NCUA
National Credit Union Administration

Congressional Testimony

Rodney E. Hood
Chairman
National Credit Union Administration

Senate Committee on Banking, Housing, and Urban Affairs

Hearing on Oversight of Financial Regulators

[This page intentionally left blank]

Congressional Testimony

Chairman Crapo, Ranking Member Brown, and Members of the Committee, as Chairman of the National Credit Union Administration (NCUA) Board, I appreciate the invitation to discuss the state of the credit union industry and update you on the NCUA's most recent initiatives.

State of the Industry

The NCUA's mission is to "provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit."[1] This system is vital to the American economy, touching more than one-third of all U.S. households. In turn, Congress has charged the NCUA with ensuring the safety and soundness of the National Credit Union Share Insurance Fund (Share Insurance Fund). Regulating and supervising 5,236 federally insured credit unions with nearly 120.4 million member-owners and more than $1.5 trillion in assets are the agency's paramount responsibility and it is one that we take very seriously.

It is important to note that the financial performance data presented today are based on the agency's most recent Call Report data, which is for the fourth quarter of 2019. The data outlined in this statement are pre-COVID-19, and the pandemic will affect credit union performance in 2020.

The total number of federally insured credit unions declined by 2.6 percent, from 5,375 at the end of 2018 to 5,236 at the end of 2019, mostly through the long-running trend of consolidation. The number of federal credit unions declined by 2.8 percent from 3,376 to 3,283 in the same period. During the same period, the number of federally insured, state-chartered credit unions declined by 2.3 percent from 1,999 to 1,953.

Total assets in federally insured credit unions grew by 7.8 percent from $1.453 trillion at the end of 2018 to $1.567 trillion at the end of 2019. During the same period, membership grew by 3.6 percent from 116 million to 120 million.

The overall liquidity position of federally insured credit unions has improved. Cash and short-term investments as a percentage of assets increased from 11 percent to 13 percent, based on a 21.8 percent or $36 billion increase in cash and short-term investments, from $165 billion at the end of 2018 to $201 billion at the end of 2019. Borrowings to shares and net worth declined from 4.3 percent to 3.5 percent due to the decline in borrowings, from $59 billion in the fourth quarter of 2018 to $51 billion in the fourth quarter of 2019.

[1] See NCUA's Mission and Vision, https://www.ncua.gov/about-ncua/mission-values.

Large, Complex Credit Unions

The NCUA's Office of National Examinations and Supervision supervises large, complex credit unions, consisting of nine consumer credit unions with more than $10 billion in assets and 11 corporate credit unions, each with assets ranging from around $150 million to $6 billion.

All consumer and corporate credit unions report capital levels that meet or exceed minimum regulatory capital requirements. Consumer credit union Call Report data at the end of 2019 and corporate credit union Call Report data as of February 29, 2020, show that consumer and corporate credit unions contain ample liquidity.

The agency has an extensive data-driven supervision approach to analyzing the risk characteristics of loans, investments, and shares in the large, complex credit unions. Since late March 2020, the NCUA began closely monitoring the liquidity, borrowing and credit risk-related information from consumer and corporate credit unions to ensure we remain abreast of any material changes resulting from COVID-19.

State of the Share Insurance Fund

The Share Insurance Fund's assets rose to $16.7 billion at the end of 2019, compared to $15.8 billion at the end of 2018. The fund reported a net income of $169.7 million and a net position of $16.6 billion for 2019.

As of December 31, 2019, the Share Insurance Fund's calculated equity ratio was 1.35 percent. This equity ratio was calculated on an insured share base of $1.2 trillion.

There were one involuntary liquidation and one assisted merger during 2019, compared to eight credit union failures in 2018. The total amount of losses associated with these failures in 2019 was $40.3 million, compared to $792.5 million the previous year.

The Share Insurance Fund received an unmodified, or "clean," audit opinion with no reportable conditions for 2019 from the agency's independent auditor, KPMG LLP.

NCUA's COVID-19 Response

Implementation of COVID-19 Legislative Requirements

First, I want to thank Congress for quickly enacting legislation to help the country deal with the pandemic. The NCUA appreciates the steps you have taken through the Families First Coronavirus Response Act, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and, most recently, the Paycheck Protection Program and Health Care Enhancement Act to provide greater flexibility and liquidity to the credit union system in the wake of this unprecedented time.

In particular, the increased flexibility and borrowing authority for the NCUA's Central Liquidity Fund (CLF) will make it easier for member credit unions to access the CLF if and when they need to. Liquidity and capital are essential to meeting and overcoming the challenges presented by the pandemic and subsequent financial fallout. Based on our experience dealing with major financial crises, we know that proactively addressing liquidity needs greatly reduces the corresponding threat to capital adequacy.

Since their earliest formation, credit unions have provided critical financial assistance to their members, especially those of modest means and limited access to credit and other financial services. This pandemic is affecting virtually everyone, and the country now faces the specter of an emerging liquidity event that could have widespread and difficult-to-forecast implications. Bolstering the credit union system's liquidity strength now is necessary to ensure that our nation's credit unions will remain stable and strong, and will keep delivering vital financial services to the millions of members who count on them every day. We are reminding our institutions of the need for a robust contingent liquidity resource, one that can meet rapid, volatile, and unexpected conditions that arise from this pandemic. The NCUA is working proactively to alleviate potential liquidity strains and to ensure that our maximum response capabilities are in place at the earliest opportunity.

Section 4016 of the CARES Act made four critical amendments to the CLF provisions of the Federal Credit Union Act. Each of these amendments sunset on December 31, 2020. First, the CARES Act removed the reference to "primarily serving natural persons" under the Federal Credit Union Act's definition of "liquidity needs." This change permits temporary access to facility advances for corporate credit unions.

Second, the CARES Act amended the CLF membership provision to provide a corporate credit union serving as an agent member greater flexibility with the amount it must pay to subscribe to the capital stock of the CLF on behalf of the natural-person credit unions covered in its agent group.

