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Statement by
The Honorable Todd M. Harper
Chairman, National Credit Union Administration
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Oversight of Prudential Regulators

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Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for inviting me to discuss the state of the credit union system and to provide an update on the operations, programs, and initiatives of the National Credit Union Administration (NCUA).

The NCUA protects the safety and soundness of the credit union system by identifying, monitoring, and managing risks to the National Credit Union Share Insurance Fund (Share Insurance Fund). The NCUA also protects the credit union system and its members by ensuring credit unions operate safely and soundly and in compliance with applicable laws and regulations, including those related to consumer financial protection. Additionally, the agency continues to prioritize equitable access to credit union members of safe, fair, and affordable financial products and services to ensure that the credit union system fulfills its statutory mission of meeting the credit and savings needs of members, especially people of modest means.[1]

In my testimony today, I will discuss the state of the credit union industry, some of the NCUA's recent efforts to strengthen the system, and a few critical legislative requests.

State of the Credit Union System

First, the overall performance of federally insured credit unions (credit unions) and the Share Insurance Fund has remained stable despite ongoing inflationary pressures and a higher interest rate environment.[2] Over the past year, total loans, assets, insured shares, and deposits all increased. Insured share growth, however, has slowed as some members have drawn down built-up savings and accumulated more debt.[3]

Nevertheless, the credit union system, as a whole, is currently well positioned to handle any economic dislocation resulting from a moderate recession. The NCUA is also prepared to respond to economic uncertainty and will continue to work with individual credit unions experiencing liquidity and interest rate risks to assist them in responding to declines in economic activity or financial market instability.

Credit Union System Performance

As of December 31, 2022, there were 4,760 natural-person credit unions with 135 million members.[4] The system's total assets were $2.2 trillion. The system's net worth ratio rose to 10.75 percent, representing a recovery of 73 basis points from a pandemic low of 10.02 percent. Notably, credit unions recorded a 20 percent year-over-year increase in loans.

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[1] An Act to establish a Federal Credit Union System, to establish a further market of securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States. *Preamble.* 12 U.S.C. 1751.
[2] The term credit union in this testimony refers to federally insured credit unions.
[3] *See* https://www.ncua.gov/newsroom/speech/2023/ncua-chairman-todd-m-harper-statement-federal-credit-union-loan-interest-rate-ceiling; Shannon Pettypiece, "Shrinking savings and rising debt leave consumers on shaky financial footing," NBC News, March 18, 2023. Available at: https://www.nbcnews.com/politics/economics/shrinking-savings-rising-debt-leave-consumers-shaky-financial-footing-rcna75389.
[4] *See* https://ncua.gov/files/publications/analysis/quarterly-data-summary-2022-Q4.pdf.

During the last decade, the credit union system has grown in size and complexity. As of December 31, 2022, the number of billion-dollar-plus credit unions more than doubled to 421, compared to 193 in 2012. Together, these billion-dollar-plus credit unions held $1.6 trillion in assets, representing three out of every four dollars within the credit union system. This cohort of credit unions also reported the highest growth in loans, membership, and net worth over the year ending December 31, 2022.

While the credit union industry has experienced overall growth, credit unions with less than $500 million in assets have declined in number over the last year and decade. The NCUA recognizes smaller credit unions must operate in an increasingly complex and competitive financial services landscape with limited resources. Yet, these credit unions serve more than 25 million members and form the foundation of the credit union system.

To support smaller credit unions, the NCUA has developed streamlined examination procedures for all credit unions with less than $50 million in assets. In 2022, the NCUA also launched a support initiative for credit unions with assets below $100 million to provide additional resources, training, and guidance for credit union management.[5] Further, the agency supports small credit unions through webinars, Community Development Revolving Loan Fund (CDRLF) grants, and promoting partnerships with organizations and industry mentors.

External Factors Impacting the System

The NCUA expects several external factors to influence credit union performance in the months ahead. For example, forecasters expect tighter credit conditions to lead to reduced economic growth. Job growth is also likely to slow, which would place upward pressure on the unemployment rate. That, in turn, could lead to increases in delinquencies and charge-offs at credit unions.

