For Release on Delivery
9:30 a.m. Eastern
November 15, 2023

**Statement by**
**The Honorable Todd M. Harper**
**Chairman, National Credit Union Administration**
**Before the U.S. House of Representatives**
**Committee on Financial Services**

**Oversight of Prudential Regulators**

**November 15, 2023**

Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for inviting me to discuss the work of the National Credit Union Administration (NCUA).

The NCUA insures deposits at federally insured credit unions, protects credit union members, and charters and regulates federal credit unions. The NCUA also 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). In my testimony today, I will discuss the state of the credit union system, recent efforts by the agency to strengthen the system, and several legislative requests.

## State of the Credit Union System

The credit union system over the last year has remained largely stable in its performance and relatively resilient against economic disruptions. However, during the last few quarters, the NCUA has seen growing signs of financial strain on credit union balance sheets and in household budgets. Economists are also forecasting an economic slowdown as the lagged effects of elevated interest rates take hold. Each of these developments could affect credit union performance in the coming quarters.

Over the same period, the NCUA has also seen growing stress within the system because of a rise in interest rate and liquidity risks. In fact, this financial stress is reflected in the increasing number of composite CAMELS code 3, 4, and 5 credit unions.[1] Assets in composite CAMELS code 3 institutions increased sizably in the second quarter, especially among those complex credit unions with more than $500 million in assets. Such increases may well continue in future quarters. We have additionally seen more credit unions fall into the composite CAMELS code 4 and 5 ratings during the second quarter.

### *Credit Union System Performance*

As of June 30, 2023, the system's net worth ratio stood at 10.63 percent. There was continued year-over-year growth in assets and lending, with system assets surpassing $2.2 trillion and outstanding loans at more than $1.5 trillion. Although insured shares and deposits decreased slightly compared to the previous quarter, they stood almost 2 percent higher than one year earlier.

Second quarter data also demonstrate some indications of growing consumer financial stress. The delinquency rate for loans rose slightly to 63 basis points, although it remains below historic averages. Credit cards and automobile loans, however, show increased delinquency levels at 154 and 67 basis points, respectively. Additionally, net charge-off levels have risen over the last year, returning to pre-pandemic averages.

Additionally, funding costs for credit unions have increased significantly in the rising interest rate environment. Credit unions have increased their issuances of time deposits, leading to total

[1] The CAMELS rating system is based upon an evaluation of six critical elements of a credit union's operations: Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. The CAMELS rating system is designed to consider and reflect all significant financial, operational, and management factors examiners assess in their evaluation of a credit union's performance and risk profile.

interest expenses growing substantially over the year. However, the industry's return on average assets remains sound at 79 basis points. Together, these numbers show the credit union system continues to rest on a solid footing.

***External Factors Affecting the System***

The NCUA is closely monitoring the financial markets and the economy as the current environment has created challenges for some consumers and credit unions. Inflation and interest rates are affecting household budgets, which could lead to an increase in credit risk in future quarters. In addition, the prevalence of hybrid work environments has placed pressure on commercial real estate lending. While the credit union system overall has modest exposure to this type of lending, the NCUA is closely monitoring individual credit unions with material exposure to commercial real estate.

The rise in interest rates has also increased liquidity and interest rate risks in the credit union system, including at several of the 421 federally insured credit unions with more than $1 billion in assets. Accordingly, the NCUA has emphasized the importance of liquidity risk management and contingency planning in its industry communications and will continue to ensure credit unions conduct liquidity and asset-liability management planning to address current challenges and future uncertainties.

With respect to all these risks and to protect the Share Insurance Fund against potential losses, the NCUA will continue to vigilantly monitor credit union performance through the examination process, offsite monitoring, and tailored supervision. The NCUA will also, when appropriate, take action to protect credit union members and their deposits.

***Share Insurance Fund Performance***

Backed by the full faith and credit of the United States, the Share Insurance Fund provides insurance coverage for individual accounts at federally insured credit unions up to $250,000.[2] As of June 30, 2023, the Share Insurance Fund insured $1.7 trillion in deposits and shares. Notably, the Share Insurance Fund protects nearly 92 percent of total share deposits in the credit union system. In comparison, uninsured shares and deposits equaled approximately $160 billion in the second quarter or 8 percent of total share deposits.

