

July 25, 2025

Office of the General Counsel  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314

**RE: NASCUS Comments on NCUA 2025 Annual Regulatory Review**

To the Office of the General Counsel,

The National Association of State Credit Union Supervisors<sup>1</sup> (NASCUS) submits the following comments in response to the Office of General Counsel's (OGC) request for comments on the 2025 National Credit Union Administration (NCUA) Regulatory Review.<sup>2</sup> NASCUS commends the Agency for continuing the annual opportunity for NASCUS and system stakeholders to provide comments and recommendations for improvement of the NCUA's regulations thru the 1/3 Regulatory Review process.

***General Comments***

The Administration has directed federal agencies to reduce regulatory burden.<sup>3</sup> Per the Executive directive, NCUA could achieve a significant reduction in regulatory burden, with absolutely no increased risk to safety and soundness, by reorganizing NCUA Rules and Regulations and consolidating all rules applicable to federally insured state-chartered credit unions (FISCUs) into a single section.

As we have addressed in our previous comments to the NCUA, the current organization of its rules is convoluted, confusing, and unnecessarily burdensome. Examiners and credit union professionals, who must review the NCUA rules for FISCUs to ensure compliance, spend an excessive amount of time researching, reviewing, and cross-referencing the NCUA's rules, many of which do not apply to FISCUs, simply to identify rules that do. Searching the NCUA's rules often involves finding a specific sub-provision of federal credit union regulations that is referenced in Part 741, where the complete text can be found

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<sup>1</sup> NASCUS is the professional association of the nation's forty-six state and territorial credit union regulatory agencies that charter and supervise over 1700 state credit unions. NASCUS membership includes state regulatory agencies, state and federally chartered credit unions, and other important stakeholders in the state system. State-chartered credit unions hold half of the \$2.4 trillion assets in the credit union system and are proud to represent nearly half of the 144 million members. The remaining five states lack state-chartered credit unions.

<sup>2</sup> NCUA Regulatory Review 2025 <https://ncua.gov/regulation-supervision/rules-regulations/regulatory-review>

<sup>3</sup> See OMB Memorandum, M-25-10 "Implementation of Regulatory Freeze Pending Review"

elsewhere. For example, Part 741.8 refers FISCUs to Part 701.23(b)(1)(i); Part 701.22; Part 701.23(b)(1)(iii); Part 701.23(b)(1)(iv); and Part 701.22. To confuse matters even more, Part 741.8 appears in a section of NCUA Rules purporting to contain rules “not codified elsewhere” in NCUA’s rules and regulations.

Part 741.203 cross references § 701.21(c)(8); § 701.21(d)(5); § 701.21(h); § 701.21(h)(2); and § 701.21(h)(3). Numerous additional references and cross-citations apply federal credit union (FCU) rules to FISCUs. This situation requires both FISCUs and their examiners to sift through dozens of FCU provisions to access the sub-provision potentially applicable to the FISCU. To complicate matters further, some of NCUA’s cross-references are so broad as to leave readers to interpret for themselves which regulations may apply. For example, Part 741.202 tells FISCUs to meet “the applicable” requirements of Part 715<sup>4</sup>.

There is no compelling justification for not consolidating all rules applicable to FISCUs within Part 741. Doing so would significantly reduce regulatory burden and eliminate confusion between FCU rules and FISCU rules.

NCUA has acknowledged the utility of consolidating rules in the past. When previously providing regulatory relief to FCUs by consolidating several lending rules, NCUA wrote:

*Having the various maturity limits spread among numerous sections of the NCUA’s regulations often separated by large amounts of regulatory text unrelated to maturities, can be confusing to a reader and makes it more difficult to understand the lending regulations. To remedy this, in the proposed rule, the Board proposed to make the NCUA’s loan maturity requirements more understandable and user-friendly by identifying in one section (§701.21(c)(4)), including cross citations and all of the maturity limits applicable to FCU loans.*<sup>5</sup>

It is incumbent on regulatory agencies to ensure their rules are easily identifiable and accessible. Reorganization of NCUA’s FISCU rules is long overdue.

### **Designation of Low-Income Status, §701.34 and §741.204**

NCUA Parts 701.34 and 741.204 address the coordination of and approval of a FISCU’s low-income designation between the NCUA and the state regulator and indicate that the state regulator shall make the low-income designation with the concurrence of the NCUA. This is coupled with the requirement that a state regulator must make the designation on the same basis as that provided in §701.34 for federal credit unions.

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<sup>4</sup> Part 741.202 is further problematic by specifically referencing the supervisory committee of a credit union. State chartered credit unions are not required to have supervisory committees. Many states require audit committees and at least six states have no audit committee requirement at all.

<sup>5</sup> NCUA Final Rule, Loans to Members and Lines of Credit to Members, 84 Fed. Reg. 57, at 10972 (March 25, 2019).