Interest rate increases have also led to rising funding costs for depository institutions. The measure and speed of interest rate increases necessitate greater discipline for market sensitivity and liquidity risk management for all financial institutions, including credit unions.

Thus, the management of interest rate risk will be a crucial factor in credit union performance for the remainder of 2023. As rates increase, the associated liquidity risk also increases. The potential for sudden changes in inflation, the interest rate environment, or the economy means credit unions—and the NCUA—must be nimble and vigilant.

While still adequate, credit union liquidity has decreased from its elevated position throughout the COVID-19 pandemic. Cash positions have declined and are below pre-pandemic levels. Further, unrealized losses in securities limit their utility as a source of liquidity. This rise in liquidity risk has affected credit unions of all sizes, including several credit unions with more than $1 billion in assets that pose greater risks for the Share Insurance Fund.

The current inflationary environment creates financial pressure on credit union members by increasing costs of living and reducing members' ability to repay debts. Higher interest rates also increase the costs for borrowers with adjustable-rate loans—for example, variable-rate credit

[5] The NCUA has budgeted 4,500 hours of staff support time under this initiative in 2023.

cards and adjustable-rate mortgages—and impede members' ability to refinance existing debt. Additionally, higher interest rates put downward pressure on collateral values, such as residential real estate and vehicles, which could increase credit union losses.

As part of its pandemic-response efforts, the NCUA implemented enhanced monitoring and updated procedures related to various risks, including liquidity and credit. Staff also received training on problem resolution, and the NCUA increased specialist staffing after evaluating resource needs. Starting in early 2022, the NCUA proactively refreshed training and supervisory tools as interest rates rose. Additionally, the agency has offered additional staff training related to rising interest rates, the associated liquidity risk in credit unions, and overall balance sheet management.

Meanwhile, the Share Insurance Fund adjusted its liquidity target, increasing the target to $4 billion, which represents 20 percent of the total portfolio. The NCUA is also a party to the interagency effort to finalize the "Policy Statement on Prudent Commercial Real Estate Loan Workouts and Accommodations." The final policy statement will provide resources for credit unions to consider when engaging with commercial real estate loan borrowers experiencing financial difficulties.

Together, these and other actions by the NCUA have better positioned the agency and the credit union industry to respond to various potential economic conditions in the months ahead.

Performance of the National Credit Union Share Insurance Fund

In uncertain economic times, it is essential to maintain the strength of the Share Insurance Fund. Backed by the full faith and credit of the United States, this fund insures individual accounts up to at least $250,000.[6] As of December 31, 2022, the Share Insurance Fund protected nearly $1.7 trillion in insured shares and deposits across all states, the District of Columbia, and U.S. territories. In contrast, total uninsured shares stood at $166.2 billion for the year ending December 31, 2022. Thus, the fund insures and protects 91 percent of total share deposits within the credit union system.

The Share Insurance Fund also continues to perform well, with no premiums expected at this time. At the end of 2022, the Share Insurance Fund reported a net income of $118.7 million, a net position of $20.4 billion, and an equity ratio of 1.30 percent.[7] For the period ending June 30, 2023, the NCUA projects the equity ratio for the Share Insurance Fund to decline to 1.25 percent, below the 1.33 percent normal operating level set by the NCUA Board. The decline in the projected equity ratio is typical in the first half of the year and results primarily from projected share growth. It does not reflect a projected increase in credit union failures.

[6] The standard share insurance amount is $250,000 per share owner, per insured credit union, for each account ownership category. The $250,000 standard share insurance account became permanent through the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. *See* https://ncua.gov/files/publications/guides-manuals/NCUAHowYourAcctInsured.pdf.

[7] The equity ratio is the overall capitalization of the insurance fund to protect against unexpected losses from the failure of credit unions. When the equity ratio falls, or is projected within six months to fall, below 1.20 percent, the NCUA Board must assess a premium or develop a restoration plan. When the equity ratio exceeds the normal operating level and available assets ratio at year-end, the Share Insurance Fund pays a distribution.