The Share Insurance Fund continues to perform well, with no premiums currently expected. As of June 30, 2023, the Share Insurance Fund reported a year-to-date net income of $79 million, a net position of $20.3 billion, and an equity ratio of 1.27 percent.[3] The NCUA projects that the

[2] As established in statute, the Share Insurance Fund insures individual accounts at federally insured credit union up to $250,000, and a member's interest in all joint accounts combined is insured up to $250,000. The Share Insurance Fund also separately protects IRA and KEOGH retirement accounts up to $250,000. The fund is administered by the NCUA and is backed by the full faith and credit of the United States. See https://ncua.gov/files/publications/guides-manuals/NCUAHowYourAcctInsured.pdf.

[3] The equity ratio is the overall capitalization of the Share 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 Federal Credit Union Act requires the NCUA Board to 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.

equity ratio of the Share Insurance Fund will end the year at 1.27 percent, which is sufficient but below the 1.33 percent normal operating level target set by the NCUA Board.

Given the liquidity events in 2023, economic conditions, and the growing stress in the credit union system from liquidity and interest rate risks, the NCUA Board decided to build up the liquidity position of the Share Insurance Fund to a targeted amount of $4 billion. The Share Insurance Fund reached that target in September. The NCUA Board continues to monitor liquidity in the Share Insurance Fund.

***State of the Central Liquidity Facility***

The COVID-19 pandemic, inflationary pressures, interest rate volatility, and liquidity risk have all underscored the importance of the NCUA's Central Liquidity Facility (CLF).[4] The CLF is an important tool and acts as a shock absorber when unexpected liquidity events occur.

Under the NCUA's regulations, credit unions with assets more than $250 million must have access to a federal emergency liquidity source as part of their contingency funding plans. This federal emergency liquidity backstop can be the CLF, the Federal Reserve's Discount Window, or both. Credit unions with less than $250 million in assets are not required to have membership with a contingent federal liquidity source; however, they must identify external sources as part of their liquidity policy.[5]

As of September 30, 2023, the CLF had 399 consumer credit union members, providing $19.8 billion in lending capacity. These credit unions range in asset size from less than $50 million to more than $10 billion. Their access to the CLF helps protect approximately $360 billion in credit union members' assets.

The more members the CLF has, the more effective it is as a liquidity facility. As of December 2022, the CLF had a much greater total membership of 3,673 consumer credit unions with a combined $537 billion in member assets and a lending capacity of $27.5 billion. This rapid decline in membership assets followed the expiration of the temporary statutory enhancements that:

- Increased the CLF's maximum legal borrowing authority;
- Permitted access for corporate credit unions, as agent members, to borrow for their own needs;
- Provided greater flexibility and affordability to agent members to join the CLF to serve smaller groups of their covered institutions; and
- Gave the NCUA Board the clarity and flexibility about the loans it can approve by removing the phrase, "the Board shall not approve an application for credit the intent of which is to expand credit union portfolios."

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[4] 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, which may include both federally insured and non-federally insured credit unions, own the CLF, which exists within the NCUA. The CLF's president manages the facility under the oversight of the NCUA Board.

[5] 12 CFR Part 741.12.

Among other benefits, these statutory provisions facilitated agent membership of corporate credit unions. These enhancements, however, ended on January 1, 2023, resulting in 3,322 credit unions with less than $250 million in assets losing access to the CLF. Consequently, the CLF's borrowing capacity has decreased by almost $10 billion.

To address this expiration and growing liquidity risks, the NCUA Board has unanimously requested that Congress allow corporate credit unions to purchase capital stock in the CLF to help smaller credit unions access to the facility. This change would make the CLF more affordable for corporate credit unions subscribing for a subset of their members. The Congressional Budget Office has scored the CLF reforms at no cost to taxpayers.[6]

## NCUA's Efforts to Protect and Strengthen the Credit Union System

In recent months, the NCUA has undertaken several actions to respond to cybersecurity risk; support minority depository institutions; enhance the credit union system's and the NCUA's diversity, equity, and inclusion efforts; and consider and adopt new rules to strengthen the system.

### *Enhancing Cybersecurity*

Cybersecurity threats within the financial services industry are high and expected to remain so for the foreseeable future. To maintain vigilance against these threats, the NCUA is committed to ensuring consistency, transparency, and accountability in its cybersecurity examination program and related activities.

