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December 3, 2019

Chairman Rodney Hood
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Sir:

I watched with great interest as the new 3-person board and staff reviewed the 2020-2021 version of the NCUA budget last week. New faces both at and behind the board table and as seems to be tradition, a lot of empty seats to the front. The scene, the presentation documentation and the speech took me back to the past.

*"My budget comments are basically linked to prior statements that a budget driven by a strategic plan that includes few measurable milestones, that fails to identify who is accountable for the accomplishment or failure of those strategic objectives in specific timeframes and that fails to provide us all with the economic and financial benefits achieved by the dollars spent, is fundamentally flawed from its very beginning." CU*Answers, Budget Comments, November 7, 2016*

I must admit that the current budget and staff comments do a good job of recognizing the fact that the budget, by necessity, is linked to the strategic plan. That fact is mentioned often. That the budget is linked to a plan that lacks imagination, innovative thought and excitement for goals that will drive the recognition that NCUA has no peers is a shame. A plan that differentiates itself and drives it to a level of excellence that highlights not only its own uniqueness as a regulatory agency but the very uniqueness and nature of the network of cooperative organizations it regulates. Instead, those of us who have paid attention, we get a document that is surely cut and pasted from the recent past, same old ………. same old.

I guess that the reason that credit unions don't flood you with comments and overflow the Duke Street board room for your open meeting is that in those years that you have taken the opportunity to publicly share the budget you have also failed to make any significant changes based on our comments before you vote on the budget only a few weeks later. You have never reported why projects and changes to examination protocols and tools are not delivered on a timely basis or how much project delays or failures have cost our members. We certainly agree with the recent witness testimony from NAFCU that the budget process lacks any mechanism for reporting back the ROI on multi-million-dollar projects to the credit unions who are paying for them. The ESS project was first introduced in the 2016 budget at a projected cost of $20+ M, the 2019 budget was $22.0 M and the 2020 budget has another $15.8 million. Can anyone tell us what the impact that investment will be on personnel and examination costs in 2021 and beyond? What will be the impact on losses to the fund because of the millions of dollars of new analytics and virtual examination strategies? Will we finely see a real reduction in examination man-hours as the new tools eliminate or reduce field exams?
Can state chartered/federally insured CUs see a serious reduction the OTR? Will new real-time predictive modeling reduce the NOL? How much and who's responsible? When will it happen? Surely the common sense comments from NASCUS, that it seems impossible that examining one $1.5 B credit union costs more than 3 examinations at three unique $500 M CUs rings true with you? That this ridiculous excuse that the *complexity* of larger credit unions justifies the ever increasing spend and is not being addressed by millions of dollars of investment in new expert systems and productivity gains is a false premise.

It is the height of embarrassment that the agency responsibility for the public health of all credit unions makes no mention in strategic plan or budget of the need for new charters. We work closely with de novo credit unions and there is no excuse for the undermanned and seemingly unappreciated effort for those Americans who wish to continue the collaborative goal of sharing a not-for-profit financial services alternative with friends and family of a common bond. The extra time and money spent to encourage and promote new charters is certainly in the budget, it's just earmarked for some other, less worthy expense. Being volunteer organizations is hard enough but when bureaucratic barriers delay and befuddle their efforts it is easy to see the discouragement. The risk to the fund created by new credit unions is de minimus. Our history is that failed startups are usually merged with existing CUs and that the small asset CUs hardly pose any real financial threat to our $16B + share insurance fund. Instead of barriers, the agency needs to guarantee a de novo program that it will take no longer than 90 days to gain approval and that their agency and insurer will concentrate on supervision strategies that encourage success and growth rather than decline, failure or eventual merger.

Another failure in the budget process, and much like the above-mentioned "complexity" measurement, is the continued use of a ratio of insured credit union deposit to the agency budget. The use of this ratio as justification for budget increases is unfounded and unproven to support the future safety and soundness of credit unions. The fact that it continues to be the singular measurement of support for years of escalating costs is the very proof that the strategic plan and the leadership of the agency, both political and professional staff, lacks any differentiating vision from the past and is not continuously looking for new ways to evaluate agency performance. Unless the new Chairman gives us reason to think otherwise, *this alone is reason for credit unions to lack confidence in leadership and looking forward to significant changes in that same leadership.*

The challenges of the current century cannot be overcome by the same tired regulatory practices of the past. The time has come for this agency to be held accountable for not only the stewardship of OUR $16.7 B share insurance fund, but the evolution of regulatory practices that recognize that credit unions are not banks. We stand ready to support you in striving for such a goal.

Regards,

Victor J. Pantea
Manager of Marketplace Alliances