December 26, 2023

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

Re: Request for Comments Regarding Simplification of Share Insurance Rules; Docket Number NCUA–2023–0082

Dear Ms. Conyers-Ausbrooks:

On behalf of Virginia's credit unions, we are writing to the National Credit Union Administration (NCUA) on its request for comments regarding the proposed rule to simplify the share insurance rules on trust accounts (the proposal). The Virginia Credit Union League advocates on behalf of Virginia's 102 credit unions and the over 18 million members they serve. We appreciate the opportunity to provide input on the NCUA's share insurance rules.

Simplification of Share Insurance Rules

Share insurance is a critical element of financial planning for credit union members. We support NCUA's efforts to simplify the share insurance rules and to make them easier to understand for credit unions and their members. NCUA Board Members will often say that no credit union member has ever lost one penny of funds insured by the National Credit Union Share Insurance Fund (NCUSIF). While this is true, it is also true that credit union members have lost funds that they *thought* were insured, but in reality, were not insured due to a misunderstanding of the rules for coverage. Trust accounts are already more complex in structure than individual share accounts – adding additional complexity by having different rules and calculation methods due to the type of trust, number of beneficiaries, or other factors increases the likelihood of a misunderstanding of actual coverage levels.

The simplification of rules not only benefits credit unions and credit union members, but also the NCUA. As was noted at the October Board meeting when this proposed rule was approved, the NCUA has received over 6,500 trust-related questions in the last four years. Many of these inquiries pertain to how to calculate share insurance coverage for irrevocable trusts. Having one set of rules for both revocable and irrevocable trusts, and having the calculation be one that credit unions and members may already be familiar with, should reduce the inquiries made to NCUA for trust-related questions.

In addition to simplification, we also support maintaining parity with coverage provided by the FDIC. If FDIC coverage is easier to understand, or the rules for FDIC coverage provide for additional coverage, it could result in credit union members moving funds from credit unions to banks. It also introduces reputational risk to the credit union system. While parity with the FDIC should not be the sole reason for approving a final rule, it is an important consideration because of these possible adverse effects of not maintaining parity.

For these reasons, we support the proposed simplification of share insurance trust rules. The proposed amendments will make insurance coverage for trust accounts easier to understand for both credit unions and their members. We encourage the NCUA to maintain communications with credit unions to ensure that the example scenarios sufficiently cover ownership structures implemented by their members.

Amendments to Mortgage Servicing Account Rule

The proposal would also make amendments to the share insurance coverage rules on accounts maintained at credit unions by mortgage servicers. In the proposal, the NCUA notes that they generally strive to make these rules easy to

understand and apply, as well as to maintain parity with FDIC's regulations. For the same reasons as laid out above, we support these objectives and the proposed changes to the rules governing coverage for mortgage servicer funds. We believe the changes would help to promote financial stability in the credit union system.

Recordkeeping Requirements

In the proposal, the NCUA notes that the current language of 12 CFR 745(c)(2) requires records to be considered in the determination of share insurance coverage to be maintained either by the credit union or the member. The proposal highlights that often these records may be kept by an agent, fiduciary, or other third party, which represent something of a gray area within the regulation as currently written. The proposed rule would provide clarity that records in the custody of such third parties on behalf of the member would be considered as records of the member. We support this amendment, as many credit union members rely on trusted third parties for recordkeeping as part of their estate planning. Like the proposed changes above, this amendment should also reduce inquiries to the NCUA about proper application of this provision.

In the proposal, the NCUA notes the FDIC's recordkeeping requirement that applies to large depository institutions. Their rule requires banks with more than two million deposit accounts to configure their IT systems to be capable of calculating the insured and uninsured amount in each deposit account and to maintain complete and accurate information needed by the FDIC. In the proposal, the NCUA asks if they should consider adopting similar requirements for credit unions, and if so, what the threshold for the number of accounts should be.

We do not support the implementation of this requirement for credit unions, as it is unnecessary and would place additional regulatory burden on credit unions. Both the FDIC and the NCUA require insurance to be paid "as soon as possible" after the liquidation of a bank or credit union. This is the goal; the FDIC's requirement for configuration of IT systems purports to help the FDIC meet that goal. It is unknown whether a similar requirement for credit unions would actually help the NCUA pay accountholders as soon as possible after a credit union liquidation. What is known is that such a requirement would require updates by credit union core processors, time allocation of credit union staff for implementation, and increased costs for credit unions and their members.

We urge the NCUA not to adopt this requirement, but if they do, the threshold for the number of deposit accounts should not fall below two million, in order to maintain parity with the FDIC requirement. In the proposal, the NCUA asks if a lower threshold would be more appropriate for credit unions. We see no reason for this departure. Additionally, if the final rule does implement this requirement, its effective date should be delayed in order to allow credit unions and their core processors sufficient time to implement the required system changes.

In summary, we generally support the NCUA's proposed rule, both due to its simplification of rules and calculation methods, as well as its maintenance of parity with FDIC coverage levels. We do, however, have concerns about the necessity of the contemplated IT system configuration requirement and urge the NCUA not to adopt it or to delay its effective date if adopted. On behalf of Virginia's 102 credit unions, thank you for considering our comments. If you have questions, please do not hesitate to contact me at jblau@vacul.org.

Sincerely,

JT Blau
Chief Advocacy Officer, Virginia Credit Union League