VIRGINIA
CREDIT UNION LEAGUE
ONE VISION. ONE VOICE.

November 20, 2023

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable Rodney E. Hood, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Harper, Vice Chairman Hauptman, and Board Member Hood:

On behalf of the Virginia Credit Union League and the 103 credit unions domiciled in Virginia, thank you for the opportunity to comment on the agency's 2024-2025 budget proposal via written comment and oral testimony. We value the opportunity to engage with the NCUA Board and staff on the budget, recognizing that the dialogue on agency priorities and proposed expenditures is both beneficial and instructional.

The budget justification and the comment process are important exercises in helping credit unions understand how the precious resources they provide the agency will ultimately benefit them and their members. We are grateful, too, for the agency's work to provide the budget proposal in a timely manner, allowing the industry to fully review and analyze the proposal and leading to better-informed and more thoughtful feedback.

While we all recognize the depth and breadth of NCUA's mission to charter, regulate, supervise and insure credit unions, we also urge the agency to remain mindful of the need to be good stewards of the resources provided by credit unions. We stand ready to provide additional information or clarification should you have any questions.

Once again, thank you for allowing myself and industry leaders the opportunity to express our concerns and actively participate in the NCUA's process. Virginia's credit unions appreciate your continued leadership and your commitment to ensuring the safety and soundness of the nation's credit union system.

Sincerely,

Carrie R. Hunt

Carrie R. Hunt
President/CEO
Virginia Credit Union League

108 N. 8th St.
Richmond, VA 23219
800.768.3344
434.237.9600
@VACreditUnionleague
www.vacul.org

November 20, 2023

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable Rodney E. Hood, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Staff Draft 2024–2025 Budget Justification
Docket # NCUA-2023-0117

Dear Chairman Harper, Vice Chairman Hauptman, and Board Member Hood:

On behalf of the Virginia Credit Union League (VACUL) and the 103 credit unions headquartered in the Commonwealth of Virginia, we appreciate the opportunity to provide written comments on the 2024-2025 Staff Draft Budget Justification and to deliver remarks on the draft budget at the November 16, 2023 public budget briefing. VACUL thanks the National Credit Union Administration (NCUA) Board for its continued leadership and commitment to ensuring the credit union system remains safe, sound, and able to fulfill its mission to provide provident credit and promote thrift among our 135 million members. We also thank the NCUA staff who diligently and thoughtfully prepared this budget justification and other materials.

VACUL commends the NCUA Board's transparency regarding the budget and budget process. We believe it is important to remember the funding for the NCUA's budget is derived solely from credit unions and their members. Every credit union in Virginia and elsewhere has a vital interest and stake in the NCUA, whether that credit union's assets are $250,000 or $165 billion. We recognize that the Board and agency feel the weight of that fact. However, we submit the simple recognition of that fact is not enough. We believe NCUA has an obligation to strike a balance – to fulfill its mission to charter, regulate, supervise and insure credit unions, but to do so by the most cost-effective means possible. Being a good steward of the funds entrusted to the agency by credit unions is important, but equally important is recognizing every dollar the agency requires of credit unions is a dollar not deployed for the benefit of members or our communities.

General Comments

The NCUA's budget continues to increase significantly. The 2024-2025 proposed budget proposes an increase of 9.5%. VACUL acknowledges that the proposed budget is $8.7 million lower than the 2024 funding level approved by the NCUA Board as part of the two-year 2023–2024 budget. However, we believe more can and must be done to streamline this budget and proposed expenses. Despite the requested Capital Budget declining significantly and the Share Insurance Fund Administrative Budget only increasing slightly, the Operating Budget, consisting of roughly 97% of total agency expenditures, has a proposed increase of 11%. The staff-prepared budget justification notes economic trends, including higher inflation and a more competitive job market, as factors for the increased costs, but even so, an 11% increase is clearly unjustified and unreasonable. During the past decade, NCUA's budget has increased by more than 47%, with the 2024 proposed operating budget being $126 million higher than the NCUA's approved budget in 2014. VACUL urges the NCUA Board reconsider its approach.

