

Cooperative Credit Union Association

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Creating Cooperative Power

NATIONAL CREDIT UNION ADMINISTRATION October 18, 2017

STATEMENT RELATIVE TO 2018-2019 BUDGET PROPOSAL

The Cooperative Credit Union Association, Inc. (“Association”) is the state credit union trade association, representing credit unions collectively located in the states of Delaware, Massachusetts, New Hampshire and Rhode Island, serving approximately 180 credit unions which further serve approximately 3.7 million consumer members. On behalf of member credit unions, the Association expresses concern over certain aspects of the National Credit Union Administration’s (“NCUA”) 2018-2019 draft Budget Proposal.

The Association notes and supports the NCUA’s continued commitment to regulatory relief and transparency. The agency has remained open to credit union suggestions on reducing the regulatory burden, providing flexibility to credit unions, and eliminating unfair or outdated regulations, all within the bounds of safety and soundness.

Without question, the Association welcomes the Board’s voluntary decision to open the budget public comment process again for the second consecutive year, and encourages the Board to establish such public comment as a permanent practice. The Association is

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encouraged by the many proactive changes the agency has made over the past year, including:

- The consolidation of its regional offices;
- Continued reduction in full time employees;
- Pending rent benefits by consolidating physical space, and the combination of some offices (for example, the Office of Small Credit Union Initiatives). The Association understands that the positive impacts of these changes may take a few years to be felt.

Association members continually note that credit unions are subject to extensive regulatory input, oversight and accountability for all budgeting, expenses, and actions through supervisory examinations and reporting as custodians for consumer members' funds. Thus, at a minimum, as NCUA serves in a position of public trust of deposits and shares nationwide, a similar process and standard of review and reporting should also apply to the federal regulator and insurer.

It is the belief of our member credit unions that the NCUA should be required to control and account for its expenses in a comprehensive manner. As credit unions have a vested interest in what the NCUA spends and how it operates, it should remain accountable and as transparent as possible, through the permanent and standard use of budget public briefings, hearings and comment periods. Such accountability will only further a better working relationship between the NCUA and its regulated and insured entities.

The Association is also in agreement with Chairman McWatters' public statements that the NCUA should prioritize their explanation of the budget process to the entities they supervise, incorporate reasonable public comment into final deliberations, and ensure that it is abundantly clear as to why the budget is set at a certain level.

The remainder of this statement will focus on suggestions for additional areas of improvement relative to the 2018-2019 Budget.

1. The NCUA Should Increase Reliance on State Supervisory Authorities

The Association urges the NCUA to more fully rely on and seek further efficiencies from its relationship with state supervisory authorities ("SSAs"). The dual-examination system necessitates a close relationship between the NCUA and SSAs.

There is, however, a significant overlap in state and federal share insurance examinations. The NCUA presently receives a detailed assessment of the financial and operational conditions of federally-insured, state-chartered credit unions through the sharing of examination reports, coordinated examinations and off-site monitoring. This is further supplemented by the national, regional and local dialogue sessions engaged in by all credit union regulators throughout the year.

The Association urges the NCUA to increase its confidence in the local regulatory scheme to which it contributes and often drives, and to substantively increase reliance on the agreed upon reports, efficient procedures established between the agency and local

SSAs, and other areas in which local SSAs maintain an expertise. The NCUA is strongly encouraged to rely upon state supervisory agencies to the fullest extent possible, and account for the efficiencies the joint examination process affords the NCUA. By doing so, the Association believes that the NCUA may further reduce its budget.

For example, the Massachusetts Division of Banks and Loan Agencies played a key role in the development of the Federal Financial Institutions Examination Council's ("FFIEC") Cybersecurity Assessment Tool. NCUA has begun to incorporate the Cybersecurity Assessment Tool into its examination process in 2016. The NCUA's adoption of this tool is a meaningful demonstration of how the NCUA can rely on the expertise of local regulatory bodies, and decrease its own expenses.

In addition, the Association's unwavering support for a return to the 18-month extended exam cycle continues. It should be noted that returning to an extended exam cycle, under appropriate parameters and in coordination with a deeper relationship with local SSAs, is an important tool readily available to the NCUA which may lower the budget as appropriate.

The NCUA should develop goals and metrics for improving the dual examination process for state-chartered credit unions. The Association's state-chartered members have reported that there is often significant overlap of state and federal examinations. NCUA should set efficiency goals for dual examination and work with state regulators to

implement efficiency measures. Any efficiency gained from these examinations could easily be measured and reported.

Finally, the Association encourages the NCUA to further leverage its coordination with state regulators where possible to reduce on-site exam time, which will assist in lowering the sizeable travel budget which is a major focus of the Budget. In addition, the Association suggests that the NCUA adopt a clearer delineation between off-site and on-site exam hours, as well as a more comprehensive use of technology for exams, such as through Skype or other remote video software.