State of the Central Liquidity Facility
The increase in interest rate risk and liquidity risk in the current economic environment underscores the value of the NCUA's Central Liquidity Facility (CLF).[8] The CLF's ability to respond rapidly to economic events can help contain or avert liquidity crises before they escalate. As noted earlier, liquidity risk for some credit unions, including several with more than $1 billion in assets, has recently increased. When liquidity events occur, the CLF can serve as an important shock absorber.

Under the NCUA's regulations, credit unions with more than $250 million in assets are required as part of their contingency funding plan to have access to a federal emergency liquidity source—the CLF, the Federal Reserve's Discount Window, or both. Credit unions with less than $250 million in assets, while not required to have a membership with a contingent federal liquidity source, are required to identify external sources as part of their contingency funding plan.

In December 2022, the temporary statutory enhancements that assisted the agent membership of corporate credit unions expired. As a result, 3,322 credit unions with less than $250 million in assets lost access to the CLF, and the facility's capacity contracted by almost $10 billion.[9]

To address this expiration and growing liquidity risks within the credit union system, the NCUA Board has unanimously asked Congress for permanent statutory authority to allow corporate credit unions—or credit unions serving other credit unions—and other agent members of the CLF to purchase capital stock for a subset of the credit unions they serve. These statutory adjustments would make the facility a more affordable option for corporate credit unions to subscribe to on behalf of their smaller credit union members so that this liquidity source can assist more institutions. Notably, the Congressional Budget Office has scored the CLF reforms at no cost to the taxpayer.[10]

NCUA's Efforts to Strengthen the Credit Union System

In recent months, the NCUA has undertaken several actions to enhance cybersecurity; improve consumer financial protections; support low-income designated credit unions and minority depository institutions (MDIs); advance diversity, equity, and inclusion; and consider new rules to strengthen the system.

Enhancing Cybersecurity
The potential for cyberattacks in the financial services industry and the credit union system is high and will likely stay that way for the foreseeable future. The NCUA, therefore, remains vigilant in its cybersecurity posture and continues to focus on advancing consistency,

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[8] Established by statute, the CLF is a mixed-ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. Member credit unions own the CLF, which exists within the NCUA. The CLF's president manages the facility under the oversight of the NCUA Board.
[9] Coronavirus Aid, Relief, and Economic Security Act, Public Law 116-136, 134 Stat 281 (March 27, 2020).
[10] The Congressional Budget Office has traditionally scored enhancements to the CLF as having no cost; see text on the bottom of page four of the Congressional Budget Office score of S. 414, Credit Card Accountability Responsibility and Disclosure Act of 2009.

transparency, and accountability within the agency's cybersecurity examination program. Specifically, the NCUA is:

- providing credit unions with information and resources to improve their preparedness and resiliency;
- safeguarding its systems and information; and
- increasing the credit union system's capacity to reduce the potential for systemic risks.

The NCUA has also notified credit unions about the increased likelihood of cyberattacks resulting from geopolitical and other cyber events. As institutions that qualify as U.S. critical infrastructure, credit unions of all sizes can be subject to cyberattacks and should adopt a heightened state of awareness. The NCUA urges credit unions to implement appropriate controls in the technology they use to deliver member services.

Earlier this year, the NCUA deployed updated, scalable, and risk-focused Information Security Examination (ISE) procedures. These procedures focus on compliance with parts 748 and 749 of NCUA regulations and align closely with the voluntary Automated Cybersecurity Evaluation Toolbox (ACET) maturity assessment. The ISE examination initiative offers flexibility for credit unions while providing examiners with standardized review steps to facilitate advanced data collection and analysis. Together with the ACET maturity assessment, the new ISE procedures will assist the agency in protecting the credit union system from cyberattacks.

The agency also recognizes that it must collaborate with credit unions in identifying attacks before they become systemic and threaten the broader financial services sector. Accordingly, the NCUA Board in February approved a new cyber incident reporting rule, which goes into effect on September 1, 2023.[11] The final rule requires a federally insured credit union to report cyber incidents that rise to the level of a reportable incident as soon as possible but no later than 72 hours after it reasonably believes a reportable cyber incident has occurred. This final rule aligns with the NCUA's broader focus on cybersecurity safeguards requiring faster notifications when incidents occur.

