NASCUS
The National Association of State Credit Union Supervisors

December 22, 2025

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Request for Comments: Prohibition on Use of Reputation Risk by NCUA, RIN 3133-AF67 (NCUA-2025-0972)

Dear Secretary Conyers-Ausbrooks:

The National Association of State Credit Union Supervisors (NASCUS)[1] provides the following comments on the NCUA Request for Comment regarding the proposed Prohibition on Use of Reputation Risk by NCUA.[2] NASCUS appreciates the opportunity to share our views and those of state credit union system stakeholders on NCUA's proposed codification of the elimination of reputation risk from its supervisory program.[3]

If finalized, NCUA's proposal would only apply to federal examiners and NCUA's federal supervisory program. While NCUA and states share supervisory authority over federally insured state credit unions (FISCUs) and coordinate closely to align supervision to minimize the burden on FISCUs, state and federal supervisory programs are independent and subject to their own respective policies and procedures.

NASCUS's comments focus primarily on ensuring NCUA engages in close consultation and coordination with state regulators to ensure clear understanding of the impact NCUA's final rule will have on a final examination report of a FISCU issued by a state agency and shared with NCUA.

In the supplemental material published with the proposal, NCUA notes the common practice of joint NCUA and state examination of FISCUs, and observes that "In these instances, the state regulator generally will take the lead in issuing the report of examination and any corrective action." The NCUA now adds that "If the state regulator elects to examine for reputation risk, NCUA examiners will not participate in these discussions or enforce any

[1] NASCUS is the professional association of the nation's forty-six state and territorial credit union regulatory agencies that charter and supervise over 1,700 state credit unions. NASCUS membership includes state regulatory agencies, state and federally chartered credit unions, and other important stakeholders in the credit union system. State-chartered credit unions hold nearly half of the $2.25 trillion assets in the credit union system and are proud to represent nearly half of the 140 million members.
[2] Request for Comment Regarding Prohibition on Use of Reputation Risk by NCUA, 90 Fed. Reg. 48409 (October 21, 2025).
[3] NCUA's proposal follows similar proposed rulemaking by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC).

resulting supervisory actions taken by the state regulator."[4] In fact, NCUA predominantly relies on Reports of Examinations (ROEs) performed and written exclusively by state regulators for the supervision of FISCUs.[5] Going forward, it will be essential that NCUA work with state regulators to ensure a mutual understanding of what the possible impact, if any, the final rule will have on submission of state exams where reputation risk was considered and the recording of "official" CAMELS rating in such cases. Given that secondary supervisory issues, such as NCUA's exam cycle for FISCUs, are (at least partially) predicated on CAMELS rating, this understanding takes on increased importance.

On the issue of safety and soundness and reputation risk, we agree that reputation risk can be subjective and ambiguous.[6] However, subjective or not, reputation risk is a real concern in the financial services industry.[7] Accordingly, while examiners should not be making business decisions on behalf of credit unions nor substituting their judgment for that of the credit union with respect to reputation risk, a distinction should be drawn between using the supervisory process to conclude a reputation risk exists and a supervisor expectation that a credit union itself evaluate the potential for reputation risk and make informed decisions as to how to manage those risks.

In closing, we commend NCUA for reiterating that it "is important for a credit union to operate in a manner that member-owners view as favorable…"[8] Issues related to reputation risk and debanking are real. NASCUS supports ensuring all legal businesses, and the public at large, have access to safe and secure banking services. However, credit unions must be allowed to derisk from banking relationships that are too complex, service intensive, or otherwise beyond a particular credit union's resources and ability to serve safely and in a manner consistent with its obligations to protect the financial system from illicit activity. Likewise, credit unions must have the flexibility to exit relationships that their members would view unfavorably. We urge NCUA to continue to affirm that credit unions retain lawful discretion to exit relationships the credit union believes are beyond its ability to manage effectively or are otherwise detrimental to the credit union's service to its membership.

Working together, we are confident NCUA, state regulators, and credit union system stakeholders can properly calibrate the system's approach to these issues.

Sincerely,

- signature redacted for electronic publication -

Brian Knight
President & CEO

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[4] 90 Fed. Reg. 48411 (October 21, 2025).
[5] Nationwide, NCUA only participates in about 30% of examinations of FISCUs.
[6] 90 Fed. Reg. 48409.
[7] Arguably, it is one of, if not the, primary policy consideration in fiercely guarding the confidentiality of an institution's CAMELS rating.
[8] 90 Fed. Reg. 48409.