The Association recognizes that the establishment and development of a joint NCUA-state supervisor Working Group is ongoing, and is looking forward to the positive changes that will result. The Association strongly urges that this Working Group be permanently adopted and also remain a permanent advisory tool. Issues relative to coordination and scheduling of joint exams, scheduling flexibility, and reduced redundancy and burden are ongoing and require regular review. This Working Group should work in collaboration with the NCUA Board to note key areas for change and further reliance on SSAs, which will ultimately reduce the NCUA's overall budget going forward.

2. The NCUA Should Improve Information Technology Expenditure

Transparency

The Association encourages the NCUA to go further in increasing transparency on Information Technology (“IT”) investments, especially in terms of progress with the agency’s virtual exam goal. Stakeholders would benefit from a more transparent and detailed explanation of how the significant \$15 million IT capital budget is moving the industry closer to virtual exams, which will in turn positively impact the budget by saving on on-site examiner time. While the 2018-2019 Budget Justification includes the specific numbers of expenditures for IT improvements, it does not specify how these IT expenditures are connected to virtual exam efforts. With such significant expenses in this area, the industry should be able to see and understand how such expenditures at this point in time will accelerate the agency’s progress towards virtual exams in coming years. The Association would welcome more detail on how significant IT expenditures are moving the industry closer to virtual exams, and a clearer nexus between such expenditures and progress in the virtual exam area.

Sufficient accountability is lacking on the very large IT capital expenditures contained in the Budget. For example, the Budget notes that the agency will spend \$1.2 million next year to enhance its website. It is the observation of the Association that the website has been upgraded a number of times in the last few years. The Association suggests that the agency should state efficiency goals for each IT enhancement, as well as a cost-benefit analysis of the justification for any such enhancement. These goals should require efficiency and be measurable.

3. The NCUA Should Continue Overall Staff Reduction

The Association is encouraged that the 2018-2019 budget reflects a decrease in staffing levels from the 2017-2018 budget. While this decrease reflects the fact that the agency is regulating fewer, healthier entities and therefore should not see increases in staff, the Association notes that the agency appears to maintain its position that the NCUA needs to maintain a higher staff level than is necessary out of concern regarding its ability to staff up during crisis times. The Association rejects this argument as the approach is flawed. An efficient government agency should staff for its current needs and develop a contingency plan for additional staffing if needed. A better and less costly approach would be for the NCUA to develop a contingency plan with an outside auditing firm for additional emergency staffing should another severe financial crisis present itself. Similarly, the agency could develop and use retired credit union and bank examiners on a contract basis when additional resources are needed. These are two of many potential alternative ways to staff for emergencies as opposed to maintaining excessive and costly staff during the lengthy periods when it is not needed.

In addition, the Association notes the agency's position that assets are growing faster than staff. However, as the industry continues to see larger credit unions, more of a focus should be placed on exam specialists. The Association often hears that credit unions appreciate the value that NCUA "specialists", whether on capital markets, member business lending, or other areas — bring to the exam process. Often the specialists are cited for giving exceptional insight into their particular areas of focus. As credit unions continue to grow, NCUA may be able to further reduce the budget with a more focused

exam staff honed on specialty areas that carry the most risk to the NCUSIF, rather than a large general exam team. The Association suggests that the agency could further reduce its general practitioners, and move towards developing more specialists. While this suggestion likely would not result in budget savings, the Association is of the position that such a change would be a positive use of funds as assets continue to grow.

Finally, as members share their experiences from examinations conducted by NCUA, the Association often hears of a large number of examiners on-site at credit unions for significant periods of time, often up to 14 days. The Association requests that the NCUA provide more visibility and data on average exam hours spent at credit unions by asset size and by region. While not a direct Budget issue, such data would help the industry better understand the agency's budget expenditures on staffing and other related items.

4. The NCUA Should Provide the Industry with More Time to Respond

While the NCUA did release its 2018-2019 Budget Proposal and supporting documents to the public prior to the open briefing and requested comments, it did so only a week prior to the public briefing, a notably shorter period than the 13 days provided for the 2017-2018 briefing. The Budget Justification is comprised of 98 pages, and does not separate out a Line Item Budget. This brief period of time does not adequately provide interested stakeholders sufficient opportunity to examine in detail not only the volume of supporting materials, but also the finer points of the budget, and make reasonable comparisons to past years' budgets and other similar regulatory agencies' budgets. It is recommended that for each future years' budget proposal, the NCUA open the proposal

to a public comment period and release its supporting documents at least 60, if not 90, days prior to any briefing or hearing in order for stakeholders to have appropriate time to review.

The Association encourages the NCUA to continue to seek credit union input on its budget. Credit unions deserve a regulatory and supervisory environment that will allow them to best serve their members, which includes input into the way costs are budgeted and allocated.

The Association appreciates the opportunity to offer comments to the NCUA on this important issue and respectfully requests your favorable consideration of such comments.