Improving Consumer Financial Protection

Because safety and soundness and consumer financial protection are mutually reinforcing aspects of the NCUA's mission, the NCUA actively examines for compliance with consumer financial protection laws and regulations for credit unions within its supervisory authority.[12]

For 2023, the agency's consumer financial protection supervisory priorities include overdraft protection, fair lending, residential real estate appraisal bias, and Truth in Lending Act and Fair Credit Reporting Act compliance. The NCUA has also prioritized the examination of credit union compliance with the Flood Disaster Protection Act, including disclosure requirements, as we evolve our understanding of climate-related financial risk.[13]

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[11] 12 CFR Part 748.
[12] *See* the *NCUA Strategic Plan 2022–2026*.
[13] Letter to Credit Unions, 23-CU-01, "NCUA's 2023 Supervisory Priorities" available at https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/ncuas-2023-supervisory-priorities.

Notably, the NCUA has increased its focus on overdraft practices at credit unions to assess whether the amount and manner of overdraft and nonsufficient funds fees are potentially unfair and detrimental to credit union members, particularly those of modest means. Overdraft and nonsufficient funds fees should be reasonable and proportional, credit union members should have the ability to anticipate and avoid fees, and credit unions should not overly rely on this fee income for revenue.

As such, NCUA examiners are focusing on unanticipated overdraft fees such as authorized positive/settle negative fees (or fees for debit card transactions where the consumer had a sufficient available balance when the transaction was initiated and authorized but not when the transaction cleared), representment fees charged multiple times in close succession for insufficient funds for a single purchase or transaction, and return deposit fees for third-party checks that are returned unpaid or "bounce."

The NCUA's supervision regarding this service aims to create a more equitable system that supports financial stability for credit union members, discourages over reliance on fee income from one source, and improves transparency.

Supporting Under-Resourced Communities

Low-income designated credit unions[14] and MDIs support the NCUA's mission of providing people of modest means and under-resourced communities with access to safe, fair, and affordable financial services and products. Low-income credit unions and MDIs also represent a sizable portion of the credit union system.

As of December 31, 2022, 2,612 federally insured credit unions with low-income designations served nearly 71 million members and held more than $1 trillion in assets. Additionally, 503 federally insured credit unions had the MDI designation, with 411 MDI credit unions also holding the low-income designation. Together, MDI credit unions serve more than 5 million members and hold nearly $65 billion in assets.

Overall, MDI credit unions generally saw improved financial performance between the end of 2021 and 2022. Over that year, total assets grew by $5.8 billion, or 9.8 percent. MDIs added more than 600,000 members, an increase of 14.1 percent, and loans grew approximately $7.9 billion, or 23.2 percent. MDI credit unions' growth also outpaced federally insured credit unions in these core metrics.

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[14] The low-income designation is critical to the NCUA's efforts to support credit unions. To qualify as a low-income-designated credit union, most of the credit union's membership (50.01 percent) must meet certain income thresholds based on data from the Census Bureau and requirements outlined in the NCUA's rules and regulations. Additionally, there are several benefits associated with the designation. Under 12 CFR 701.34, low-income credit unions have:

- an exception from the statutory cap on member business lending, which expands access to capital for member small businesses and helps credit unions to diversify portfolios;
- eligibility for grants and low-interest loans from the CDRLF;
- the ability to accept non-member deposits from any source; and
- the authority to obtain supplemental capital.

Consistent with the law, the NCUA is focused on supporting and preserving MDI credit unions.[15] In 2023, the NCUA began using new procedures to examine MDIs. The new procedures contain customized guidance and insight into MDI credit unions' unique strategies and member needs. Because MDI credit unions have distinct business models, the guidance provides instruction on how examiners can utilize MDI peer metrics, as opposed to traditional peer metrics, when assessing performance. For 2023, the NCUA also allocated more than 5,500 staff hours for direct one-on-one support of MDIs.