Third, the CARES Act removed the reference to the NCUA Board disapproving applications for extensions of credit that are filed with the "intent to expand credit union portfolios." Cumbersome and unduly restrictive, this provision makes any liquidity advance extended by the CLF cause an expansion in the size of a borrowing member's balance sheet. Intentionally or not, this provision means any loan made by the CLF "expands the portfolio." This has the unintended consequence of discouraging borrowers from seeking an advance, even if the needs are clearly justified. Under the CARES Act, the Board must instead obtain evidence from the applicant that they have made reasonable efforts to use primary sources of liquidity, including balance sheet and market funding sources, before approving an application.

Fourth, the CARES Act temporarily increased the Board's borrowing authority on behalf of the CLF from 12 to 16 times the subscribed capital stock and surplus of the facility. Thus, during the temporary period, the CLF has one third more borrowing power for every dollar of capital it can raise.

Last month, the agency adopted an interim final rule amending its regulations to either implement the changes in the CARES Act or augment those changes with new flexibilities. These enhancements include removing the six-month waiting period for obtaining CLF advances for a credit union that becomes a new member and reducing the amount of collateral required for certain assets used to secure each advance.[2] Overall, these changes will further enhance liquidity for credit unions during the COVID-19 pandemic.

If the need for liquidity advances arises, we have taken several steps, together with the enhancements to the CLF's regulation in the interim final rule, to facilitate both membership applications and expedited loan processes. For example, we have streamlined membership application forms and simplified or eliminated requirements where possible. We made corresponding changes to our published instructions on how to join the CLF and how to obtain a liquidity loan. These materials were updated to incorporate the recent flexibilities granted by the CARES Act to ensure that our member institutions have the most current and accurate information possible. The agency issued a Letter to Credit Unions explaining the changes made by the CARES Act, the changes to the CLF regulation adopted by the NCUA Board, and some of the changes made to CLF operations.

Just as it was essential to our efforts navigating the 2008 financial crisis, our efforts to bolster the system's access to contingent liquidity through the CLF is a central part of our COVID-19 response plan. From dealing with that crisis, we recognize the importance of anticipating liquidity challenges at the earliest opportunity. Indeed, our ability to stabilize our institutions and deal with ensuing risks is largely contingent upon access to ample sources of liquidity. The changes made to the CLF are important because they will enable greater membership flexibility, greater capitalization of the CLF, and greater access to the contingent liquidity source we depend on through the Federal Financing Bank.

Outreach to the System on COVID-19

On its website, the NCUA has also established a dedicated COVID-19 webpage that consolidates all relevant information for both credit unions and credit union members into one, easy-to-find location.[3] The website also includes frequently asked questions that are updated regularly. My office and members of the senior staff have also been actively conducting webinars, teleconferences, and other virtual meetings with credit unions to discuss COVID-19-related developments and solicit industry feedback on what is needed to maximize their effectiveness.

---

[2] 12 CFR 725.

[3] *See:* https://www.ncua.gov/coronavirus.

For example, on March 31, 2020, the NCUA hosted a webinar for the credit union industry to discuss the agency's actions to date in responding to the pandemic. Calls are held routinely with industry leaders to stay informed and better understand how liquidity pressures may be manifesting over time. We have also established a dedicated e-mail address for stakeholders to submit COVID-19-related questions directly to the agency. Staff is assigned to monitor the inquiries received through this e-mail account and provide timely responses.

COVID-19 Related Guidance

The NCUA is carefully monitoring the development of the COVD-19 pandemic so we can offer clear advice and guidance to our employees and regulated entities. Already, we have provided guidance to credit unions on a host of pressing concerns, including delaying annual meetings, providing branch services, adjusting the NCUA's supervision and examination program, filing quarterly Call Reports, and the need for vigilance given the many emerging coronavirus-related scams.[4]

In all guidance to credit unions, the agency has stressed that ensuring the safety of credit union employees and members remains the top priority. Additionally, the NCUA's guidance to credit unions makes clear that the agency will not object to actions taken by them to provide prudent relief for members when such efforts are reasonable and include proper controls and management oversight.

As new legislation is enacted and as new information and regulations become available, the agency routinely issues guidance letters and press releases to the industry. Since the pandemic began, we have provided guidance in various areas, including:

- **Examination and Supervision Program** — The agency has provided guidance on how to examine and supervise when working offsite. NCUA's examiners understand they may need to focus on COVID-19 related responses and will be accommodating of information requests and in delaying offsite examination work.

- **Lending** — Through guidance letters and joint policy statements with other regulators, the NCUA has encouraged credit unions to work constructively with their members to offer various types of lending relief. Consistent with the relief provided in the CARES Act, and along with the federal banking agencies, we have suspended temporarily the requirements for categorizing certain loan modifications related to the COVID-19 pandemic as troubled debt restructurings (TDRs). Short-term modifications made in good faith to borrowers who were current before receiving relief are not classified as TDRs for accounting purposes.

---

[4] *See:* https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/ncua-actions-related-covid-19.

The SBA's Paycheck Protection Program

The Small Business Administration's Paycheck Protection Program (PPP) provides vital funding to small businesses to help them retain their employees, pay for necessary expenses, and, most importantly, stay in business.

To support credit union industry participation in PPP, we have issued several Letters to Credit Unions, press releases, and email messages on the program. The NCUA Board also approved several regulatory changes related to how PPP loans are classified for regulatory capital and commercial underwriting purposes. Under the CARES Act, we amended the agency's regulations to assign these loans a zero-percent risk weight for calculating a credit union's applicable risk-based net worth requirement.

The NCUA Board also approved a regulatory provision that excludes PPP loans from the NCUA's commercial loan definition, thereby exempting them from the enhanced underwriting and monitoring requirements for commercial loans. These loans also are not included in the calculation of a credit union's net member-business loan cap.

Further, the NCUA Board approved a regulatory change to the NCUA's prompt corrective action regulations related to the treatment of PPP loans pledged to the Paycheck Protection Program Lending Facility (PPPLF) created by the Board of Governors of the Federal Reserve System. This change allows credit unions to exclude PPP loans pledged as collateral for non-recourse loans to the Federal Reserve's facility from total assets for calculating their net worth ratio. In effect, this amendment neutralizes the regulatory capital effects of PPP loans pledged to the PPPLF. Due to the non-recourse nature of the Federal Reserve's extension of credit to the credit union, the credit union is not exposed to credit or market risk from the pledged PPP loans. This is similar to the regulatory treatment adopted by the federal banking agencies for calculating a bank's capital requirements.

