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The Honorable J. Mark McWatters
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

Dear Chairman McWatters:

On behalf of America's credit unions and their 110 million members, the Credit Union National Association (CUNA) appreciates the National Credit Union Administration's (NCUA) transparency in the budget process. By providing budget documents in advance, holding an open briefing where stakeholders were invited to comment, and soliciting written comments, NCUA has demonstrated a commitment to effective governmental engagement. We commend you for continuing these efforts.

As I stated in my correspondence on this issue last year, CUNA believes that the efficiency of NCUA's operation are paramount to responsibly shepherding credit union members' resources as NCUA seeks to become a world-class regulator. We believe there is immense capacity for NCUA to reduce its footprint, right-size the organization, and emerge from the resulting transition as a nimbler, stronger, and more efficient and effective regulatory body. Although we maintain concerns over NCUA's aggregate spending, the budget presented reflects that the NCUA has embraced a truly transformative strategic plan with the promise of further efficiencies and more obvious fiscal discipline in the years ahead.

I applaud NCUA leadership for developing a budget that specifically addresses the key concerns and suggestions raised during last year's budget process. As described in our oral comments and associated materials delivered to NCUA prior to the budget briefing, we encourage, recognize and embrace your efforts on a variety of issues including:

- **Reigning in budget increases and right-sizing overall outlays.** The NCUA's proposed 2018 budget increase compares favorably to both increases in headline inflation and to increases in credit union operating expenses. Furthermore, the request continues what we believe is both a welcome and necessary trend of reduced growth in the NCUA operating budget. Still, our updated analysis, comparing changes in NCUA's budget to the changes in the banking industry's comparable spending, reveals that NCUA's budget remains approximately 95% higher than pre-recession levels whereas banking industry outlays are up 75% over that period.¹

Although we may conclude NCUA's total outlays are elevated from a comparative historical perspective, it is obvious – both in the budget justification's numbers and its accompanying narrative – that NCUA is attempting to increase efficiency while improving operations and interactions with credit unions. We fully expect the current proposed investments in capital, systems, and technology to

¹ Our analysis compares 2007 expenditures to the most recent budget data. We use data for NCUA [net of Asset Management and Assistance Center (AMAC)] against the aggregated data for the Office of the Comptroller of the Currency (OCC) supervision, regulation, and chartering activity, Federal Reserve supervision and regulation activity, and the Federal Deposit Insurance Corporation (FDIC) ongoing operations.

lead to future improvements in efficiency, lower staffing levels, and additional relief for thousands of credit unions under NCUA supervision.

- **Reducing staffing levels and controlling compensation costs.** We urged the NCUA to decrease staffing and to reign-in fast-growing compensation outlays. The NCUA Board has been receptive to CUNA's view and has proposed many changes that impact the budget through reorganization and needed updates to the examination process. These changes will lower the agency's authorized staffing level.

Nevertheless, the cost per full-time employee continues to increase substantially faster than inflation and marginally faster than the increases for credit union employees. This discrepancy isn't large over a one-year period, but if maintained over time, the cumulative effect will produce significant differences in pay between the regulator and the regulated.

We believe credit unions can play a more distinct and important role in this process. We urge the NCUA to develop and conduct ongoing, confidential, examination staff satisfaction surveys – distributed to credit unions after each examination. Of course, these surveys ought to be processed and compiled outside the purview of the agency staff, and by an outside third party with each examiner's average rating shared with the regions to assist in both the merit pay process and in filling education and training gaps.