The NCUA deeply appreciates that Congress more than doubled the funding for CDRLF grants in 2023. For many years, the number of grant requests significantly exceeded the amount of appropriated funds. With these additional dollars, the NCUA plans to make more grants and bigger grants to low-income credit unions and MDIs. Congress, at the NCUA's request, also now allows MDIs to be eligible for CDRLF grants and loans, regardless of the MDI's low-income credit union status. This, too, is a welcome change.

The 2023 CDRLF grant round opened on May 1 and will close on June 23. In all, NCUA will distribute $3.5 million in CDRLF grants in five categories—underserved outreach, MDI capacity building, consumer financial protection, digital services and cybersecurity, and training—as well as two pilot projects to foster innovation by credit unions and partnerships between small credit unions.

Advancing Diversity, Equity, and Inclusion

The NCUA appreciates that it must lead by example in advancing diversity, equity, and inclusion within the agency and across the credit union system.

Accordingly, the NCUA actively recruits, hires, and retains a diverse workforce. In 2022, two out of five new NCUA hires were people of color. The agency also exceeded the federal employment goals by 5.1 percentage points for employees with disabilities and 2.3 percentage points for employees with targeted disabilities.

There are, however, areas where the NCUA can improve in achieving its hiring goals. Hiring and retaining Hispanic employees at the agency is one of those areas.[16] Accordingly, the NCUA is conducting a barrier analysis to determine why this challenge exists and how best to overcome it. The agency is committed to better results in the future.

Additional NCUA initiatives to support diversity, equity, and inclusion include training, employee resource groups, and special emphasis programs. Last year, nearly two-thirds of the participants in NCUA's leadership development programs were female, reflecting the commitment to ensuring equitable opportunities in our leadership pipeline.

Diverse suppliers and vendors also are important to the economic success of small businesses and diverse communities. The NCUA supports minority- and women-owned businesses through our supplier diversity program. This program identifies minority- and women-owned businesses and invites them to compete for all NCUA contracts, including our largest projects. In all, the

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[15] Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

[16] *See* https://ncua.gov/files/publications/2022-omwi-congressional-report.pdf.

NCUA awarded 45 percent of its contract dollars in 2022 to minority- and women-owned businesses, and 38.5 percent of contract payments went to these vendors.

Additionally, the NCUA's voluntary Credit Union Diversity Self-Assessment (CUDSA) helps credit unions assess their progress in implementing diversity standards.[17,18] The NCUA encourages credit unions to submit a CUDSA each year and publishes an annual report of the self-assessment results on NCUA.gov. In 2022, 481, or 10 percent of all federally insured credit unions, submitted a self-assessment. Of those, 302 were federally chartered credit unions, 178 were federally insured and state-chartered, and one was a non-federally insured, state-chartered credit union. The number of CUDSA responses is twice as much as the 240 self-assessments submitted in 2021.

Rulemaking

In addition to the final rule regarding cyber incident notification referenced earlier, the NCUA Board recently proposed two other important rules.

In December 2022, the NCUA Board published a proposed rule to clarify the NCUA's current regulations and provide additional flexibility for credit unions to use advanced technologies and take advantage of opportunities offered by the fintech sector.[19] The proposal would also make conforming amendments to the NCUA's rule regarding loans and lines of credit to members by adding new provisions about indirect lending arrangements and indirect leasing arrangements.

In October 2022, the NCUA Board issued another proposed rule in response to the Credit Union Governance Modernization Act of 2022.[20,21] Pursuant to that act, the NCUA has 18 months following the date of enactment to develop a policy by which a federal credit union member may be expelled for cause by a two-thirds vote of a quorum of the credit union's board of directors.

The NCUA is currently reviewing the comments received on both rulemakings and expects to issue final rules during the third quarter.

Legislative Requests

Last year, the House passed both H.R. 3958, the Central Liquidity Facility Enhancement Act, to renew the CLF expiring authority for an additional year, and H.R. 7022, the Strengthening Cybersecurity for the Financial Sector Act, that restored the NCUA's third-party vendor examination authority, as part of the 2023 National Defense Authorization Act. As neither bill became law, the NCUA encourages the 118th Congress to revisit both proposals to strengthen the system.