According to the SBA, the PPP has provided payroll assistance to more than 1.6 million small businesses in all 50 states and territories, and nearly 5,000 lenders, including credit unions and community banks, have participated.

The NCUA also appreciates the additional PPP funding under the Paycheck Protection Program and Health Care Enhancement Act, which includes $60 billion specifically allocated to community-based institutions like credit unions. The increased funding for this program will help credit unions serve their members and greatly benefit local communities and small businesses across the country.

Embedded in the fabric of their communities, credit unions are well positioned to meet the financial and credit needs of small businesses and entrepreneurs and support local communities. The NCUA supports credit unions' efforts to use the SBA's PPP program to aid businesses and members affected by COVID-19.

Each day, I reach out to credit union CEOs nationwide for on-the-ground updates on how credit unions are coping with the COVID-19 pandemic, and how they are helping main street entrepreneurs and their small businesses survive are using PPP loans. On one of these calls, I heard that a $4,000 credit union loan is helping a rural Alabama barbershop stay afloat. On another, I learned of a credit union in Mississippi that made 1,000 PPP loans to businesses that serve low-to-moderate income and minority communities, including one loan to a historically black university that was unable to secure a loan from any other financial institution. In East Tennessee, one credit union has issued more than 150 loans totaling $8 million, helping companies that have, on average, seven employees.

These efforts are truly in the best tradition of "people helping people," which has guided the credit union industry for nearly a century.

The NCUA and SBA, in accordance with our memorandum of understanding, have been collaborating over the last year to increase awareness of, and facilitate access to, SBA's programs in the credit union system. I continue to encourage all federally insured credit unions to learn more about their available lending options through the SBA.

Small Dollar Lending

Credit unions have a long history of assisting members through difficult times with small-dollar loans and other responsible forms of credit. The NCUA has worked aggressively to ensure credit unions understand they can and should help their members through the pandemic. These efforts include providing funds for family needs or business purposes.

On March 26, 2020, the NCUA, along with federal financial regulators, issued a joint statement encouraging responsible small-dollar lending in response to COVID-19.[5] The statement was issued with a guidance letter sent to all federally insured credit unions reminding them of the important role these loans can play in the safety and financial well-being of their member-owners.

Federal credit unions are uniquely situated to make low cost, small-dollar loans under the NCUA's Payday Alternative Loan (PAL) program. PAL loans have an interest rate cap of 28 percent and can provide members with the immediate funds they need to cope with financial emergencies.

[5] *Available at*, https://www.ncua.gov/files/press-releases-news/interagency-statement-small-dollar-lending-covid19.pdf.

Changes to the Examination and Supervision Program

The NCUA is modifying its examination and supervision program to address the new economic and operational changes resulting from the COVID-19 pandemic.

The agency is now assessing emerging risks, including the likelihood of elevated liquidity and credit risk, and the risk exposure to individual credit unions, the system as a whole, and the Share Insurance Fund. To identify proactively credit unions that may be at an elevated risk, the agency is modeling the effects of various financial trends and market conditions on credit unions and the Share Insurance Fund. The results from this endeavor will help us focus our supervision efforts where they are needed and effectively manage potential risk to the Share Insurance Fund.

Over the last several months, the agency also enhanced its data collection efforts and supervisory oversight to assess the pandemic's effects on the system's liquidity levels. The efforts include updating procedures used by examiners for analyzing funding sources, uses of those funds, and liquidity modeling. The agency will review these areas to understand credit unions' funding options better, including both current and contingent sources.

Similarly, the likelihood of elevated credit risk in the financial system has required supervisory and data collection changes in the area of lending. The NCUA is amending the second quarter Call Report to collect information on loan modifications that may pose elevated credit risk to an institution, even if they are not categorized as TDRs for accounting purposes. This will enhance our offsite monitoring abilities and enable us to address problem credit unions promptly. Together with our continued monitoring of the credit union system for issues, including delinquency and charge-off rates, we will also monitor loans in forbearance and other relevant metrics to measure and respond to increased risk levels.

The agency has long-standing guidance instructing our examination staff on how to review loan modifications and TDRs, and we are updating this guidance to reflect the current circumstances and market conditions. Similar guidance and training will be provided to examination staff for reviewing consumer lending, particularly residential mortgage and auto lending. The NCUA will provide more training to examiners on reviewing credit risk-management practices and developing tools to monitor credit unions' credit risk exposure.

National disasters, including the 2008 financial crisis, have taught us many lessons, and these best practices were incorporated into our COVID-19 response efforts. The agency's examination staff also have experience conducting credit union outreach in times of localized disasters, including hurricanes and other weather-related events. These practices enable the NCUA, in cooperation with state regulators, to assess the operational status of individual federally insured credit unions and determine their needs.

During the 2008 financial crisis, the NCUA deployed a tool that tracks high-risk credit unions, and we anticipate it will once again be valuable in shaping our supervision program due to

COVID-19. Together with information gained through our outreach efforts, the agency is using this tool to develop a holistic risk profile for each credit union, based on their financial and operational exposure to the financial and economic disruptions caused by the pandemic.

During any financial and economic disruption, the NCUA typically sees a greater number of troubled credit unions and corresponding assistance requests. With its years of experience, the agency has created streamlined processes to oversee troubled credit unions and fulfill assistance requests quickly and efficiently. The agency is well prepared to supervise an increased number of problem institutions and deploy resources effectively to minimize losses to the Share Insurance Fund.

The new hurdles imposed by the pandemic, including social distancing requirements, the myriad of state and local restrictions, and the national scope of the emergency, has required the agency to identify new methods for supporting credit unions and for maintaining the safety and soundness of the system. The NCUA is committed to creating innovative solutions to these challenges.

In response to the COVID-19 pandemic, the NCUA has three supervisory priorities. These support our enhanced offsite, forward-looking supervision and allows us to timely identify credit unions that are experiencing financial or operational difficulties or will face them in the near future. The first priority is to provide assistance to those credit unions with immediate operational or financial needs. The second priority includes working with credit unions and state regulators to identify operational and financial challenges. Examiners are periodically contacting each credit union to discuss their individual operational and financial status, including any associated challenges and needs.

