



November 14, 2023

Dear Board:

Thank you for the opportunity to testify before you today on the NCUA's 2024-2025 Budget Justification. Thank you also to your staff for all of their work on this budget and everything that the NCUA does in the day-to-day in support of this industry.

My name is Carrie Hunt and I am the President and CEO of the Virginia Credit Union League. The League works to facilitate the excellence of credit unions of all sizes across the Commonwealth. I will note that we have had a reduction of 5 credit unions in Virginia since I last testified, and a reduction of 9 since I first applied for this role over 2.5 years ago.

The budget justification is clear and lays out where the NCUA is spending its dollars. In 2023 the NCUA approved operating budget was \$344,158,000 and under this current budget justification we are seeing a 9.25% increase. This increase is significant, and in my testimony today I want to focus not necessarily on the dollars, but the impact the additional regulatory burden will have as a result of those expenditures. The NCUA has outlined three strategic goals for 2024: ensure a safe, sound, and viable system of cooperative credit unions that protects consumers; improve the financial well-being of individuals and communities through access to affordable and equitable financial products and services; maximize organizational performance to enable mission success.

I am addressing three items in particular in the budget relative to these goals: cybersecurity; the use of NCUA resources across all asset classes of credit unions and the addition of more examiners in the NCUA budget- in particular relative to the new consumer compliance program.

Relative to cybersecurity, VACUL again encourages NCUA to make data security protections on the merchant side a legislative priority for the agency. In many cases, it is vulnerabilities and attacks on unregulated merchants and retailers that cause cybersecurity events and losses to credit unions and their members. A robust national cybersecurity standard will place more onus on merchants to make the necessary investments and take the needed precautions to protect themselves and their customers from hacks and data breaches.

VACUL agrees credit unions must maintain robust cybersecurity programs in order to protect themselves and their members. We also believe credit union resources must be available to combat cyberattacks. In particular, all credit unions are focusing on internal training to ensure that the human component of cybersecurity defenses are strong. The NCUA's cybersecurity examination focuses on credit union management of information systems and risks, sufficient expertise in information systems and technology, Board IT policies and procedures, and controls and oversight of member information. While supervision is important and necessary, credit unions need to continue to evolve their own programs and always can use additional resources as opposed to focusing on examination. We also urge the NCUA to be more active in issuing risk alerts on current cyber security risks and issues to ensure that credit unions are doing all they can to prevent issues before they happen.

At present, credit unions are being asked to fund ever-increasing agency budget expenditures for cyber-related issues yet at the same time, the pressure for credit unions to be

liable for all costs of fraud and breaches continue- this is not going to result in a viable safe and secure credit union system and we must address it.

Resource Allocations

Given the current tightening of economic conditions, we believe that the agency should be extremely measured in its approach to its programing. We would ask the agency to ensure that their focus is not trending too heavily towards the nation's smallest and largest credit unions, while underserving the majority of credit unions found in the middle —those with greater than \$100 million in assets but below \$10 billion in assets. The agency has flagged its support of small credit union initiatives and additional supervision for larger credit unions. The league supports efforts to help small credit unions but notes that small credit union viability is a larger issue than the agency can assist with. We also want to ensure that the NCUA is not equating just size with complexity as it looks to hire specialized examiners for larger credit unions. In addition, we believe the NCUA should ensure its focus does not stray from the “middle majority” of credit unions, which often most acutely feel the pressure of inflation and economic conditions, having to compete and provide the same products and services as large financial institutions without the benefits of economies of scale. The NCUA can continue to assist these and other credit unions by providing greater field-of-membership flexibility, access to secondary capital and reduction of regulatory burden. Additional resources such as grants, marketing assistance, training, robust job boards, and opportunities for collaboration among credit unions and industry partners could prove extremely beneficial to mid-sized credit unions and ensure their continued success in the marketplace but are beyond the scope of this budget.

Consumer Focused Compliance

VACUL is concerned with the NCUA's addition of 13 additional consumer compliance examiners, which represents an increased focus by the agency on consumer compliance issues. Protecting consumers is paramount, but there needs to be a balance. The NCUA already has a robust consumer compliance program- you can just look to its consumer compliance manual which sets out both the exam expectations and requirements for credit unions to demonstrate this fact. This manual covers 20 separate consumer regulations that credit unions comply with and are examined on already.

We believe these extra examiners and examination time are unwarranted as credit unions continue to prove themselves as consumer-friendly institutions with the interests of members serving as both an operational and philosophical foundation. Unlike banks, credit unions are member-owned, not-for-profit financial cooperatives. They do not have outside shareholders who demand high returns on their investments. The credit union business model and ownership structure ensure the continued embrace of our mission of putting "people over profit," while serving as a powerful deterrent to any thought of predatory or questionable practices and policies.

Credit unions rarely fail or consolidate due to dissatisfied members or consumer compliance issues. However, they do struggle under the weight of an increasing compliance burden and regulatory overreach. We submit the resources devoted to funding this focus on further consumer compliance would be better utilized by credit unions. Allow them to use those resources to hire and train staff, optimize their policies and processes to ensure compliance, and help them offer a product and service mix that puts the interests of members first.

I do not understand how credit unions will continue to thrive with the ever-increasing cost of doing business and additional regulatory scrutiny. Credit unions need to provide services in the way that their members want those services delivered and this costs money. Under the CFPB's war on fees, credit unions question whether they will even be able to charge for services in the future. Fraud is skyrocketing. Staffing costs are dramatically increasing. Cyber threats are increasing, and consumers are demanding more. Additional regulation and exams will only serve to diminish what credit unions can provide. Credit unions are continually being squeezed and this is only going to serve to further reduce the number of credit unions. I truly believe that credit unions continue to be the best option for consumers to have access to savings and credit at an affordable cost. We must at all costs protect that- and we can start today by focusing less on administration and more on facilitation. Something must give here, and with so many factors that credit unions can't control, we ask you to reconsider what you can control.

Thank you for the opportunity to present today. I am happy to answer any questions.

Sincerely,



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