Earlier this year, the NCUA deployed its updated, scalable, and risk-focused Information Security Examination (ISE) procedures. 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 agency's voluntary Automated Cybersecurity Evaluation Toolbox maturity assessment, the new ISE procedures will assist the NCUA in protecting the credit union system from cyberattacks.

In addition, the NCUA's recently implemented cyber incident reporting rule has proven to be helpful to the agency and credit union industry.[7] The final rule requires a federally insured credit union to report a substantial cyber incident to the NCUA as soon as possible but no later than 72 hours after the credit union reasonably believes a reportable cyber incident has occurred. In the first 30 days after the rule became effective, the NCUA received 146 incident reports, more than it had received in total in the previous year. More than 60 percent of these incident reports involve third-party service providers and credit union service organizations (CUSOs).

The NCUA also actively communicates with credit unions about the increased likelihood of cyberattacks resulting from geopolitical and other cyber events. Credit unions of all sizes are a part of the U.S. critical infrastructure and should implement appropriate controls in the technology they use to deliver member services.

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[6] S. 544, 118th Cong., 1st Sess. (2023).

[7] 12 CFR Part 748.

***Maintaining Consumer Financial Protection***
An important part of the NCUA's mission is to examine credit unions with less than $10 billion in assets for compliance with consumer financial protection laws. The agency's consumer compliance efforts are integral to maintaining a safe-and-sound credit union system.

In 2023, the agency's consumer financial protection supervisory priorities have included overdraft protection, fair lending, residential real estate appraisal bias, and Truth in Lending Act and Fair Credit Reporting Act compliance. The NCUA also prioritized examining credit union compliance with the Flood Disaster Protection Act, including disclosure requirements.

In addition, the agency increased its review of overdraft programs and non-sufficient funds fee practices at credit unions to assess whether providing those services and charging the fees are potentially unfair practices. The NCUA's supervision of the services aims to create a more equitable system that supports financial stability for credit union members, improves transparency, and advances the statutory mission of credit unions to meet the credit and savings needs of their members, especially those of modest means.[8]

Furthermore, the NCUA conducts targeted fair lending examinations and supervision at federal credit unions to assess compliance with federal fair lending laws and regulations. These reviews are critical to identifying discrimination and fostering financial inclusion. In August 2023, the NCUA encouraged the industry to review and comply with previously issued guidance addressing prohibited discriminatory practices in automated underwriting systems. Specifically, the agency encouraged credit unions to review system parameters to ensure compliance with the Equal Credit Opportunity Act and its implementing regulation.

In addition to appraisal bias oversight examinations, the NCUA joined with the other Federal Financial Institution Examination Council agencies in June to issue proposed guidance for reconsideration of value for residential real estate valuations. The proposed guidance advises on policies that financial institutions may implement to allow consumers to provide information that may not have been considered during an appraisal or if deficiencies are identified in the original appraisal.

As part of its consumer financial protection efforts, the NCUA's Consumer Assistance Center also resolves consumer complaints against federal credit unions with total assets up to $10 billion and, in certain instances, federally insured, state-chartered credit unions. In 2022, the Consumer Assistance Center responded to 10,589 written complaints, 1,842 inquiries, and 30,232 telephone calls from consumers and credit unions concerning consumer financial protection regulations.

Finally, the NCUA regularly presents webinars promoting financial literacy and financial inclusion. Over the past year, the agency has hosted webinars on appraisal bias, elder financial abuse, and minority depository institutions. In addition, the agency participates in national financial literacy initiatives, including the interagency Financial Literacy and Education Commission.

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[8] 12 USC 1751.

***Supporting Minority Depository Institutions***
Supporting minority depository institution (MDI) credit unions is a longstanding priority for the NCUA. MDI credit unions represent approximately 10 percent of federally insured credit unions, and there are presently 498 such credit unions. These MDIs have more than five million members and exceed $66 billion in assets.

In 2015, the NCUA established its MDI Preservation Program and has since sought new ways to assist MDI credit unions, their members, and the communities they serve. In 2022, the NCUA launched the Small Credit Union and MDI Support Program, allocating resources to assist MDIs in addressing operational challenges such as staff training, examinations, and improving earnings. In 2023, the NCUA allocated 10,000 staff hours across its three regional offices for the program.