Lastly, since the NCUA mandated a strict offsite examination and supervision approach on March 16, 2020, our examination staff has been working with credit unions to obtain documentation and complete examination procedures offsite. Even so, the NCUA will limit the burden imposed on credit unions so they can focus on providing uninterrupted service to their members.

If credit unions are occupied with addressing the impact of the COVID-19 pandemic, the NCUA is exempting them from providing examination documents or participating in examination activities. However, when a credit union can provide examination documents and make staff available, NCUA's examiners are continuing to conduct offsite examinations. This approach will help both the agency and credit unions appropriately allocate resources when the agency reintroduces onsite examinations.

If in some cases, examination work can be completed offsite during this time, the NCUA may not need to conduct any further examination work on a credit union during the 2020 calendar year. This reduces the burden on credit unions and frees up agency resources to respond to areas of elevated risk. I am also pleased with the cooperation among the NCUA, state regulators, and federally insured credit unions to identify innovative solutions that enable us all to meet our respective missions, with the overarching goal of promoting confidence in the cooperative system of credit.

COVID-19 Related Rulemakings

As for the NCUA's rulemaking agenda, the agency is prioritizing regulatory relief measures that will help credit unions through this pandemic. We are also working with the federal banking agencies to harmonize our guidance to the industry where appropriate.

In April, the NCUA Board approved several regulatory relief measures on top of those implemented under the CARES Act. First, the Board approved a final rule to temporarily relieve credit unions of regulatory burdens that might have otherwise hindered their ability to maintain operations and meet the needs of financially stressed borrowers.

Specifically, the Board temporarily raised the maximum aggregate amount of loan participations that a federally insured credit union may purchase from a single originating lender without seeking a waiver from the appropriate NCUA Regional Director to the greater of $5,000,000 or 200 percent of a federally insured credit union's net worth. The Board also temporarily suspended limits on the types of eligible obligations a federal credit union may purchase and hold. Thus, a federal credit union will not have to refinance a purchased obligation to make a loan.

Further, a federal credit union with a CAMEL "3" rating can now purchase the eligible obligations of any federally insured credit union or liquidating credit union without regard to whether they are obligations of the purchasing federal credit union's members. This authority is limited currently to federal credit unions with CAMEL composite ratings of "1" and "2."

In addition, given the physical distancing policies implemented in response to the crisis, the NCUA Board suspended the required timeframes for the occupancy or disposition of properties that either have been abandoned or are not being used for federal credit union business. These temporary modifications will be in place until December 31, 2020, unless extended.

These measures will provide credit unions with necessary added flexibility, in a manner consistent with the NCUA's responsibility to maintain the safety and soundness of the credit union system.

Second, the Board approved an interim final rule amending the NCUA's regulations requiring appraisals of real estate for certain transactions. The current pandemic and related social distancing directives across the country have made it difficult to obtain timely appraisals. This, in turn, is preventing borrowers from refinancing loans and gaining access to much-needed equity in their real estate. The interim final rule defers the requirement to obtain an appraisal or evaluation for up to 120 days following the closing of certain residential and commercial real estate transactions. This rule tracks a similar interim final rule approved by the Office of the

Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation.

Meeting Flexibility for Federal Credit Unions

The COVID-19 outbreak and the resulting social distancing measures and stay-at-home orders have direct effects on the ability of federal credit unions to host annual member meetings.

As such, the NCUA issued a guidance letter that noted the flexibility federal credit unions have when scheduling annual meetings in 2020. The letter also includes a bylaw amendment that has an exception to the in-person quorum requirement. We also notified all federal credit unions that, if they have adopted this bylaw amendment, it is appropriate to invoke its provisions at any point during the year for meetings occurring in 2020, if a majority of the board of directors agrees.

Support for Small, Low-Income, and Minority Credit Unions

The COVID-19 pandemic poses unique challenges, both economically and financially, to rural and underserved communities, which are the areas small, low-income, and minority credit unions primarily serve. To ensure the continued availability of safe and affordable financial services, the NCUA has allotted $4 million in loans and more than $1.3 million in grants for eligible low-income designated credit unions to support them as they serve their members and communities.[6]

Loans have a maximum award of $250,000 and will mature in three years. There will be no interest rate applied to loans awarded under this initiative throughout the full term of the loan.

Grants with a maximum award of $10,000, will be awarded on a rolling basis throughout the open application period. Minority depository institutions and credit unions with less than $100 million in assets will receive priority. The NCUA will make awards on a first-come, first-serve basis until the allocated funds are fully exhausted.

Grant awards may be used to:

- Offer rental, mortgage, and utility payment assistance to members such as entrepreneurs, small business owners, and hospitality and service industry employees;
- Offer loan payment relief to affected members;
- Develop a new product or service for affected members, such as offering preloaded cards; or

[6] Please see April 13, 2020 Press Release "NCUA Increases Funding for COVID-19 Emergency Response Grants" https://www.ncua.gov/newsroom/press-release/2020/ncua-increases-funding-covid-19-emergency-response-grants and March 31, 2020 Press Release "NCUA: Grants, Loans Available to Low-Income Credit Unions for COVID-19 Response" https://www.ncua.gov/newsroom/press-release/2020/ncua-grants-loans-available-low-income-credit-unions-covid-19-response

- Cover costs associated with moving credit union operations to remote locations, such as laptops, software, and short-term rentals.

The application period closes on May 22, 2020.

Changes to the Low-Designation Methodology

Last week, at my direction, the NCUA changed its methodology for determining if a credit union meets the criteria for the low-income designation under the NCUA's Rules and Regulations. Under the new approach, military personnel will now be considered in a similar manner as students attending colleges, universities, vocational or technical schools when the NCUA evaluates a federally insured credit union's low-income designation.

Active-duty military personnel constitute a highly mobile population with frequent transfers, both domestically and internationally, and often list Army/Air Post Office or Fleet Post Office mailing addresses. Prior to the change in the designation's methodology, the NCUA's income assessment tool only geocoded the incomes of members with physical-street addresses. As a result, service members using APO or FPO addresses were omitted from the agency's evaluation.

