From: John McKenzie
To: _Budget Comments
Subject: ICUL comments on NCUA"s 2020-2021 Budgets
Date: Monday, December 2, 2019 10:35:21 AM

The Honorable Rodney Hood
Board Chairman

The Honorable J. Mark McWatters
Board Member

The Honorable Todd Harper
Board Member

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: 2020-2021 Budgets

Chairman Hood, Board Member McWatters, and Board Member Harper:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's Proposed 2020-2021 budgets. The ICUL member credit unions represent 99 percent of assets and members of Indiana's credit unions, with those memberships totaling more than 2.6 million consumers.

ICUL appreciates the NCUA Board's continued efforts for more transparency in the budgeting process. However, it would be helpful to have more time to review the budget information than the 34 days available this year. We suggest at least 60 days for this comment period in the future.

Pay and benefits and travel expenses make up 73.2 percent and 8.7 percent respectively of NCUA's budget. This remains the area of the budget where the greatest opportunity exists to significantly impact the total expenses of NCUA. The consolidation of the regional offices and the restructuring of many national offices within NCUA were positive steps in this area. The extended examination cycle for well-run credit unions with assets less than $1 billion and ongoing efforts to perform more examination functions off site should help to reduce these expenses going forward. We recognize that some additional personnel expenses are not directly under the control of the NCUA (e.g. Federal Employee Retirement System, other federal mandated benefits), which increases the importance of streamlining and automating staff functions as much as possible to reduce the overall staffing needs. We recognize that NCUA has been taking steps to streamline, and the proposed budget includes additional funding to further the streamlining and automation processes. We anticipate that these additional expenditures, along with the continued consolidation in the credit union system will result in a reduction in staffing in future budgets.

An additional option for NCUA to help reduce expenses is through greater cooperation with the state supervisory authorities (SSAs), and the examinations performed by the SSA examiners. There continues to be a significant overlap in the examinations by NCUA and the SSAs. Even during joint examinations, we hear from credit unions that they are answering the same questions multiple times and providing the same information multiple times during the examination. We encourage NCUA to continue to develop the relationship with the SSAs and work toward an increased comfort level to facilitate information sharing between the regulators. This could reduce the number of examiners needed for a joint examination and result in efficient ways to share information and examination findings. This would further allow NCUA to reduce overall personnel expenses.

Board Member Harper requested specific comments, as part of the overall budget process, related to a proposal to add three additional full time staff to the Office of Consumer Protection with the purpose being to develop a separate consumer compliance examination program for "large, complex credit unions." We do not support this proposal. Adding a separate examination for credit unions will require significant investment in systems, personnel and associated expenses going forward to implement, resulting in increased expenses for the agency, with minimal benefit to NCUA's core mission to ensure the safety and soundness of the credit union system. We are concerned that this proposed new, separate exam will actually draw resources away from the fundamental mission of NCUA, while focusing increased exam emphasis into areas already included in the current examination process. There is a component of the risk-focused examination process today that focuses on a credit union's consumer compliance risk and is incorporated in the overall rating of the credit union. We have not seen any compelling evidence of credit union consumer compliance management not being sufficiently monitored by the current examination procedures, and do not feel separating this area into a separate exam provides any overarching benefit to the credit union system.

Our concerns increase when one of the primary justifications for NCUA implementing a new examination process such as this is the other federal financial regulators have implemented a similar process. If credit unions were being fined for consumer compliance violations at anywhere near the rate of other financial institutions, this might make sense. If the institutions you are regulating continue to show a blatant disregard for the consumer and focus solely on generating higher profits, the result is the need for increased examination and scrutiny from their regulators. Credit unions, by their nature as not-for-profit, member-owned cooperatives, focus more on what the members need and do not face the same pressures on increasing the return to shareholders that for-profit institutions face. As a result, we do not see credit unions being fined at anywhere near the levels of institutions regulated by the other federal financial institution regulatory agencies. NCUA does not need to be the same as these other regulators because credit unions themselves are different and require a different regulatory process.

This does not mean that credit unions do not have to comply with the various consumer protection laws and regulations as other financial institutions do. In fact, the cost of compliance is continuing to go up for credit unions. We believe that credit union compliance related to consumer protection and lending regulations is sufficiently being monitored through the current examination practices.

The budget includes expenditures to further automate electronic data sharing between credit unions and examiners, the result being less time needed for examiners to spend on site, which should result in reductions in the travel expenses that go along with onsite activities. We support the further development of automation and system development to reduce the amount of time examiners spend on site at credit unions. We continue to hear from affiliated credit unions that in many instances the number of examiners and the number of hours spent on site does not match with the expectations that we have heard in meetings with NCUA representatives. We recognize that it takes time to change old habits for examiners, but we encourage NCUA to continue to strive to reduce the time examiners spend on site through system development, training and conformance to NCUA expectations.

While we did not agree with the initial reasoning for increasing the normal operating level (NOL) to 1.39%, we understood the need for some increase as long as the NCUSIF was managing the legacy assets from corporate credit unions. We have appreciated NCUA's efforts to continue to review the NOL, and the decision to reduce it to 1.38% in December 2018. We would anticipate further reductions in the NOL going forward, potentially returning to the 1.30% level that NCUSIF was at prior to the merger of the Corporate Stabilization Fund into the NCUSIF. We appreciated NCUA's decision to pay share insurance fund distributions in 2018 and 2019, and we support and encourage NCUA's ongoing evaluation of the NOL and the possibility of additional share insurance fund distributions as the legacy assets continue to perform well and the NCUA Guaranteed Notes mature. We would also support additional information from NCUA as to how the legacy assets from the various corporate credit union estates will be managed over the next two years, and what credit unions may expect on the potential return of capital from the conserved corporates that credit unions were required to write off.

We are encouraged by NCUA's continued efforts to utilize a more transparent budgeting process that allows stakeholders to provide input into the process. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie
President, Indiana Credit Union League