This year, the agency also issued customized guidance to examiners to provide insights into MDIs' unique business models and members' needs. The guidance assists examiners in understanding MDIs' distinct business model compared to other mainstream financial institutions by providing instruction on how to use MDI peer metrics instead of traditional peer metrics.

Notably, while MDIs tend to be smaller institutions, they have relatively strong financial performance. As of the end of the second quarter of this year, MDIs averaged about $133 million in total assets, yet their return on average assets and net worth ratios were higher than federally insured credit unions overall and equal to credit unions with assets exceeding $1 billion. Meanwhile, their charge-off levels were consistent with the levels reported for both larger credit unions and credit unions overall.

Congress recently authorized all MDIs to be eligible for Community Development Revolving Loan Fund grants and loans. Previously, MDIs required the low-income credit union designation to qualify. In the 2023 grant round, 42 MDIs received more than $1.4 million in technical assistance grants. The amount of funding MDIs received was a five-fold increase from the level of funding provided in 2022.

Finally, the NCUA in October hosted an MDI Symposium that discussed how the agency can better serve these institutions. The MDI Symposium brought together MDI credit unions and industry stakeholders to learn about the challenges faced by MDIs. Sessions included case studies of successful MDI business models for replication. The NCUA plans to leverage this information to further support its MDI Preservation Program. And, as part of the NCUA's Diversity, Equity, and Inclusion Summit for credit unions in early November, the NCUA held a session that discussed MDI challenges and strategies for success.

***Advancing Diversity, Equity, and Inclusion***
The NCUA is fully committed to fostering diversity, equity, and inclusion (DEI) within the agency and the credit union system.

The agency uses data from the Federal Employee Viewpoint Survey, including the Office of Personnel Management's Diversity, Equity, Inclusion, and Accessibility index, to inform its data-driven DEI strategies and activities.[9] The agency's internal practices to promote DEI are also wide-ranging. For example, the NCUA's employee resource groups serve more than 30 percent of agency staff, surpassing the industry standard membership goal of 10 percent. Further, the NCUA's special emphasis program educates staff on cultural diversity and provides dedicated support for employees and managers with disabilities.

In addition, the NCUA routinely recruits employees with diverse backgrounds and seeks to ensure broad applicant pools for vacancies. These diversity recruitment efforts are aimed at attracting and retaining highly qualified individuals from underrepresented groups, including Hispanics and candidates with disabilities. In 2023, the NCUA conducted a targeted barrier analysis to identify hiring and retention challenges for women and Hispanic employees. In addition, the agency has consistently exceeded the federal employment rate goals for employees with disabilities and targeted disabilities since 2017.[10] Slightly more than 59 percent of the NCUA's managers are women.

The NCUA has additionally built a diverse supplier network to obtain innovative solutions and the best value, particularly in technology and IT solutions. During 2022, the agency awarded $32.8 million of reportable contract dollars to minority and women-owned businesses. That figure represents 45 percent of the agency's contracting dollars, an increase of 8 percentage points from the prior year.

Credit unions may also assess their DEI policies and programs through a voluntary credit union diversity self-assessment offered annually.[11] Credit union submissions of their self-assessment have no bearing on their CAMELS rating, and examiners cannot access the data. The NCUA reports credit union diversity data only in the aggregate. The agency encourages credit unions to use this tool to support their DEI efforts.

In 2022, 481, or 10 percent of all credit unions, submitted a self-assessment. The figure represents an all-time high for submissions to the NCUA. Of those submissions, 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 in 2022 is twice as much as the 240 self-assessments submitted in 2021.

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[9] Office of Personnel Management, "U.S. Office of Personnel Management Releases Government-wide Diversity, Equity, Inclusion, and Accessibility Annual Report," news release, February 15, 2023, https://www.opm.gov/news/releases/2023/02/release-us-office-of-personnel-management-releases-government-wide-diversity-equity-inclusion-and-accessibility-annual-report/.

[10] The Office of Personnel Management defines "targeted disabilities" on Standard Form-256, *Self-Identification of Disability*. Targeted disabilities include developmental disabilities (*e.g.*, autism spectrum disorder; traumatic brain injury); deaf or serious difficulty hearing (*e.g.*, benefiting from American Sign Language, CART, hearing aids, a cochlear implant and/or other supports); blind or serious difficulty seeing even when wearing glasses; missing extremities (arm, leg, hand and/or foot); significant mobility impairments that benefit from the use of a wheelchair, scooter, walker, leg brace(s) and/or other supports; partial or complete paralysis; epilepsy or other seizure disorders; intellectual disabilities; significant psychiatric disorders (*e.g.*, bipolar disorder, schizophrenia, PTSD, or major depression; dwarfism; and significant disfigurement (*e.g.*, caused by burns, wounds, accidents, or congenital disorders). See https://www.opm.gov/forms/pdf_fill/sf256.pdf.