There are several benefits for credit unions that carry a low-income designation including:

- An exemption from the statutory cap on member business lending;
- Eligibility for grants and loans from the Community Development Revolving Loan Fund;
- The ability to accept deposits from non-members; and
- The authorization to obtain supplemental capital.

At the NCUA, we are always looking for ways to foster greater financial inclusion, accessibility, and opportunity for all Americans. This action is a critical step in promoting greater financial inclusion for members of the military and will help all credit unions with service members in their fields of membership meet their unique financial needs.

Additional information about the updated methodology will be detailed in an upcoming Letter to Credit Unions.

Paid Leave and Employee Schedule Flexibility

Regarding internal agency staffing in response to COVID-19, we issued a notice on April 8, 2020, notifying all NCUA employees of the Families First Coronavirus Response Act's enactment and how its emergency, paid sick-leave provisions will be applied. The agency is tracking the use of this leave in our time and attendance system. In addition, we have continued to be flexible with employee schedules to ensure employees are able to perform their critical work duties while addressing unique circumstances they may face.

We are also assessing our surge staffing capability and expertise requirements to manage COVID-19's impact to credit unions and our mission. To that end, we are planning to request dual compensation waiver authority from the Office of Personnel Management (OPM) to fill critical positions. This delegated authority will enable the agency to waive dual compensation (salary offset) to reemploy retired individuals. Because this pandemic could affect the agency's operations and personnel in many ways, this added authority will give us the flexibility to recall experienced staff where necessary and expand our staff capabilities quickly.

Remote Telework Posture

The NCUA has been closely monitoring the development of the COVID-19 pandemic since early January 2020. The NCUA began updating the workforce on the status of the COVID-19 pandemic on January 28, 2020. On that same day, we implemented restrictions on international travel to China. Anticipating the potential for its need, the NCUA re-evaluated and revised its pandemic and infectious disease response plan in mid-January, and re-issued the revised plan to the agency during the week of February 24, 2020.

The agency continued to provide regular updates to our workforce on the status of the pandemic through February while working across the agency's offices to ensure our readiness to respond to the pandemic quickly. In February, the NCUA's only declared actions were to restrict official overseas travel and require staff to report all pending and current overseas personal travel. We encouraged all offices to consider expanding telework and reminded all staff about the importance of staying home when sick.

On March 10, 2020, the NCUA postponed all non-exam related travel indefinitely, and directed field staff and regions to begin shifting to a "remote examination" posture that allows as many examinations as possible to be done remotely. The agency also began applying 14-day "self-isolation" periods for staff returning from overseas personal travel to countries with high rates of infection. We also issued new guidance on increased telework, preparedness for short-notice telework, and restrictions on employees who have been in contact with persons who test positive for the virus.

From March 12 to 16, we rapidly implemented new policies and restrictions in response to the growing spread of the pandemic and increases in public concern. During this time, the agency directed staff to telework as much as possible, closed the staff gym and all public spaces, increased other "physical distancing" measures within our buildings, and restricted nearly all examination activity to a remote posture starting on March 16, 2020. The NCUA allowed staff working in NCUA facilities to retrieve items needed for telework, but the agency has been operating at a mandatory telework and remote posture since March 16, 2020.

The NCUA continues to update staff, revise and improve policies for remote work, and since mid-April has been developing plans to allow for a phased return to a "new normal." We are aligning those plans with national-level efforts and guidelines.

Since it began, the NCUA's overriding goal in responding to the COVID-19 pandemic has been to ensure the safety and well-being of our workforce and visitors. We acted quickly and decisively to protect our workforce while continuing our critical mission to protect our nation's system of cooperative credit. The NCUA will continue to perform all of the agency's missions and functions remotely for the duration of the current emergency.

The NCUA's return to a pre-COVID level of operations will be conducted safely, in accordance with federal, state, and local guidelines, and with the utmost consideration to employee needs for accommodation.

Cybersecurity Efforts in Response to COVID-19

The COVID-19 pandemic necessitates a heightened cybersecurity posture on the part of both the agency and industry, with a particular focus on credit union banking services, remote workers, and internal agency supervision and examination operations. Like others in the financial services sector, the NCUA has seen increasing activity using phishing, remote access, and social engineering methods. COVID-19 related cyberattacks or campaigns have largely eclipsed the tax-related scams and frauds typical in the spring each year. Yet, the number and overall impact these COVID-19 related attacks have been insignificant so far. The NCUA continues to monitor these developments.

As part of our outreach efforts, the NCUA produced a Letter to Credit Unions on essential personnel and a Risk Alert on the cybersecurity considerations for working remotely. We also issued several FAQs addressing cybersecurity and fraud. All of this guidance uses information provided by the Department of the Treasury, the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, United States Secret Service, and the Federal Bureau of Investigation.

Internally, the NCUA's Computer Security Incident Response Team has detected a few COVID-19-related incidents related to COVID-19 involving phishing email messages with links to potentially malicious sites and email messages involving malicious attachments. Appropriately, the NCUA cybersecurity architecture blocked the attempts. The agency's investment in a holistic cybersecurity architecture and services, including communications infrastructure, virtual private networks for remote access, host intrusion detection and prevention services (IDS/IPS), network IDS/IPS, network monitoring capabilities, anti-virus, email filtering, firewalls, automated alerting and notifications, data and network leak detection and prevention, and incident response capabilities have proved effective to date.

We continue to monitor the situation, and we will remain in a heightened state of alert for any potential cyber incident.

Other Rulemakings and Guidance

In January 2020, the Board approved two proposed rules addressing the requirements for and regulatory capital treatment of subordinated debt and transactions where a federally insured credit union intends to assume liabilities from or merge with another institution that is not a credit union.

First, the Board issued a proposed rule to permit low-income credit unions, complex credit unions, and new credit unions to issue subordinated debt for purposes of regulatory capital treatment. In 1998, as part of the Credit Union Membership Access Act (CUMAA), Congress amended the Federal Credit Union Act to institute a system of prompt corrective action for federally insured credit unions based on a credit union's level of net worth. CUMAA specifically defined "net worth" to include, among other things, secondary capital issued by a low-income credit union. By law, only low-income designated credit unions are permitted to issue secondary capital.

