NASCUS

National Association of State Credit Union Supervisors

July 22, 2015

The Honorable Randy Neugebauer
Chairman
Subcommittee on Financial
Institutions and Consumer Credit
Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable William Lacy Clay
Ranking Member
Subcommittee on Financial
Institutions and Consumer Credit
Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Neugebauer and Ranking Member Clay:

On behalf of the National Association of State Credit Union Supervisors (NASCUS), the professional association representing our nation's state credit union regulators, I am writing today in respect to tomorrow's hearing on the National Credit Union Administration's Operations and Budget. NASCUS encourages the subcommittee to carefully examine the proper separation within the NCUA of insurance and supervisory functions, and the impact of that imprecise distinction on the health and well-being of the dual chartering system. In particular, NASCUS is concerned that the agency's funding mechanism and examination cycles are having an inequitable impact on state chartered credit unions and state regulators.

A primary and long-standing priority of NASCUS is achieving meaningful transparency around the NCUA's budget and its allocation of expenses across state and federal credit unions. As both a charterer and share insurer, NCUA primarily funds itself in two ways: through direct assessments on federal credit unions, and by transferring money from the share insurance fund that is contributed by both state and federal charters. Currently, the agency funds over 70% of its total budget from share insurance fund monies through the overhead transfer rate (OTR).

Generally speaking, increases in the portion of the budget funded by the OTR have led to decreases in direct assessments on federal credit unions. For example, by increasing the OTR in 2014, NCUA was able to shift a substantial portion of its expenses to the insurance fund, thereby enabling NCUA to *reduce* 2014 federal credit union operating fees by $10.5 million despite an *increase* of $26.5 million in its 2014 operating budget. This represents a significant reallocation of direct assessment expenses for federal credit unions into indirect insurance fund contributions which are borne by both state and federal credit unions.

Given the inherent conflict of interest between NCUA's roles as a competing chartering authority and common insurer it is imperative that stakeholders be given the opportunity to evaluate and formally respond to NCUA's allocation of expenses across the industry. Consequently, NASCUS supports the NCUA Budget Transparency Act (H.R. 2287) which would require NCUA to open its budget process to notice and comment from stakeholders.

Additionally, NASCUS urges the subcommittee to push NCUA to raise the threshold for its annual insurance exam of state-chartered credit unions. NCUA currently examines all federally-insured credit unions with assets in excess of $250 million on a 12 month cycle, regardless of their CAMEL rating, risk profile, or frequency of examination by the state. In some cases, this inflexible policy can lead to state-chartered credit unions with over $250 million in assets being subject to two separate on-site exams in a 12 month period.

NCUA could ease the regulatory burden for credit unions, and enable valuable supervisory discretion for state regulators, by raising the threshold for annual insurance exams to institutions with assets of $500 million or more, and relying on state regulator exams for institutions below that threshold on a risk-based basis.

State agencies conduct regular on-site examinations of their credit unions and, absent a specific insurance-related concern, NCUA should rely on those exams as envisioned by the Federal Credit Union Act. This adjustment would free up supervisory resources, both at the NCUA and state level, to focus on problem institutions and emerging areas of supervisory concern, such as cybersecurity. Although, in theory, the risk profile of a $250 million credit union could change rapidly, NCUA and the states have off-site tools to monitor the condition of credit unions remotely. In conjunction with on-site state exams, this should provide NCUA sufficient information to evaluate the insurance risk of these credit unions. Furthermore, the health of any individual $250 million credit union does not pose a systemic risk to the share insurance fund.

We appreciate the opportunity to share our concerns with the subcommittee, and we hope that you take this opportunity to stress the importance of the dual chartering system, the value of transparent and meaningful stakeholder input, and the critical distinction between supervisory and insurance functions to the NCUA Chairman.

If NASCUS can be of any assistance on this or any issue, please don't hesitate to reach out to me directly, or to our Regulatory and Public Policy Counsel, Sabrina Bergen, at (703) 528-0669.

Sincerely,

Lucy Ito
President & CEO

cc: Members of the Subcommittee on Financial Institutions and Consumer Credit, House Financial Services Committee