[11] The NCUA developed the voluntary Credit Union Diversity Self-Assessment in 2016 to comply with Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which requires certain agencies to assess the diversity and inclusion practices of their respective regulated entities (credit unions, in the NCUA's case).

Finally, to support credit union accomplishments in DEI and provide further guidance, the NCUA hosted its fourth DEI Summit in Washington, D.C., in early November. This now annual event provided a forum for hundreds of credit union stakeholders to network, share best practices, and meet with thought leaders on ways to expand their DEI efforts. The event also highlighted the importance of allyship in helping to achieve the NCUA's and credit unions' DEI goals and improve the financial prospects and futures of families across the country.

***Rulemaking Activities***
Since May, the NCUA Board has engaged in several rulemakings on topics like MDI preservation, member expulsion, financial innovation, fair hiring, and charitable donations. These rulemakings have aimed to implement laws required by Congress and strengthen the credit union system.

In May, the NCUA Board approved a proposed rule that would add "war veterans' organizations" to the definition of a "qualified charity" that a federal credit union may contribute to using a charitable donation account. The NCUA Board approved the proposed rule noting the attributes of "veterans' organizations" as defined by section 501(c)(19) of the Internal Revenue Code are aligned with the purposes of the current charitable donation account rule. A "qualified charity" is a section 501(c)(3) entity defined by the Internal Revenue Code and must be both a non-profit and be organized for a charitable purpose. The final rule will be considered on November 16.

In June, the NCUA Board approved proposed changes to the interpretive ruling and policy statement on the agency's Minority Depository Institution Preservation Program. The proposal would amend an existing interpretive ruling and policy statement to update the program's features, clarify the requirements for a credit union to receive and maintain an MDI designation, and reflect the transfer of the MDI Preservation Program administration from the agency's Office of Minority and Women Inclusion to its Office of Credit Union Resources and Expansion. Proposed amendments to the interpretive ruling and policy statement also include incorporating recent program initiatives, providing examples of technical assistance an MDI may receive, establishing a new standard for MDIs to assess their designation periodically, and updating how the NCUA will review an MDI's designation status, among other changes. This rule is pending.

Additionally, the Board finalized a rule in July to implement requirements of the Credit Union Governance Modernization Act of 2022.[12] This regulation streamlines procedures for credit unions to expel a member in cases of serious misconduct.

In September, the NCUA Board approved a financial innovation final rule that provides flexibility for federally insured credit unions to utilize advanced technologies and opportunities offered by the financial technology sector. The final rule specifically provides credit unions with options to participate in loans acquired through indirect lending arrangements and financial technology. With the adoption of this final rule, the limits previously found in the NCUA's regulations are replaced with policy, due diligence, and risk-management requirements that can be tailored to match each credit union's risk levels and activities.

[12] Pub. L. 117–103 (Mar. 15, 2022).

Lastly, the NCUA Board in October approved a proposed rule that would incorporate the NCUA's Second Chance Interpretive Ruling and Policy Statement, and statutory prohibitions imposed by Section 205(d) of the Federal Credit Union Act into the agency's regulations. This proposed rule would allow people convicted of certain minor offenses to work in the credit union industry without applying for the NCUA Board's approval. It would also amend requirements governing the conditions under which newly chartered or troubled federally insured credit unions must notify the NCUA of proposed changes to their board of directors, committee members, or senior executive staff. The comment period closes on January 8, 2024.

## Legislative Requests

While the credit union system continues to perform well overall, several amendments to the Federal Credit Union Act would provide the NCUA with greater flexibility to effectively regulate the credit union system and protect the Share Insurance Fund in light of an evolving economic environment, a changing marketplace, and technological advancements.

### *Central Liquidity Facility Reforms*

As noted previously, the NCUA Board unanimously supports a statutory change to restore the ability of corporate credit unions to serve as CLF agents on behalf of a subset of their member credit unions. Such legislation would better allow the CLF to serve as a shock absorber for liquidity events within the credit union system.