Since the passage of CUMAA, a low-income credit union that issues secondary capital is permitted to include the aggregate outstanding principal amount of that secondary capital in its net worth. Further, under the NCUA's current risk-based net worth requirements, a low-income credit union is also authorized to include such secondary capital in its risk-based net worth calculation. By contrast, a credit union without the designation lacks the authority to issue secondary capital and to include any instruments comparable to secondary capital in either its net worth or its risk-based net worth calculation.

With subordinated debt rule, the Board now proposes to grant certain credit unions without the low-income designation the authority to issue instruments in the form of subordinated debt and allow those instruments to be counted in their respective risk-based capital calculations. In addition, under the proposed rule, all low-income designated credit unions may issue subordinated debt for regulatory capital treatment.

This new authority, however, would not permit credit unions without the low-income designation to include subordinated debt in their net worth calculations. This proposal also would not change the ability of a low-income credit union to include subordinated debt in its net worth in the same manner in which it currently includes secondary capital in its net worth. The proposed rule also clarifies application and disclosure requirements to issue subordinated debt and adds new safe harbors for repudiation and interest payments related to subordinated debt issuances.

To give stakeholders additional time to provide their comments following COVID-19, the Board extended the comment deadline to July 8, 2020, for the subordinated debt proposal.

Second, the Board approved a proposed rule designed to clarify the agency's supervisory process for parties engaging in transactions where a federally insured credit union proposes to assume the liabilities from or merge with another institution other than a credit union. The Federal Credit Union Act specifically authorizes these transactions, but also requires the NCUA's prior approval before they can be completed.

When a federal credit union purchases the assets or deposits of a bank, the NCUA requires a two-step process to establish the membership status of the former bank's customers. First, the federal credit union must confirm that the bank customers are within the credit union's field of membership. Second, the former bank's customers must become full members of the federal credit union. For state-chartered credit unions, the state regulatory agency determines membership eligibility and credit union's field of membership.

The Board extended the comment period to June 15, 2020, for the combination transactions rule.

In April, the Board approved a final rule that raised the threshold whereby appraisals would not be required for residential real estate transactions from $250,000 to $400,000. For transactions below the new $400,000 threshold, federally insured credit unions must obtain written estimates of market value of the real estate collateral consistent with safe and sound practices, just as they did under the previous threshold.

Many credit unions, especially those serving members in rural areas, have informed the agency that appraisals can cost between $500 and $1,000 and can take as long as six to eight weeks to obtain in rural areas. This rule provides needed flexibility for credit unions to safely expedite the lending process and reduce transaction costs, which benefit both credit unions and borrowers.

While this rulemaking began before the pandemic, the relief it provides, combined with the temporary appraisal relief approved during the Board's April 2020 open meeting, will benefit credit unions and borrowers during this crisis period.

Cybersecurity and Technology

The accelerating use of technology makes credit unions and other financial institutions more vulnerable to cyberattacks and disruptions. As worldwide interconnectedness grows, the tools to commit cybercrimes become more readily available, and as criminals, hackers, and terrorists become more sophisticated, cyberattacks will only increase in frequency and severity. With credit unions and other small financial institutions increasingly being targeted, the NCUA must continue to strengthen the resiliency of individual credit unions, the entire credit union system, and the agency.

Collectively, the NCUA and credit unions share responsibility for protecting consumer information, access to services, and funds on deposit. This responsibility requires a constant state of readiness for many threats and risks and the ability to minimize the effect of likely internal or external incidents through ongoing, proactive cyber-hygiene management, service delivery resilience, and rapid detection and recovery from cybersecurity incidents.

To this end, the NCUA continues to focus its cybersecurity efforts around advancing consistency, transparency, and accountability within the NCUA's cybersecurity examination program; providing credit unions with information and resources to improve their preparedness and resiliency; and maintaining safeguards to ensure the NCUA's systems and the information we collect are secure.

Maturity/Self-Assessments

In partnership with the DHS and the Department of Energy's Idaho National Lab, the NCUA recently enhanced its Automated Cybersecurity Examination Tool. This tool is now available directly to credit unions, allowing them to use it to conduct self-assessments of their information security programs. As we complete the cybersecurity maturity assessments for our final group — credit unions that have between $100 million and $250 million in assets — we have been able to leverage the representative sample of credit unions to date to identify trends in cybersecurity maturity of individual credit unions across the system. These trends include continued need and emphasis on risk assessments, third-party vendor due diligence, and effective security/privacy control implementation and maintenance.

The challenges associated with the COVID-19 pandemic have allowed us to develop new ways of conducting cybersecurity maturity assessments. Some of the methods being considered include:

- Aligning the maturity questions with the agency's examination review questions so that a maturity rating and risk rating could be calculated using the same examination criteria.
- Allowing credit unions to submit self-assessments as part of the pre-examination planning process, which would be validated by the agency during the examination process.
- Having the NCUA's cybersecurity examiners conduct maturity assessments in a large sample of credit unions in 2023 to measure the industry's progress since the system's baseline results were collected in 2020.

These alternatives would increase the efficiency of our cybersecurity assessments and allow the agency to focus additional resources on other safety and soundness related examination activities.

Information Security Examination Program

The NCUA is now piloting its new cybersecurity examination review steps, which stem from the Information Technology Risk Examination (InTREx) solution used by the FDIC, the Federal Reserve System, and the State Liaison Committee members of the Federal Financial Institutions Examination Council.[7] The NCUA's InTREx-based solution was tailored to the unique characteristics of our small institutions by using the same baseline required examination review steps for all cybersecurity examinations. The tool also allows the examiner to select other review steps based on the institution's preliminary cybersecurity risk assessment.

The InTREx tool and the next examination procedures will be incorporated into the NCUA's new Modern Examination and Risk Identification (MERIT) tool.[8]

Cybersecurity Workforce Readiness

The NCUA continues to provide all examiners training in cybersecurity and information technology practices that comply with the National Institute of Standards and Technology's National Initiative for Cybersecurity Education Framework. Soon, our program will begin training on critical security controls.[9] We are currently in the process of acquiring commercial training at the entry, mid-tier, and advanced levels, incorporating both online and in-person delivery. Besides providing general NCUA examiners with the ability to plan, implement, and audit critical security controls, these courses will provide cybersecurity specialist examiners with an in-depth understanding of the implementation and audit process for these control systems.

