NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org
National Association of Federally-Insured Credit Unions

October 27, 2017

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: NCUA's Proposed 2018 & 2019 Budgets

Dear Mr. Poliquin:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing to you regarding the National Credit Union Administration's (NCUA) proposed 2018 and 2019 budgets (the Budget). This letter provides additional comments from the oral remarks by Beverly Zook, CEO of Money One, delivered on behalf of NAFCU during NCUA's Budget Briefing held October 18, 2017.

NAFCU appreciates that the Board has taken steps to substantially slow the rate of the agency's year-over-year budget growth. With those positive steps in mind, NAFCU and our members remain hopeful that the agency will continue its commitment to efficiency long into the future. Such actions would be a well-received capstone to the Board's multi-year initiative to reform the agency's operating budget and structure.

Improved Process and Transparency

NAFCU believes that the Board has demonstrated great leadership and continued commitment to examining the operating budget in a public and transparent manner. It is clear that the agency is at the vanguard of all other federal banking agencies on this matter, and we look forward to substantive improvements to the agency's operations and efficiency.

Regarding the Budget materials, NCUA staff has appropriately provided a high-level view of the agency's intentions, not only in 2018 and 2019, but also several years of additional data on capital improvement projects. NAFCU believes that these procedural changes have resulted in a more transparent budget, but more importantly, they have also led to a more streamlined budget. If approved, the Budget would mark the smallest year-over-year budget growth in more than a decade and at a significantly slower growth rate from the high of 13 percent in 2010, seen in Figure 1.

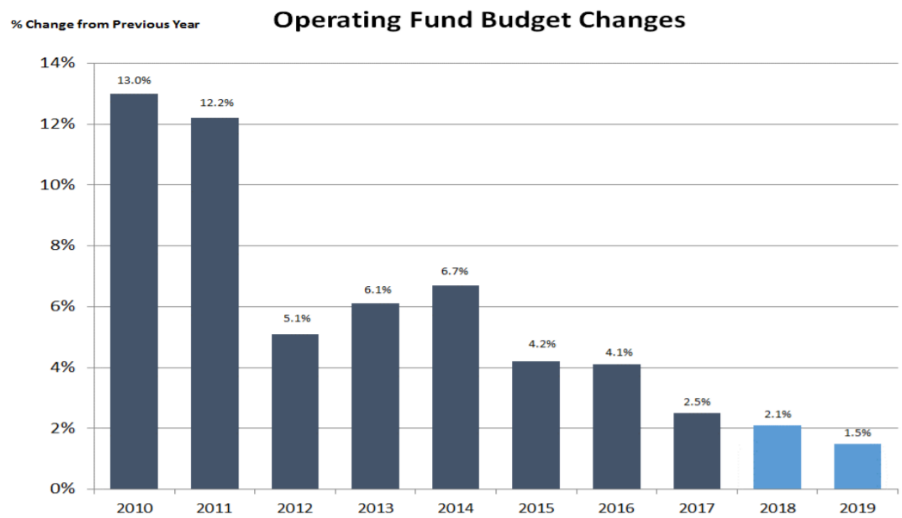

Figure 1

Remarks on Proposed Budget Items and Future Initiatives

NAFCU is aware that any final action on the Budget is entirely a Board decision, and as such, this letter will not examine and critique each line-item and justification. However, every dollar spent by the agency is a dollar that credit unions are unable to put toward serving their members.

NAFCU believes 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. While NAFCU appreciates that NCUA is required to adopt a budget that enables it to meet its dual mandate of prudential regulator and insurer, a duty that includes the hiring of experienced personnel and investment in new technologies, credit unions are looking forward to a time where credit unions could see a decrease in the budget.

As raised in the oral remarks, NAFCU would like the Board to address the following questions when it votes on the proposed 2018 and 2019 budgets:

1. The proposed 2019 budget represents a 70 percent increase in the agency's expenditures since 2009, when the economic recovery began after the global financial crisis. In what environment, economic or otherwise, would NCUA envision its budget seeing a true reduction?
2. The past decade has also been characterized by a reduction of credit unions by 25 percent, how can the agency reduce its staff in a manner that reflects the consolidating industry?
3. When will the industry begin to see the cost-savings and economies of scale that are being promised in the Budget?