NASCUS does not have concerns with the approval process but would like to address communication breakdowns between the NCUA and state regulators. We understand that the NCUA reviews low-income designations every five years. If the NCUA determines that a low-income credit union (LICU) no longer meets the designation criteria, the NCUA will notify the credit union in writing. The credit union must, within the next five years, meet the designation criteria or come into compliance with the regulatory requirements applicable to federal credit unions that do not have the low-income designation.

As stated in previous comments, NASCUS requests the NCUA clarify the policy and procedures for ongoing administration of the LICU designation for FISCUs.

### **Capital Adequacy, §702 and §741.3**

NASCUS recognizes that stress testing pursuant to Part 702 Subpart C is beneficial for both regulators and covered credit unions. While the feedback we have received from both credit unions and regulators indicates that the current stress testing framework works well, several refinements to the rules could enhance the value of the exercise.

### ***Reverse Stress Testing***

A reverse stress test is currently defined as a “test that defines severely unfavorable outcomes and then identifies events or scenarios that lead to these outcomes.” The NCUA should conduct a cost, burden, and benefit analysis of reverse stress testing. Given the adverse and severely adverse scenarios utilized in stress testing, it is questionable whether reverse stress testing provides sufficient new information to be truly useful.

Should the NCUA determine to retain reverse stress testing, consideration should be given to providing more detail in the examples included in Part 702.302. The examples provided include breaching regulatory capital ratios, failing to meet obligations, or being unable to continue independent operations. The examples lack granularity that could provide clarity regarding the NCUA’s expectations. Better-defined examples would provide clarity and improve the usefulness of reverse stress testing.

### ***Static Balance Sheet Tests***

While static balance sheet tests have been used from a supervisory perspective for year-over-year comparisons, these tests are not always useful to credit unions for capital planning or risk management, as there is no realistic stress scenario where loan and deposit balances remain static. The NCUA should consider reducing the frequency of this testing.

Finally, we encourage the NCUA to consider revising the current tiering levels for credit unions. The Federal Reserve Board, the Office of the Comptroller of the Currency, and the

Federal Deposit Insurance Corporation differentiate stress testing requirements and scenarios for institutions with assets between \$10 billion and \$50 billion, and those with assets exceeding \$50 billion. As the credit union system has grown in assets, Part 702 should be revised to recognize this growth.

The current tiering structure is:

Credit Union Tier	Asset Size
3	Over \$20 billion
2	\$15 billion to \$20 billion
1	\$10 billion to \$15 billion

Our recommended new tiering structure:

Credit Union Tier	Asset Size
3	Over \$50 billion
2	\$20 billion to \$50 billion
1	\$10 billion to \$20 billion

### ***Working Group***

To further refine and recalibrate the stress testing rule, NASCUS recommends that the NCUA and NASCUS convene a working group consisting of state and federal examiners, as well as representatives from a sampling of covered credit unions. This group would discuss ways to enhance the effectiveness and utility of the stress testing rule for both regulators and covered credit unions.

### ***Corporate Credit Unions, §704 and §741.206***

NCUA’s corporate credit union rule applies in its entirety to state-chartered corporate credit unions by way of reference in 741.206.<sup>6</sup> As a result of the 2008 financial crisis, the NCUA promulgated a comprehensive overhaul of §704, limiting corporate credit union powers, homogenizing corporate credit union regulations, and imposing a new corporate credit union capital regime.<sup>7</sup> As a result, the corporate credit union system today is much smaller than it was in 2008.<sup>8</sup>

Corporate credit unions are a vital component of the credit union movement, providing essential services to many natural person credit unions. The COVID-19 pandemic

<sup>6</sup> Corporate credit unions are also separately referenced in Part 741.3(b)(3), which also cross-references Part 741.206 which incorporates by reference Part 704. This cross-referencing reiterates NASCUS previous point about the need for reorganization and consolidation of the NCUA’s Rules and Regulations applicable to FISCUs.

<sup>7</sup> 75 Fed. Reg. 200 (October 20, 2010), p. 64786

<sup>8</sup> In 2008, there were twenty-seven corporate credit unions. In 2025, there are eleven corporate credit unions.

underscored the importance of these corporate credit unions in ensuring a reliable liquidity backstop for the credit union system. This situation highlighted the ongoing need for a robust corporate system.

While the decision to dramatically consolidate the corporate system and mitigate future risk during the 2008 financial crisis was understandable, NASCUS expressed reservations at the time that the revised Part 704's rigidity was stifling innovation and further homogenizing the corporate system, to the detriment of the broader credit union movement.

It is past time to revisit Part 704 and provide greater flexibility and opportunity for responsible growth and innovation for corporate credit unions. The NCUA should also reconsider whether its complete preemption of state rules with respect to corporate credit unions, resulting in the practical elimination of any meaningful dual chartering distinctions, is in the long-term best interest of the system.

