief Economist, and the General Counsel. Three positions focused on Business Innovation will be filled by reallocating vacancies.

It would be helpful to understand what positions were reduced in the regional offices and how the elimination of 15 regional positions impacts the number of regional examiner and specialist positions. The budget justification provides historic staffing levels for examiners and specialists but does not include the examiner and specialist staffing levels supported by the 2019 budget.

We have heard from our member credit unions that the NCUA deploys an excessive number of examiners, and duplicative examiners, into credit unions. In many instances, the number of examiners is not warranted or justified. As the Exam Flexibility Initiative is implemented and exam schedules extended, it appears examiners are being sent on exams to “keep them busy.” With pay and benefits accounting for 73 percent of the draft budget, we question whether the staffing level for examiners could be reduced further. We have also heard from our members that they support spending the necessary resources on employees with higher skill sets, i.e., specialists. There should be more transparency about the FTE budget and the regional positions impacted by the changes.

Pay and Benefits

The draft budget includes $222.8 million for employee salaries and benefits in 2019. This change is a $2.1 million, or 1.0 percent, increase from the 2018 Board Approved Budget. The primary driver of increased costs in the Salaries and Benefits category is merit and locality pay increases for NCUA staff in accordance with the agency’s current Collective Bargaining Agreement (CBA) and its merit-based pay system. The NCUA staff will be eligible to receive an average merit-based increase of 3.0 percent, and an additional locality adjustment ranging from zero to 3.0 percent, depending on location. The average increase in locality pay is estimated to be 1.4 percent. Starting in 2019, the NCUA discontinued the annual, general pay scale increase of 1.25 percent in accordance with recent CBA negotiations. By merging the general pay scale increase into the annual merit-based pay increase, the NCUA expects to better reward employee performance while reducing future year payroll growth.

While the CBA agreement drives the average merit-based increase of 3.0 percent, the Leagues suggest that credit unions can and should play a more active role in the agency’s merit pay process. Feedback from credit unions on the performance of individual examiners – to the extent it is collected at all - is obtained in a generally random fashion. The only formal feedback mechanism available is through the examination appeals process - but credit unions are loath to use that process mostly due to fear of retribution and a perception that the process is largely ineffective. For these reasons, we recommend the agency fund an independent third-party review of field examiners, both as an unbiased method to provide data on field examination consistency across the regions, as well as to help identify areas of success and improvement, which would help direct efficient use of agency training and merit resources.

Enterprise Solution Modernization

The Enterprise Solution Modernization (ESM) includes several information technology projects and the agency is taking a phased-in approach. The Examination and Supervision Solution & Infrastructure Hosting project has an approved capital funding budget from 2015-2019 of $20.4 million; the $17 million in 2019 is part of the overall planned expense and represents an increase of more than $2 million over the 2019 approved budget; further, there is an additional $15.8 million proposed in 2020 for these projects.

The Leagues fully support NCUA’s efforts to modernize the exam process and reduce the amount of onsite examination time spent at credit unions. This will not only be a cost savings to the agency but will also be less disruptive to credit unions. The Leagues support the draft 2019 budget for these projects.

The banking agencies issued an Interim Final Rule to implement section 210 of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), increasing the asset limit below which depository banks are eligible for an 18-month examination cycle (rather than a 12-month examination cycle) from $1 billion in assets to $3 billion in assets. The Leagues urge the NCUA Board to consider increasing the extended exam cycle eligibility for credit unions as well, consistent with the banking agencies.

NCUSIF

The Leagues applaud the agency’s decision to merge the Temporary Corporate Credit Union Stabilization fund into the National Credit Union Share Insurance Fund (NCUSIF) and to make the approximate $735 million equity distribution to credit unions. We support continued efforts to return additional monies to credit unions as soon as possible and we strongly believe the NCUA Board should, over the next several years, revert the normal operating level to its traditional 1.3% ratio.

Controlling insurance fund operating expenses is vitally important. The NCUA Board approved the current methodology for calculating the NCUSIF Overhead Transfer Rate (OTR) at its November open meeting last year, and we agree it is principles-based, simpler, more equitable and transparent.

Conclusion

The Leagues commend the NCUA Board for their transparency in the budget process and hope that suggestions for further transparency are incorporated in the future. We support the agency's goals to increase both efficiency and effectiveness. We thank you for the opportunity to comment on the draft 2019-2020 Budget and for considering our views. If you have any questions regarding our comments, please contact me.

Sincerely,

Diana Dykstra
President and CEO
California and Nevada Credit Union Leagues

cc: CCUL