- **Reconfiguration of the Regions.** CUNA previously urged the NCUA to study the composition of the Regions to explore possibilities for significant cost savings. The current configuration, we felt, indicated that efficiency gains were possible. The NCUA's willingness to consider this proposal and ultimately flesh out a concrete plan of action is commendable.
- **Exam Efficiency and Innovation.** Although closely related to reconfiguring Regions and employee costs, I want to emphasize that the agency's ongoing efforts to modernize the examination process is critically important. Investments in time and money are well spent in modernizing NCUA's examination process as this leads to more efficient use of NCUA resources. NCUA has already made progress by implementing the 18-month exam cycle and planning for examinations with remote components. Our hope is that NCUA staff will perform thorough examinations with minimum staff present in credit unions, for a shorter duration, which will save travel costs, and ensure that NCUA staff dedicate more time to examination per hour worked and are less disruptive to credit unions' staff. We encourage NCUA to dedicate the proper resources to fulfilling this vision.
- **Distribution of Cost Burdens/Overhead Transfer Rate.** As you know, not long ago, CUNA proposed an alternate Overhead Transfer Rate (OTR) model that would have led to an OTR of 56.3% instead of the 67.7% in place for 2017, under the then-current method. More recently, the NCUA proposed a 60% OTR – suggesting the agency's proposed model yields similar results to CUNA's proposed model driving the OTR to 60%. That is still higher than years 2008 through 2013, but more in-line with historical averages. Although the proposed 60% OTR represents a large increase for federal credit unions, we note the portion of the percent of budget funded by the OTR and operating fee is lower than for the years 2008-2013. We think that NCUA's recently proposed approach is reasonable if it does not lead to spikes or frequent large changes in the OTR.
- **Asset Management and Assistance Center (AMAC).** We applaud the NCUA for responding to our request to reduce AMAC spending. In our comments last year, we noted operations and expenses of the AMAC were unnecessarily difficult to evaluate via publicly available documents. We argued,

however, that in the absence of compelling data to the contrary, the agency ought to dramatically reduce or eliminate the AMAC.

The agency, we noted, appeared to be keeping the office open at what we surmised was a very low usage rate, simply to have the function available for the next recession. Since there is little to no chance the next recession will require anything as the prior one in terms of asset liquidation, we saw little reason to maintain the resources at anything but substantially lower levels. In fact, we stated it would likely be substantially more cost effective to outsource asset sales on an as needed basis compared to keeping a fully staffed AMAC open all the time.

CUNA fully supports *both* the Agency's proposed reduction in the size of AMAC and the associated realignment of supporting functions to their central office counterparts.

The budget proposal creates an office focused on chartering and credit union expansion and it eliminates Economic Development Specialist (EDS) consulting. Many of the nation's small credit unions have benefited from the Office of Small Credit Union Initiatives (OSCU) and from the EDS program. The latter service is frequently praised for its emphasis on meaningful personal contact, customized strategic and operational solutions, and (more recently) service provision aimed at those most likely to benefit from the services. NCUA's internal research showed that EDS consulting was one of the most impactful activities in the OSCUI office and that those impacts were most obvious among the smallest credit unions – many of which are institutions in the greatest need of such services. There is little discussion on the details of the significant changes being proposed.

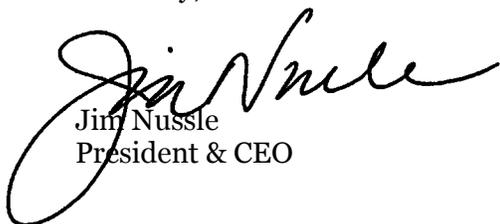
CUNA urges the NCUA to carefully consider the approach taken on this front. While the focus on cost savings is laudable, it is clear a significant number of smaller institutions remain stressed in the current low-rate, hyper-competitive environment, and access to OSCUI resources can be a game-changer and a critical resource for the survival of many credit unions.

Finally, I urge NCUA to extend the budget process somewhat. Giving interested stakeholders a bit more time to evaluate, analyze, and socialize the proposals will help us continue to formulate thoughtful responses.

In conclusion, CUNA recognizes and applauds NCUA's improved budget process as well as most of the details of the budget proposal. Together, they represent a clear, positive, and significant step in the right direction as the agency works to become a leader and innovator in the financial services industry. We hope NCUA will continue to focus on innovation and modernization, more material reductions in the budget, and slowing the growth rate of expenditures.

On behalf of America's credit unions and their 110 million members, thank you for your consideration.

Sincerely,



Jim Nussle
President & CEO