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Cooperative Credit Union Association Supports Merging Corporate Stabilization Fund with NCUSIF in 2017; Stresses the Importance of Path Back to 1.30 and Continued Budget Reductions

SEPTEMBER 6, 2017 (MARLBOROUGH, MASS.) — The Cooperative Credit Union Association urges the National Credit Union Administration to merge the Corporate Stabilization Fund with the National Credit Union Share Insurance Fund in 2017, and begin to distribute money back to credit unions in the first quarter of 2018.

"It's time to start distributing money back to credit unions. We support merging the funds to begin that process," said CCUA President Paul Gentile.

CCUA acknowledged that NCUA's proposed 1.39 initial operating level tied to the risk in the Stabilization Fund and economy is appropriate, but should decrease each year and ultimately return to 1.30 once that risk terms out with the final maturation of the assets.

"We need an aggressive path back to 1.30. The performance of credit unions historically and the ability of credit unions to handle an assessment when needed as they did in 2009 and 2010 dictate that the agency does not need to maintain 1.39 as the normal level going forward," Gentile said.

Gentile stressed that merging the Funds is vital and must be done correctly to ensure credit unions receive as much money back as possible, but reducing the budget is the long-term solution.

"We can change the Overhead Transfer Rate formula. We can bring the NCUSIF normal operating level back to 1.30, but if we don't see a leveling of the budget then funding the

agency will continue to be an issue and discussions of assessments won't go away. The agency must modernize, streamline and recognize that it can regulate a consolidating industry with a leaner, more targeted budget," he said.

In testimony at NCUA's Budget Hearing last year, Gentile urged the agency to provide more transparency on its multi-million dollar IT capital expenditure budget, saying, "The system needs to realize that the agency is spending millions of dollars on IT investment. Heavy investment in technology is great if it's going to get us to a more data-driven regulatory process that can take advantage of ongoing data streams to reduce on-site exam time, which is a drain on the agency's budget. Are we getting there with the millions NCUA is investing in IT? That's where we need engagement and continued discussion with the agency."

Gentile said there are positive signs that the agency, under Chairman McWatters' leadership, is looking for efficiencies. "The extended exam cycle has been implemented. Each region has had a reduction in exam hours. The recent announcement to consolidate the Regional Offices from 5 to 3 will ultimately bring savings. There has been a lot of dialogue coming from the agency on pursuing more virtual exams which could save resources if implemented correctly."

Gentile disagrees with the agency's long-time theme that the number of credit unions doesn't drive the staffing level, but the complexity of credit unions does. "We've heard over the years that it's not the number of credit unions that drives the need for examiners, but rather it's the complexity of credit unions. We fundamentally don't agree. If you look at the merger data, in most cases it's larger credit unions merging with smaller credit unions. If you have a \$600 million credit union become a \$630 million credit union due to a merger the risk profile of the surviving credit union isn't much different than before the merger, yet there is one less credit union to examine," said Gentile. He also said NCUA should continue to be more targeted with its exam resources, such as it has done with its exam specialists.

"We've seen them have success with their specialists, whether in MBL, asset management and other areas, in bringing value to credit unions and ensuring riskier areas are targeted, which ultimately protects the insurance fund. NCUA can adjust its team in this model to focus on higher areas of risk, allowing it to get more efficient and effective with how it deploys on-site exam resources," he said.

The discussion must come back to the heavy IT investment the agency is making, said Gentile. "It's data, data, data in every industry and regulating FIs is no different. The good news with data is it can help the agency reduce overall costs and get smarter and targeted with ongoing monitoring and a leaner budget. They are certainly putting capital budget dollars towards IT. We have to continue to engage with them to see how productive those IT dollars are for achieving a more data driven exam."

When the Corporate Stabilization Fund is ultimately merged with the NCUSIF as per the statute, CCA said in its comment letter that there must be intense transparency with the industry on the performance of the corporate assets. One important way to do this would be more frequent reporting back to the industry. While the agency posts stabilization fund data on its Web site, Gentile said NCUA leadership does not regularly address the Fund's performance with the credit union system. "This is so vital for credit unions that credit unions deserve more than a quarterly update at the NCUA Board meetings. This should be part of the regular monthly discussion at agency board meetings so the system can hear how leadership views performance. The agency is spending a lot of resources monitoring assets. It can provide more real-time reporting to the system."

About the Cooperative Credit Union Association

The Cooperative Credit Union Association, headquartered in Marlborough, Mass., promotes the interests of nearly 200-member credit unions throughout Delaware, Massachusetts, New Hampshire, and Rhode Island. CCUA is, first and foremost, an advocate for its members before Congress and state legislatures, regulatory bodies and the public. In addition, it provides an array of services, including educational programs, workshops and conferences; a daily e-briefing on all the latest news and issues facing credit unions; and, through its CU Connect program—a select group of service providers—and a number of system partners, works to advance the availability of their quality products and services to its members. For more information, visit ccua.org.

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