To assist with the hiring and retention of employees with skills and expertise in the cybersecurity field, the NCUA requested OPM approval for an excepted service appointing authority to hire credit union examiners with specialized experience in cybersecurity. Recruiting and retaining these individuals is critical for the ongoing examination of federally insured credit unions. We look forward to OPM's answer to our request and are hopeful for quick approval to support our critical cybersecurity recruitment strategy.

NCUA's Portfolio of Taxi Medallion Loans

Another important item of interest to members of this committee is the NCUA's recent sale of most of its taxi medallion loan portfolio, which was announced in February 2020.

---

[7] *See* InTREx, https://www.fdic.gov/news/news/financial/2016/fil16043.html
[8] *See* MERIT, https://www.ncua.gov/regulation-supervision/examination-modernization-initiatives/enterprise-solution-modernization-program/ncua-connect-merit
[9] *See* NICE Framework, https://www.nist.gov/itl/applied-cybersecurity/nice/nice-cybersecurity-workforce-framework-resource-center.

After thorough research and careful consideration, the NCUA determined this sale was the most appropriate action to meet its statutory obligation under the Federal Credit Union Act and achieve the least long-term cost to the Share Insurance Fund.

The NCUA's holdings included medallion loans from Melrose Credit Union and LOMTO Federal Credit Union, which supported the New York City taxi industry for nearly a century until their liquidations in 2018. To date, the Share Insurance Fund has lost more than $750 million because of these and other credit union failures related to taxi medallion loans.

Any decision that could increase the risk to the Share Insurance Fund creates a downstream effect on all federally insured credit unions, which will have to pay for these losses in the form of potential insurance premiums. Paying these premiums would divert funds that would otherwise be used for such purposes as loans and other investments in their communities. With more than half of all credit unions serving low-income fields of membership, this creates a substantial and unnecessary burden on those that can least afford to pay.

This concern was balanced with the need to safeguard the interests of medallion borrowers. For nearly 18 months, the NCUA evaluated several approaches for resolving this portfolio, including holding and servicing the loans, pooled sales, structured sales, and securitization.

Private entities have specialized skills and greater resources and flexibility to work with borrowers in ways the NCUA cannot. Thus, after careful consideration, investor outreach, and consultation with an independent financial advisor, the NCUA determined a single bulk sale was the best option to meet its statutory requirements and prevent any unnecessary volatility in the already stressed taxi medallion market. As a result, the NCUA vetted the credentials of all bidders and eliminated potential buyers that did not demonstrate a capability and willingness to work with borrowers. The NCUA also contracted with a third party to perform extensive background investigations to confirm the reputation and other representations made by each bidder. The process also required potential buyers to attest to their background, experience, and asset management plans.

The NCUA spent considerable time, money, and resources in its coordination with potential investors that led to a fair and market-based proposal. The agency took all appropriate steps during the sales process to make sure multiple bidders were involved to ensure a competitive price and maximize any potential recoveries to the Share Insurance Fund.

After this extensive review, we allowed two firms to advance to the final due diligence round. The agency then received two independent offers and selected the buyer's bid as the best, least long-term cost option to the Share Insurance Fund. The firm also had a record of working with borrowers in a good-faith manner. The NCUA fully expects the buyer to work with borrowers consistent with the representations made during the selection process.

If the NCUA had stopped the process, as some had urged, significant legal, reputational, and counterparty risk would have been generated for the agency. These risks would carry over to future asset sales. This would likely result in the NCUA not maximizing recoveries for the Share Insurance Fund because future offerings from purchasers would be heavily discounted based on a perceived risk that a sale could fail.

After providing sufficient evidence of their history of working with borrowers to provide relief where possible, the selected firm pledged to observe all applicable consumer financial and borrower protection laws and regulations. It is my understanding that since purchasing the portfolio, the buyer has been working with borrowers to reassess and modify their loan payments, and has been taking additional actions to alleviate the burden of loan payments during the COVID-19 emergency.

Diversity and Inclusion

As foundational elements of who we are and how we operate as an agency, the principles of diversity and inclusion are strategic imperatives for the NCUA. I am proud to lead an agency whose core values embrace the tenets of diversity, equity, and inclusion.

In March 2020, we submitted our 2019 Office of Minority and Women Inclusion (OMWI) report to Congress. Here, I will highlight some of our key findings and achievements that are detailed in the report.

As to the NCUA's workforce diversity and inclusion metrics, the results from our Federal Employee Viewpoint Survey showed the agency improved its score for support for diversity by 4.5 percentage points, exceeding the government average by a margin of 18.5 percent.

Since 2017, the NCUA has consistently exceeded the federal goals for employees with disabilities and targeted disabilities. In 2019, 12.5 percent of NCUA employees reported having disabilities, and 3 percent reported having targeted disabilities. By comparison, the federal goals were 12 percent of employees with disabilities and 2 percent of employees with targeted disabilities.

We are also doing more to prioritize diversity among our suppliers and those the agency does business with. In 2019, the NCUA awarded 43 percent of its reportable contract dollars, equal to $30.8 million, to minority- and women-owned businesses. Contract dollars to all firms designated as women-owned increased 25 percent, from $17.2 million in 2018 to $21.6 million in 2019. The NCUA's top vendor for total awarded contract dollars was a woman-owned firm providing support to our Office of the Chief Information Officer. The agency awarded $22.5 million, or 44.8 percent, of its technology contracts to minority- and women-owned businesses. The Office of the Chief Financial Officer awarded 66.7 percent of its $9.8 million in contracts to minority- and women-owned businesses.

In 2019, I called for the establishment of a culture council to assess and advance a culture at the agency that promotes diversity, equity, and inclusion. In response, the agency revamped and expanded its Diversity Advisory Council to establish the Culture, Diversity, and Inclusion Council. This council's new structure and charter highlight my vision of a more inclusive organization. The council's mission is to build an organizational culture where our shared values, beliefs, and behavioral norms around equity, diversity, inclusion, engagement, and leadership align with our strategic priorities to optimize organizational performance.

