ORAL REMARKS

Good afternoon.

My name is Beverly Zook and I am the President and CEO of Money One Federal Credit Union in Largo, Maryland. I am speaking today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). Before I begin the substance of my remarks, I want to sincerely thank the Board for its steadfast leadership and continued commitment to examining the operating budget in a public and transparent manner.

Earlier this month, NCUA released its 2018 and 2019 proposed budget and materials addressing the overall budget process. Upon review, NAFCU and Money One are pleased to see that the agency is continuing its recent trend of unprecedented transparency. We believe that the agency is at the vanguard of all other federal banking agencies on this matter, and we hope that leadership will continue into the foreseeable future.

Based on the recently-released budget materials, the Operating Fund Budget is $298.2 million for 2018. This figure represents an increase of 2.1 percent, or $6.1 million, from the restated 2017 Board-approved budget. While the industry appreciates that NCUA has begun to slow the rate of year-over-year budget growth, it should come as no surprise that we remain steadfast in our desire for budget efficiencies. The proposed budget does include increases – albeit moderate increases – for 2018 and 2019. If approved, the proposed 2018 budget would represent the tenth year in a row that the NCUA has approved a spending increase.

It has been said many times before, but is worth stressing here: *every dollar spent by the agency is a dollar that credit unions are unable to put towards serving their members*.

As a credit union CEO, I am fully aware that the agency needs an adequate budget to ensure that it is able to meet its dual mandate of prudential regulator and insurer, a duty that includes the hiring of experienced personnel and investment in new technologies. Today, the credit union industry is well-capitalized and strong, meaning credit unions are positioned to continue providing their members with high-quality products and services. As the industry's continued member growth reflects, credit unions are setting themselves apart as the best financial services option for the American consumer. I commend NCUA staff, and the multiple iterations of the NCUA Board that have played a role in that success.

Keeping in mind the need for a strong NCUA, I am not suggesting the agency arbitrarily slash its budget without reason. Such a dramatic approach to the budget would only serve to raise questions about the agency's ability to effectively carry out its mission. However, what I *am* suggesting is that there must be a continued agency-wide commitment to increasing efficiency, eliminating redundancy, and creating a sustainable budget that does not rely on annual increases. Credit unions are looking forward to a time where credit unions could see a decrease in the budget.

To that end, I would like to pose a series of questions for the Board to consider.

1. At an estimated $302.8 million, the proposed 2019 budget represents a doubling of NCUA's budget in only a decade – a decade that has seen both a reduction of credit unions by 25% and economic growth. In what environment, economic or otherwise, would NCUA envision its budget seeing a true reduction?
2. When will the industry begin to see the cost-savings and economies of scale that are being promised in this budget, and will they be manifested through a truly level budget?
3. In a consolidating industry, what is the ideal number of examiners, and what reductions in hiring should keep pace as the number of credit unions continues to decline?

While NCUA has traditionally cited growth of credit union assets as a reason for year-over-year increases to its operating budget, I believe that justification raises questions. As has been said before, *NCUA examines and supervises credit unions, not assets.*

There are changes and plans of which NAFCU and Money One are supportive. For example, we strongly support NCUA's reform plan, which should improve NCUA's efficiency, effectiveness and focus on its core mission responsibilities. As the budget narrative alluded to, these changes will allow NCUA to carry out its responsibilities in a more nimble manner. These actions will, among other things:

- Eliminate, consolidate and streamline offices with similar or overlapping functions; and
- Restructure offices to improve the efficiency within the existing responsibilities;

Like the agency's increased transparency, these are practical changes that the industry has sought for a long-time, and we appreciate the Board's commitment to ushering-in these critical improvements.

Regarding the details of the budget, NAFCU and Money One believe that NCUA has struck the proper balance in providing a high level review of its proposed budget while still divulging enough details for credit unions to adequately assess. For example, the additional detail of multi-year, capital project expenditures is well-received.

In regard to other areas that credit unions support, I would like to emphasize the positive impact on the budget that could be gained through the adoption of an extended 18-month exam cycle for all well-run, low-risk credit unions. The benefits of an 18-month exam cycle announced last year for some credit unions are already evidenced in the 2018 and 2019 budget cuts in agency staff. NCUA should take this process one step further and evaluate and report upon the estimated cost savings of extending an 18-month exam cycle to all well-run, low-risk credit unions above $1 billion. Such evaluation could materially decrease the agency's operating budget.

Also regarding examinations, NAFCU and Money One support the agency's move to restructure the Office of Examination and Insurance (E&I) into smaller, specialized working groups. Ideally, this will pave the way for more effective working groups with a narrower scope of technical expertise.

The industry appreciates NCUA's continued investment in technologies that provide the agency with an avenue to conduct more remote examinations. Improving this capability could enhance NCUA's ability to identify troubled or stressed credit unions more often and earlier, thus reducing the risk to the SIF. Both of these benefits should prove to have a positive impact on the budget.

Relatedly, the 2019 budget proposal reflects a decline in full-time employees as a result of increased remote monitoring and pre-exam consultation of credit unions. NAFCU and Money One welcome this move, but from a practical standpoint, many credit unions have yet to see this reduction reflected in the number of examiners that come on-site. We encourage the agency to address this in the coming year.

Meanwhile, an area not directly addressed in the budget, but which ought to be considered, is the agency's recently announced regulatory reform agenda. Some of the regulations listed in the reform agenda should be reprioritized. Several regulations that have been listed as Tier 1 may be better categorized as Tier 2 or 3. Conversely, several items that have been listed as Tier 3 may more rightly be classified as Tier 1, given the positive impact they could have on the industry.

An additional item not addressed in the budget is the added costs of a credit union advisory council. A formal advisory council would be a de minimis cost to the overall budget. Despite the small cost, NAFCU and Money One support the creation of such a council as an effective way to increase stakeholder input. A credit union advisory council could lend itself to more nuanced discussions on matters that are complex and sometimes controversial, such as the overhead transfer rate (OTR) methodology. Additionally, an advisory council could play an integral part in the complaint and appeals process, which itself is currently pending changes.

Before I close my remarks, I want to take this opportunity to briefly address the Board's recent decision to raise the normal operating level (NOL) to 1.39 percent. While the industry appreciates the agency's diligent work on this matter, and believes the 2018 dividend is a good first step, I urge the agency to focus on ways to provide additional rebates to credit unions and return the NOL to its customary level of 1.30 percent as soon as possible. Returning additional funds to credit unions so they are able to put those dollars to work helping members is in the best interest of all credit unions.

In conclusion, today’s briefing continues an admirable trend of transparency and stakeholder engagement. I appreciated this opportunity to exchange ideas, and I believe the credit union system will be made better and stronger through public discourse. NCUA has made great strides in recent years, both in the process and substance of its budget. I commend Chairman McWatters and Board Member Metsger, as well as staff, for the many hours spent preparing budget materials, while still seeking ways to curb budget inflation. Despite the continued increase in the 2018 and 2019 budgets, we are hopeful with the positive direction that the agency is headed.

Thank you for the opportunity to appear before you today.