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[17] *See* https://ncua.gov/about/diversity-inclusion/credit-union-diversity/credit-union-diversity-self-assessment.

[18] Department of Treasury, "Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies," *Federal Register* Vol. 80, No.111 (June 10, 2015). *See* https://www.govinfo.gov/content/pkg/FR-2015-06-10/pdf/2015-14126.pdf.

[19] 12 CFR Parts 701 and 714; *See* https://www.regulations.gov/document/NCUA-2022-0185-0001.

[20] *See* Credit Union Governance Modernization Act of 2022, Pub. L. 117-103, 12 U.S.C. §1764 (2022), available at https://amendments-rules.house.gov/amendments/DELAURO_01_xml220309170415113.pdf.

[21] 12 CFR Part 701, Appendix A. *See* https://ncua.gov/files/agenda-items/member-expulsion-proposed-rule-20220922.pdf.

The recent failures of Silicon Valley, Signature, and First Republic banks are a reminder of the dangers of concentration risk and the need for effective risk-management policies and practices to manage capital, interest rate risk, and liquidity risk. These fundamentals have remained true throughout all economic and regulatory cycles and have recently been areas of supervisory focus for the NCUA. Credit unions that fail to manage these core issues can and will continue to fail.

Accordingly, to better manage such liquidations in the future, the NCUA requests amendments to the Federal Credit Union Act to provide more flexibility to the NCUA Board to manage the Share Insurance Fund, bringing the fund's operations more in line with those of the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (FDIC). Likewise, as Congress considers amending federal deposit insurance requirements, the NCUA supports maintaining parity between the Share Insurance Fund and the Deposit Insurance Fund.

Central Liquidity Facility Reforms

With liquidity risks rising within the financial system and at individual credit unions, now is not the time to cut a liquidity lifeline. As such, and as outlined earlier, the NCUA Board fully supports restoring the ability of corporate credit unions to serve as CLF agents on behalf of a subset of their members.

On February 28, 2023, Senators Padilla and Cramer introduced a bill to allow corporate credit unions to purchase capital stock on behalf of a subset of their members. This bill would allow them to contribute capital to provide coverage for their smaller members with less than $250 million in assets.[22]

The NCUA Board respectfully requests consideration of similar legislation in the House. Liquidity risks within the credit union system are rising, and timely consideration of this bill would better protect the credit union system from a future liquidity event.

Restoration of Third-Party Vendor Authority

Congress should also restore the NCUA's statutory examination authority over third-party vendors and enforcement and examination authority for credit union service organizations (CUSOs) that expired more than 20 years ago. The world's interconnectedness has changed considerably in the last two decades. This statutory amendment would give the NCUA parity with the other federal banking agencies that supervise and regulate federally insured depository institutions.

Currently, the NCUA may only review credit union third-party vendors with their permission, and vendors often decline these requests. Vendors and CUSOs may also reject the NCUA's recommendations to implement appropriate corrective actions that mitigate identified risks. Thus, the current vendor and CUSO review process falls short of protecting the credit union system.

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[22] *See* U.S. Senate Bill, S. 544, available at https://www.congress.gov/118/bills/s544/BILLS-118s544is.pdf.

Accordingly, the NCUA requests visibility into these entities. Such visibility will address the credit union system's growing reliance on digital services, increased credit union outsourcing of core business functions, concentration risks, and evolving cyber threats that pose a national security risk.

Vendor examination authority would allow the NCUA to discover and remediate issues that could cause systemic risk if left untreated. Credit unions—a substantive part of our nation's critical economic infrastructure—rely on third parties for core processing services such as mortgage and auto lending, online services, information technology systems development and maintenance, and other member services subject to little or no oversight.

Moreover, the top five technology service providers serve more than half of all credit unions, representing more than 90 percent of the credit union system's assets. A failure of one of these third parties could cause hundreds of credit unions and potentially tens of millions of their members to lose access to their funds simultaneously, resulting in a loss of confidence for the credit union industry and the entire financial sector.