Agency reform plan

Based on the information currently available, NAFCU supports the Board's broad plan to reform the agency, which should improve NCUA's efficiency, effectiveness and focus on its core mission responsibilities. In particular, NAFCU support's the plan's goal of reforming the Office of Examination and Insurance (E&I) into smaller, specialized working groups. One of the more frequent complaints we hear from members involves inexperienced examiners. Ideally, this increased focus on developing subject matter expertise will address those complaints.

Another goal of the reform plan is to eliminate, consolidate and streamline offices with similar or overlapping functions. In lodging our support of this goal, NAFCU and our members note the importance of smaller credit unions. We ask that the new office taking the lead role formerly filled by the Office of Small Credit Union Initiatives (OSCUI) continue helping small credit unions thrive. Further, we recommend that the agency collaborate with external industry stakeholders, including NAFCU and others, to aid in those efforts.

18-month exam cycle

The benefits of an 18-month exam cycle announced last year for some credit unions are already evidenced in the Budget as cuts in agency staff. NCUA should take this process one step further and publicly evaluate the cost savings of extending an 18-month exam cycle to all well-run, low-risk credit unions above $1 billion. Such an evaluation could materially decrease the agency’s operating budget.

NAFCU believes that the agency should also produce a rough estimate of the costs avoided if NCUA were to move to an 18-month exam cycle for all well-run, low-risk credit unions, **regardless of asset size**. After making the calculations, NCUA could compare the cost-savings to any perceived increase risk to the Share Insurance Fund (SIF), and determine whether the savings, both of NCUA *and* credit unions, offset the risks.

Remote monitoring and examinations

NAFCU 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 would have a positive impact on the budget.

Relatedly, NAFCU looks forward to providing feedback on NCUA's recently published Request for Information (RFI) regarding electronic loan, deposit, and investment data collection. NAFCU supports, in part, the stated purpose of the initiative, which would seek to support a longer examination cycle, better communication between examiners, and more efficient examination processes and enhanced off-site monitoring tools.

Recommended Organizational Improvements

Credit union advisory council

An 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. Given the small cost, NAFCU and our members 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.

Regulatory reform agenda

NAFCU strongly supports the Board's decision to adhere to the spirit of Executive Order 13777, even though the agency is not bound to comply. However, while the move is well-received, NAFCU disagrees with some of the Tiers and rationales outlined in the published notice, which might have an effect on the agency's 2018 Budget, but more likely won't be realized until 2019 and beyond. NAFCU will deliver full analysis and member feedback in a separate comment letter.

Coupled with the reform ideas proffered in Treasury's June 2017 report, "A Financial System that Creates Economic Opportunities," NAFCU is confident that long-sought regulatory relief is finally within sight, and will provide further feedback that will assist NCUA in those efforts.

Other Related Matters

Return of the NOL to 1.30 percent

As NAFCU has previously noted regarding the closure of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) and increase of the normal operating level (NOL), we believe the 2018 rebate is a good step but the agency should continue to focus on returning additional monies to credit unions and return the NOL to its customary level of 1.30 percent.

In addition, controlling the operating expenses of the SIF will help mitigate the historical erosion of the equity ratio, and we are pleased to see the detailed discussion and analysis of the SIF budget.

Overhead transfer rate

NCUA's OTR methodology determines how much of the agency's operating budget should be covered by the SIF, for those expenses that are incurred under NCUA's Title II authority. NAFCU advocates that the current methodology for determining the OTR is adequate since it is based on measurable and observable data points. NAFCU does not believe that NCUA should finalize its proposed OTR revisions; instead we continue to recommend the agency build upon and improve the current methodology.

Regardless of the final OTR calculation, significantly slowing the budget's rate of growth helps to address the concern that a high OTR will continue to dilute the equity ratio. By decreasing the size of the operating budget, fewer funds will be removed from the SIF.

Congressional appropriations

NAFCU strongly supports NCUA maintaining its status as an independent agency, which is why NAFCU and our members have consistently advocated for NCUA to not be subject to Congressional appropriations. The agency's commitment to develop a transparent and prudent Budget is a large reason why NAFCU continues to be successful in excluding NCUA from the appropriations process, and why such transparency and prudence is crucial for continued independence.

Conclusion

We look forward to working with NCUA to find ways for the agency to further streamline its operating costs and promote greater efficiency. We appreciate the Board's leadership, and the staff's dedication to this issue. Should you have any questions or would like to discuss these issues further, please contact me, or Michael Emancipator at (703) 842-2249 or memancipator@nafcu.org.

Sincerely,

Alexander Monterrubio
Director of Regulatory Affairs