My name is Bill Raker, and I am Chief Executive Officer of Firefly Credit Union – a $1 billion Federal Credit Union headquartered in Burnsville Minnesota. Firefly is a community chartered credit union now serving roughly 75,000 members throughout Minneapolis and the greater Twin Cities area.

I also serve on the Credit Union National Association's (CUNA), Examination & Supervision Subcommittee.

First and foremost, I'd like to thank you for opportunity to address you today – the NCUA has listened to credit unions and is taking concrete steps to improve the budget process – including allowing input from regulated institutions like the one I represent.

When thinking about NCUA's role as prudential regulator and evaluating its expenses – both historically and proposed – I always start with the fact that credit unions are member-owned, not-for-profit financial cooperatives, which exist to promote thrift and provide access to credit for provident purposes to their members. This is the expressed purpose of credit unions – nothing more and nothing less. Credit unions are not in business to make money for outside stockholders. The users of credit unions are not a means to an end; for the credit union, its members are the end. This characteristic is the key differential between not-for-profit credit unions and for-profit banks.

The credit union structural difference helped cooperative financial institutions like mine come through the Great Recession nearly unscathed while the banking industry teetered on near-complete collapse. When considering interactions with credit unions – and by extension the costs related to those interactions – I believe, fundamentally that we need to acknowledge that the incentive structure for credit unions and banks is quite different and the regulatory structure should reflect those differences. The NCUA does not supervise banks and, in many respects, has no compelling need to act like a bank regulator. But it increasingly feels like that's the agency's approach.

As you know, with respect to both safety and soundness regulation and consumer protection regulation, the regulatory and supervisory regime to which credit unions are subject has increased significantly in recent years, largely in a response to a financial crisis that natural person credit unions neither caused nor to which they contributed. Many of these regulatory and supervisory changes have made it more difficult for credit unions to serve their members, increased costs substantially – all while providing credit union members with little, if any, benefit. In many cases, they have actually made it more difficult for members to interact with their credit unions.

In this regard, while I believe that NCUA's budget process has been greatly enhanced, and it's clear additional improvements are in the pipeline, more can and should be done.

Specifically, I strongly believe that the NCUA needs to focus on cutting costs more aggressively than the distributed materials suggest. A focus on actively reducing cost burdens imposed on regulated credit unions is imperative. Serious questions and concerns remain as to why the agency's budget continues to expand, especially in light of credit unions' increasingly strong financial health and their efforts (often at the direction of examiners) to contain costs.

As an 4-year member of CUNA's Examination and Supervision Subcommittee, I've seen more than one analysis of NCUA spending – and now, thankfully, these evaluations are more detailed. In any case, those overviews confirm that, in spite of substantial financial improvement among the nation's credit unions, recent NCUA budget increases greatly exceed economy-wide price increases – and by a wide margin. They likewise show that the increases sharply diverge from experiences in the much-riskier banking industry.

The operational effects of this disconnect are obvious. For example, CUNA's most recent Examination Survey finds the biggest problem credit union CEOs perceive is that: **"regulatory and exam requirements in general are putting increasing pressure on credit union resources."**

Because credit unions fund the agency's operations, with the exception of a relatively small appropriation for the Community Development Revolving Loan Fund, credit union leaders believe the NCUA Board should do all it can to hold down costs and demonstrate transparency as is appropriate for a federal agency regarding its resource allocations: The agency should be accountable to its "funders" – credit unions.

From December 2010 through June 2016, although total assets of federally insured credit unions increased by 39%, assets in troubled credit unions declined by 78% and the number of credit unions decreased by 21%. However, over this same time period, the NCUA's budget expanded by almost 50%.

The number of agency employees, represented by full time equivalent (FTE) positions, has risen since 2008 by nearly one-third, from 965 to 1,247, even though FTEs were not recently added. In light of this, the proposed FTE reductions going forward seem insignificant.

Many compare NCUA's budget with that of the FDIC. Like NCUA, the FDIC increased staffing to handle the financial crisis but a comparison of the two budgets and shows that while both NCUA and the FDIC had to deal with larger amounts of assets in troubled institutions during the financial crisis, the increases in NCUA's budget to handle those troubled assets were proportionately higher.

While the NCUA budget has been consistently increasing the FDIC's budget has been consistently declining. We're told that the increases are needed because there are larger and more complex credit unions. However, the FDIC both insures and supervises substantially larger and more complex institutions than does NCUA.

With these considerations, I urge the agency to refrain from raising the 2017 budget, and to look for additional ways to streamline operations so that safety and soundness objectives may be achieved without increased funding from federal credit unions and/or increased transfers from the National Credit Union Share Insurance Fund.

In considering general concerns about the agency's budget I note that such determinations of reasonableness are cumbersome using the materials publicly distributed. The documents that have been distributed do not allow easy comparison between proposed revised budget and prior-year budgets, and instead focus on comparisons between the proposed budget for 2017 (revised 2017 budget) and an original projection of 2017's budget made in 2016. Comparisons between revised and previously-approved two-year forecast budgets may be helpful for NCUA staff but they are less useful for those outside the agency who attempt to analyze historical trends. We therefore urge the NCUA to recast its analysis going forward, comparing proposed budgets to prior-year final budgets.

In a similar vein, the distributed materials need far more exposition and discussion surrounding assumptions and standards: What specific performance metrics are linked to the delivery, alignment, and achievement of strategic program objectives? Is cost effectiveness for each activity evaluated through regular benchmarking studies and linked to peer group metrics at FDIC, OCC, and so on?

Whether the NCUA engages in these activities is unclear & it is difficult to rationalize budget changes without this context: Why, specifically, for example, does the agency believe 810 examiners is the correct number?

Using the recently-distributed materials it certainly feels like my credit union devotes more time and effort to explaining and justifying proposed expenditures than does the agency.

In any case, knowing what we know, it seems to me the NCUA budget should more clearly focus on improving efficiency, effectiveness, and customer interaction. Credit unions need this commitment if they are to maximize service to members while effectively seeking to reach out and assist more potential members.

There is much work to do on this front. Remarkably, CUNA's most recent Examination Survey finds that over one in five credit union CEOs (21%) are dissatisfied with their exam.   That's simply unacceptable. It's also a level of discontent that far exceeds the degree of dissatisfaction that any credit union would tolerate among its membership.

From an exam perspective, obvious specific areas of concern include negative ratings of exam teams on such things as applying "guidance" or "best practice" as regulation, and "covering" themselves.   These are but two areas in which NCUA might demonstrate marked improvement in the short run.

I would expect examiners, as a group, to be more efficient and effective in their examination activities.

To assist in ongoing discussion of concrete ways to improve the agency, I've asked CUNA staff to explore the possibility of developing and conducting – on a regular basis - a standardized, confidential, NCUA satisfaction survey to be sent to each insured institution. This instrument would specifically go beyond exam interactions to more broadly track general satisfaction within a wider range of agency operations; including a single, overall, high-level evaluation of the NCUA's performance in its role as one of the nation's most important financial regulators.

Conclusion

The budget process improvements you've implemented are important and I applaud your work on developing them. Thank you.

The revised budget, in my opinion, is a small step in the right direction – but I encourage to you dig deeper and more aggressively pursue budget restraint that translate to even lower costs.

NCUA should work to provide more budget detail with more intuitive comparisons; should work to pursue material reductions in the budget while focusing on slowing the growth rate of expenditures; and should work to embrace efforts to transform into a "world class" regulator.