Consider the present situation for U.S. credit unions. They are experiencing the same economic and job market headwinds as those cited by NCUA staff. These increased costs to credit unions are coupled with slowing demand for loans and amplified threats to non-interest income sources from regulators, legislators, and the Biden administration. In the third quarter of 2023, the nation's top 10 credit unions all saw their net income fall sharply, with smaller credit unions experiencing even steeper declines. With increased costs and significant hits to balance sheets having such a profound impact on credit unions, NCUA must be focused on finding cost efficiencies wherever possible and committed to practicing budgetary restraint. From our perspective, NCUA can do so and still fulfill its core mission.

Operating Budget

Employee Pay and Benefits

The proposed 11% ($38 million) increase in the Operating Budget consists primarily of proposed increases in Employee Pay and Benefits. This proposed increase in pay and benefits totals $26.2 million (or 9.8%) in 2024.

VACUL notes that some aspects of the increased costs related to Pay and Benefits are beyond the agency's control, including agency employees' collective bargaining agreement, Federal Employee Retirement System (FERS) and health insurance contributions and new 2024 Social Security tax increases.

While the NCUA is limited in its fiscal flexibility regarding these identified factors it does have autonomy in the agency's staffing levels and the creation of new positions. The proposed 2024 Operating Budget includes a net increase of 28 newly budgeted positions, 2.3% higher than the agency's current staffing level. These new positions include 11 new positions and incorporate into the 2024 budget 17 existing positions currently unfunded in the 2023 budget. The cost of the 28 newly funded positions is estimated to be approximately $5.9 million.

The agency justifies the additional 28 funded positions and their $5.9 million cost as necessary to keep pace with the growing scale and complexity of the credit union system. VACUL questions the premise of this justification. Credit union asset growth does not always correlate with increased complexity. Credit union assets increase for a variety of reasons, many of which do not result in a more “complex” credit union. Furthermore, while credit union assets have increased, the number of credit unions steadily decreases year-after-year owing mostly to mergers. One could reasonably argue, that due to the dramatic reduction of credit unions in the past decade, NCUA staffing levels should have adjusted accordingly. Since 2014, the number of credit unions has declined by more than 25% (1,578 credit unions), from 6,264 credit unions to 4,686. However, during this same period, the number of NCUA staff has declined by less than 3.5%. Factoring in the proposed 28 additional employees in the 2024 budget, the decrease is less than 1.2%.

VACUL notes, too, the net increase of examiners proposed in the budget. While the agency seeks to reduce the number of regional examiners by 22, it proposes funding 27 new specialist examiners and supervisors, a net increase in “examiner” positions in the face of an ever-declining number of credit unions. Further, the agency argues that specialists are necessary owing to the increasing complexity within the credit union industry. We again argue that the agency is conflating size with complexity. We believe the hiring of 27 new specialist examiners has not been sufficiently justified and begs for more rigorous evaluation and reconsideration.

The proposed budget also creates four new positions in the Office of National Examinations and Supervision (ONES). With the recent change limiting ONES’ supervisory scope to credit unions with more than $15 billion in assets and the agency’s argument that this change requires more regional staff to handle the additional credit unions between $10 and $15 million in assets, we question the necessity of additional staff members in the ONES office. It is VACUL’s belief the agency has an obligation to credit unions and their members to be mindful of spending, explore cost-saving measures wherever possible, and maintain appropriate employee levels based on the number of credit unions, not credit union asset size. This proposed addition of staff to the ONES office again appears unjustified.

Contracted Services

The second largest expense in the agency’s proposed 2024-2025 budget is Contracted Services. These miscellaneous services account for more than 13% ($52.1 million) of the proposed Operating Budget and are proposed to increase by $10.7 million in 2024, or 25.7% compared to 2023. As noted in the proposed budget, the actual cost for contracted services in 2024 is much higher and is estimated to be $70.1 million, but that cost is offset by the prior year’s unspent funds. If these unspent funds were not available, the total cost of these services would increase by $28.7 million, a 70% increase compared to 2023, an amount which is reflected in the proposed 2025 budget.