For these reasons and others, the Government Accountability Office and the Financial Stability Oversight Council have repeatedly recommended that Congress approve legislation to restore the NCUA's vendor authority to close this growing regulatory blind spot.[23] The NCUA's Office of Inspector General has done the same. And, the preamble to the CUSO final rule adopted in October 2021 also noted the NCUA Board's "continuing policy to seek third-party vendor authority for the agency from Congress."[24]

If the NCUA's third-party vendor authority is reauthorized, the agency will adopt a program that prioritizes examinations based on the risks to the Share Insurance Fund, cybersecurity, consumer financial protection, and Bank Secrecy Act/Anti-Money Laundering compliance.

Potential Changes to Share Insurance Coverage Levels and the Share Insurance Fund
Lastly, in the aftermath of recent bank failures, some have called on Congress to adjust the existing $250,000 cap on the share and deposit insurance coverage provided by the NCUA and FDIC, respectively. Others have suggested increasing the coverage limit for non-interest-bearing transaction accounts used by small businesses for payroll and other purposes. And, some others have called for unlimited coverage.

The NCUA defers to Congress on determining what statutory changes, if any, should be made to share and deposit insurance coverage levels and account types. But, if Congress does decide to act in this area, the NCUA has two requests. The first is to maintain parity between the share insurance provided by the NCUA and the deposit insurance provided by the FDIC. Share and deposit insurance parity ensures that consumers receive the same level of protection against losses regardless of their financial institution's charter type. And second, if coverage levels are adjusted in any way, there will be costs associated with those adjustments, such as the need to increase reserves. Accordingly, the NCUA requests additional flexibility for administering the Share Insurance Fund.

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[23] *See* NCUA. Third-Party Vendor Authority. Appendix A. (March 2022).
[24] *See* https://www.ncua.gov/files/agenda-items/AG20211021Item2b.pdf.

Specifically, the NCUA requests amending the Federal Credit Union Act to remove the 1.50-percent ceiling from the current statutory definition of "normal operating level," which limits the ability of the Board to establish a higher normal operating level for the Share Insurance Fund. Congress should also remove the limitations on assessing Share Insurance Fund premiums when the equity ratio of the Share Insurance Fund is greater than 1.30 percent and if the premium charged exceeds the amount necessary to restore the equity ratio to 1.30 percent.[25]

Together, these amendments would bring the NCUA's statutory authority over the Share Insurance Fund more in line with the FDIC's authority as it relates to administering the Deposit Insurance Fund. These amendments would also better enable the NCUA Board to proactively manage the Share Insurance Fund by building reserves during economic upturns so that sufficient money is available during economic downturns. A more counter-cyclical approach would better ensure that credit unions will not need to impair their one-percent contributed capital deposit or pay premiums during times of economic stress, when they can least afford it.

Conclusion

In sum, the credit union system currently remains well-capitalized, stable, and well-positioned to handle a relatively broad range of economic possibilities. Consumers can also remain confident that their insured share deposits at federally insured credit unions are safe, just as they have been for more than 50 years. And, to protect the system and its members going forward, the NCUA will continue to monitor credit union performance through the examination process, offsite monitoring, and tailored supervision at credit unions experiencing problems.

Thank you again for the invitation to testify. I look forward to discussing these issues with the committee and stand ready to work with you in safeguarding and strengthening the credit union system.

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[25] As part of the Federal Deposit Insurance Reform Act of 2006, Congress ended the prohibition on the FDIC's charging of risk-based premiums to well-capitalized institutions (which constituted most of the industry) when the reserve ratio was at or above its target. *See* section 2107(a) of Pub. L. No. 109-171 (Feb. 8, 2006). *Compare with* § 1782(c)(2)(B) (providing in relevant part: "The [NCUA] Board may assess a premium charge only if—(i) the [Share Insurance] Fund's equity ratio is less than 1.30 percent; and (ii) the premium charge does not exceed the amount necessary to restore the equity ratio to 1.30 percent.").