Specific changes to Part 704 that should be immediately considered include:

### ***Weighted Average Life***

The current two-year weighted average life (WAL) restriction emerged from the Great Recession and was intended to focus the corporates on their role as liquidity providers. However, today's corporate system is structurally different than that of the pre-2008 recession. Rather than relying upon a single centralized liquidity hub, the eleven remaining corporate credit unions rely on their balance sheets to generate liquidity and fund operations.

This two-year limitation fails to consider the fluctuating seasonality of a corporate credit union's balance sheet or changes in economic and liquidity cycles. NASCUS agrees with the recommendation of the Corporate Credit Union Alliance that a longer WAL should be promulgated to allow well-capitalized corporates to provide expanded funding options to members during times of liquidity stress.

Extending the WAL would also benefit the system during times of abundant liquidity by allowing corporate credit unions to meet natural person credit union needs for market-rate deposits with two- to five-year durations. Meeting those necessities during times of abundant liquidity is challenging under the current 2-year WAL.

### ***Part 704.14 Representation***

The NCUA's rules for the board of corporate credit unions are overly restrictive. Additionally, the provisions are overly broad in their preemption of state authority to determine the best governance rules for state-chartered corporate credit unions. The

NCUA should reintroduce the benefits of dual chartering by allowing states to define rules for board composition if they desire.

While we have enumerated several specific changes, we believe there are additional changes that would improve Part 704 in safe and sound manner. We strongly encourage NCUA to further engage with stakeholders and state regulators to further recalibrate the regulatory framework for corporate credit unions.

**Bank Conversions and Mergers and Mergers of Federally Insured Credit Unions, §708(a) and §708(b)**

With respect to FISCUs, the NCUA's sole concern should be mitigating risk to the Share Insurance Fund (SIF). In the absence of any clear and compelling connection between the activity being regulated and risk to the SIF, the NCUA should defer to the laws of each state. While we appreciate that the NCUA has the statutory authority to regulate FISCU mergers, a more risk-focused approach to FISCU mergers is the more prudent course of action. Furthermore, we believe that the current merger rule, as applied to FISCUs, stretches the Congressional intent of the NCUA's statutory authority by imposing governance obligations on FISCUs with only a tenuous connection to safety and soundness.

When two state-chartered credit unions merge, the NCUA's appropriate role is to ensure the continuing credit union is sufficiently capitalized and managed to absorb the merged credit union without posing a material risk to the SIF. If the continuing credit union is safe and sound, and the risk to the SIF is minimized, the NCUA's role in a merger of FISCUs should be concluded. It is then for the state regulators, as the prudential regulator, to evaluate governance issues related to their respective charters.

***Member-to-Member Communication Remains Problematic***

Since the inception of the portal, there have been 746 mergers posted for member comment.<sup>9</sup> Upon review of the merger notices and comments, there have been scant comments submitted by the membership. However, it is impossible to search the entirety of the list to identify total comments submitted, without manually reviewing each individually posted merger.

The member-to-member communication component of the final rule remains problematic, overly burdensome, and unnecessary. It would help stakeholders evaluate the efficacy of this rule if the NCUA were to publish data on the number of mergers completed since the rule's implementation, the total number of members affected, and the total number of members who posted comments through the portal.

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<sup>9</sup> <https://ncua.gov/support-services/credit-union-resources-expansion/credit-union-merger-resources/comments-proposed-credit-union-mergers>

The multitude of mailings required by the NCUA also proves problematic and costly to FISCUs, as many states have statutory notice and timing requirements for communications. The NCUA should NOT require the states, when two FISCUs are merging, to follow the NCUA's notice and timing requirements on top of the NCUA's statutory requirements. This imposes double the costs of mailings to the respective institutions and confusion for the membership receiving the communications. We are not convinced that the difference between NCUA's timing and a state timing requirement represents any serious risk to the SIF.

To reiterate, NASCUS and state regulators acknowledge and welcome the NCUA's role in FISCU mergers as the administrator of the SIF. Unfortunately, the overreach of the 2018 Merger Rule not only weakens the dual chartering system but has also caused real-life complications involving the mergers of FISCUs that continue to frustrate state regulators, members, and credit unions alike. Issues may arise from a mismatch between state and NCUA timeframes for notifications, state, and NCUA assessment of the need to pay out net worth to the merging credit union, or other governance-related issues. Ultimately, the root cause is the same: the NCUA's rule extends far beyond reasonable safety and soundness risks, negatively affecting the intent of dual chartering.

## **Conclusion**

NASCUS commends the NCUA for its continued tradition of soliciting stakeholder comments on one-third of its Rules and Regulations annually. We encourage the NCUA to reinstate the practice of issuing a summation of the comments and preliminary indications of which recommendations might be further reviewed for implementation, along with the reasons for declining to pursue other suggestions. This approach would promote transparency in the rule review process and guide stakeholders on how to consider existing rules for future comment opportunities.

Sincerely,

- Signature redacted for electronic submission -

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