As discussed in the budget briefing and dialogue, we urge the agency to provide a more comprehensive and detailed explanation of the growing expenditures for the agency’s Modern

Examination & Risk Identification Tool (MERIT). While we appreciate that a platform like MERIT is ever evolving and that its core building blocks will require ongoing maintenance and upgrades, we believe credit unions are rightly justified in demanding greater transparency regarding costs. The agency spent more than $54 million on MERIT's development, with an additional $3 million budgeted in 2024 and 2025. It is fair to question the return on investment for both credit unions and the agency absent a more detailed explanation of program costs.

NCUA staff notes this dramatic increase in Contracted Services is caused by a combination of inflationary pressures on the cost of these services and additional initiatives undertaken by the agency. While we are all grappling with the inflationary costs, this dramatic spike in the agency's contracted services -- coupled with the 9.8% increase in Employee Pay and Benefits -- gives us pause. We are forced to ask the agency to reexamine its contracts with outside vendors and weigh the necessity of the programs it plans to implement in 2024. VACUL believes the NCUA should remain committed to the thoughtful use of the resources provided by credit unions and their members. There appear to be many avenues the agency could pursue to become a more efficient and streamlined organization while still achieving the agency's objectives. While we understand the current necessity of utilizing contracted services, we would encourage the agency to carefully consider the ultimate impact on credit unions given the dramatic increase in this line item and the agency's apparent growing dependency on such services.

Cybersecurity

Cybersecurity remains an important agency and industry priority, with the related agency budget line items growing steadily in recent years.

Firstly, 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 are more effective when used internally to combat cyberattacks than when used by the NCUA to examine a credit union's cybersecurity programs.

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 important and necessary, VACUL believes credit union funds are better utilized in addressing vulnerabilities through training and resources for credit union staff. At present, credit unions are being asked to fund ever-increasing agency budget expenditures for cyber-related issues.

Resource Allocations

The Virginia Credit Union League applauds the NCUA's Office of Credit Union Resources and Expansion (CURE) for assisting small credit unions and Minority Depository Institutions (MDI). We also understand that the largest credit unions can be extremely complex organizations, and some may need additional supervision resources. We want to ensure that resources are also serving the majority of credit unions found in the middle —those with greater than $100 million in assets but below $10 billion in assets.

We believe the NCUA should focus more of its resources on this "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 begin to assist these and other credit unions by providing greater field-of-membership flexibility, along with other resources that ensure more consumers have access to credit union services. 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 and can be facilitated with private-public partnerships.

Consumer Focused Compliance

VACUL remains concerned with the NCUA's expanded focus on consumer protection compliance. This increased focus by the agency is shifting its focus from its primary objective of ensuring the safety and soundness of the credit union system. This shift in focus is causing the agency unnecessary expenditures of time and resources, including the proposed 13 additional consumer compliance examiners, and increased examination times to account for additional consumer protection reviews.

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 do not 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.

Eliminating the proposed additional positions identified above will have a positive impact on credit unions. VACUL is keenly aware of the NCUA's role in ensuring the safety and soundness of the credit union industry. This is the agency's proper purpose and its statutory mission. We question the agency's focus on consumer compliance, given the credit union industry's long and well-documented success in this area.

<u>Conclusion</u>

On behalf of VACUL, Virginia's 103 credit unions and their 13 million members, thank you for the opportunity to share our thoughts and voice our concerns regarding the agency's 2024-2025 proposed budget. We are pleased to provide any additional information regarding our commentary. A copy of my oral testimony is attached.

Sincerely,

Carrie R. Hunt
President/CEO

chunt@vacul.org

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.

108 N. 8th Street, Richmond, VA 23219
P: 800 768 3344 · 434 237 9600 · www.vacul.org

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.

108 N. 8th Street, Richmond, VA 23219
P: 800 768 3344 • 434 237 9600 • www.vacul.org

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,

Carrie R Hunt

Carrie R. Hunt

President/CEO

chunt@vacul.org