On February 28, 2023, lawmakers introduced bipartisan legislation that would allow corporate credit unions to purchase CLF capital stock on behalf of a subset of their members.[13] This legislation would permit corporate credit unions to contribute capital to provide coverage for smaller members with less than $250 million in assets. Liquidity risks within the credit union system are rising, and timely consideration of this bill would better protect the credit union system from future liquidity events.

### *Restoration of Third-Party Vendor Authority*

The risks resulting from the NCUA's lack of vendor authority are real, expanding, and potentially dangerous for the nation's financial infrastructure. Other independent entities, including the Government Accountability Office, the Financial Stability Oversight Council, and the NCUA's Office of Inspector General, have identified this deficiency as inhibiting the NCUA from fulfilling its mission to safeguard credit union members and the financial system. And, it is the NCUA Board's continuing policy to seek third-party vendor authority from Congress.[14]

The agency is working within its current authority to address this growing regulatory blind spot, but it is evident that additional authority is needed. There has also been a shift in credit union leaders' understanding of the value of the NCUA having the same vendor authority as the federal banking agencies. The benefits include credit union access to NCUA examination information when conducting due diligence of vendors, fewer requests from the NCUA to credit unions to intervene with vendors experiencing problems, and fewer losses to the Share Insurance Fund.

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[13] S. 544, 118th Cong.1st Sess. (2023).

[14] 86 FR 59289.

The potential for such resulting losses to the Share Insurance Fund is real. The NCUA's Office of Inspector General stated that between 2008 and 2015, nine CUSOs contributed to material losses to the Share Insurance Fund. The report noted one of the CUSOs caused losses in 24 credit unions, some of which failed. According to NCUA staff calculations, at least 73 credit unions incurred losses between 2007 and 2020 as losses at CUSOs roll onto credit union ledgers and lead to liquidations.[15]

The absence of third-party vendor examination authority limits the NCUA's ability to assess and mitigate potential risks associated with these vendors. Vendors typically decline these requests or refuse to implement recommended actions. This limitation exacerbates any exposure credit unions have to the operational, cybersecurity, and compliance risks that can arise from these relationships. Without the authority to enforce recommended corrective actions, the NCUA is unable to effectively protect credit unions and their members.

Furthermore, the growing reliance on third-party services in the credit union industry poses a systemic risk to the credit union system. Five core banking processors, for example, handle more than 90 percent of the credit union system's assets. A failure of one of these critical third parties could cause hundreds of credit unions and potentially tens of millions of their members to lose access to their funds simultaneously. Such a vendor failure, in turn, may result in a loss of confidence in the financial sector. Ensuring proper oversight is imperative, as CUSOs and third-party vendors are poised to capitalize on financial institutions' growing appetite for artificial intelligence and real-time payment services.

If granted third-party vendor authority, the NCUA would implement a risk-based examination program focusing on services that relate to safety and soundness, cybersecurity, Bank Secrecy Act and Anti-Money Laundering Act compliance, consumer financial protection, and areas posing significant financial risk for the Share Insurance Fund.

***Additional Flexibility for Administering the Share Insurance Fund***

The recent turmoil in the banking sector, growing liquidity risks within the credit union system, and rising interest rate risk all highlight the need for the NCUA to have additional flexibility for administering the Share Insurance Fund.

Specifically, the NCUA requests amending the Federal Credit Union Act to remove the 1.50 percent ceiling for the Share Insurance Fund's equity ratio 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. A statutory change 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.[16]

[15] Office of Inspector General, OIG-20-07, "Audit of the NCUA's Examination and Oversight Authority over Credit Union Service Organizations and Vendors" [www.ncua.gov/files/audit-reports/oig-audit-cusos-vendors-2020.pdf](www.ncua.gov/files/audit-reports/oig-audit-cusos-vendors-2020.pdf)
[16] 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 §

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. This more counter-cyclical approach to managing the Share Insurance Fund 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

The NCUA stands ready to address the impact of the evolving economic and business cycles within the credit union system. The NCUA will continue to monitor credit union performance and coordinate with other federal financial institution regulators, as appropriate, to ensure the overall resiliency and stability of our nation's financial services system and economy.

Thank you again for the invitation to testify about the NCUA's programs and operations. I look forward to your questions.

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.").