We are also working with other agencies to share best practices and develop new ideas. In May 2019, the NCUA spearheaded and led the planning and execution of the first joint-OMWI Symposium at the Constitution Center in Washington, D.C. The staff from the OMWI offices of eight financial regulatory agencies convened to discuss shared challenges and identify best practices, brainstorm new approaches, and improve collaboration among each other to advance the goals of Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Since becoming Chairman, I have made financial inclusion a priority, not just at the agency, but also within the industry. In my public remarks given around the country, I have talked to thousands of credit union leaders, employees, regulators, and members about the importance of diversity, equity, and inclusion. Everywhere I go, I describe financial inclusion as the civil rights issue of our time, and I am both heartened and reassured that this message is being so well received.

On November 6, 2019, more than 150 credit union professionals gathered in Alexandria, Virginia to attend the NCUA's Diversity, Equity and Inclusion Summit. This first-of-its-kind industry event that brought together credit union professionals to:

- Promote the value of diversity, equity, and inclusion for credit unions;
- Share best practices;
- Develop solutions to industry-specific challenges; and
- Discuss the best methods for diversity data collection.

In their remarks, each NCUA Board member noted his personal commitment to diversity, equity, and inclusion and his belief that it is imperative for the industry to prioritize these principles.

Encouraged by the participation and feedback received from the first summit, the NCUA will host another Diversity, Equity, and Inclusion Summit in late 2020 and expand the event to include two days of programming.

The success of our summit contributed to increased participation by credit unions in our annual voluntary Credit Union Diversity Self-Assessments. In 2019, 118 federally insured credit unions (76 federal and 42 state-chartered) submitted self-assessments. This represents a 45.7 percent increase over the 81 submitted in 2018. Submitting credit unions varied in their number of employees and asset size. Of the 118 submitting credit unions, 59 had more than 100 employees, representing 8.6 percent of all credit unions in this category. The NCUA will continue to promote the Credit Union Diversity Self-Assessment and, where appropriate, will host demonstrations at industry events so more credit union representatives can get started with their self-assessment.

Of course, we can always do more in this vein, and that is precisely why we are ramping up our efforts this year. Besides the initiatives previously mentioned, the Culture, Diversity, and Inclusion Council will use an agency-wide survey to examine our current organizational culture. Upon completing this culture assessment and identifying areas for improvement, the council will make its recommendations directly to me.

In addition, the NCUA supports several staff-led employee resource groups (ERGs) to promote collaboration and communication amongst staff throughout the agency. Two new ERGs are coming together in 2020. MPower, the ERG for employees with disabilities, successfully launched in February. Employees are still working to form another for young professionals. The ERG program will continue to help these groups align their work with the NCUA's goals related to diversity and inclusion, including the development of an ERG Ambassador program to identify member volunteers to support agency-wide recruitment efforts.

On April 22, 2020, the NCUA announced the creation of the new Office of Ethics Counsel, which was approved by the Board in March 2020. The new office will include a Chief Ethics Counsel, who will serve as the agency's most senior ethics official. Reporting directly to the NCUA Board, the individual will be supervised by the agency's Chairman. The office will certify the agency's compliance with relevant federal ethics laws and regulations, promote accountability and ethical conduct, and help ensure the success of the NCUA's ethics programs.

The selection process for the new Chief Ethics Counsel is underway.

Overview of Minority Depository Institutions (MDI) Credit Unions

Credit unions are member-owned and -controlled, not-for-profit, cooperative financial institutions formed to give people access to affordable financial services and participate in their institutions' governance. Credit unions have members who share the same association, community, or profession. Minority depository institutions (MDI) serve the financial needs of racial minorities because traditional financial institutions have historically underserved these populations.

The NCUA's Office of Credit Union Resources and Expansion administers the agency's MDI Preservation Program. This office exists to support and assist the growth of all credit unions, with a particular focus on low-income and MDI credit unions. Improving the ways in which we assist these institutions to grow and serve their members is an ongoing initiative at the NCUA.

As of December 31, 2019, the NCUA regulated 515 credit unions with the MDI designation that had total assets of $40.5 billion. These credit unions served almost 4 million members, had aggregate deposits of $34.7 billion and held $28.4 billion in loans. Approximately 10 percent of all federally insured credit unions are MDIs. MDI credit unions are generally small, with 57 percent of all MDIs having less than $10 million in assets. These credit unions are typically located in a church, factory, and in small business locations.

The number of MDI credit unions declined from 530 at the end of 2018 to 515 in 2019, consistent with the general trend of consolidation in the financial services sector. Twenty MDI credit unions merged during 2019. The desire to offer expanded services to members was the reason given by 15 MDIs that decided to merge, three cited poor financial conditions, one cited an inability to attract officials, and one gave declining membership as their reasons for merging. Six of the continuing credit unions were MDIs.

Despite the decline in their total number, overall MDI performance improved in 2019 in several key areas:

- The decline in the number of MDIs was the lowest in four years;
- The total aggregate assets and aggregate shares and deposits of MDIs each increased 5 percent from 2018;
- The aggregate net income of MDIs increased 20 percent from 2018;
- The total aggregate loans made by MDIs increased 6 percent from 2018; and
- The aggregate percentage of delinquent loans was the lowest in five years.

The NCUA works to charter new MDI credit unions as well as help existing MDI credit unions thrive. In 2019, the agency chartered one new MDI credit union, Otoe-Missouria, in Red Rock, Oklahoma.

Through the NCUA's MDI Preservation Program, MDI credit unions have access to grants and loans (as eligible), training and technical assistance, and guidance from their examiners. In 2019, the NCUA made 58 awards totaling more than $738,000 to MDI credit unions that also had the low-income designation. The funds supported various credit union needs, such as developing digital tools, improving the financial well-being of members, and staff development, such as professional certifications in financial education.

In addition, in 2019, the NCUA created the MDI Mentoring Pilot Program through the Community Development Revolving Loan Fund, awarding grants to encourage relationships between larger low-income credit unions (mentors) and small MDIs. Through such relationships, stronger and more experienced credit unions can provide technical assistance to small MDI credit unions to improve their ability to serve minority, low-income, and underserved populations. Three MDIs received almost $75,000, in aggregate, in the inaugural funding round. The projects the MDIs propose to address include hands-on training for loan staff in portfolio management and risk assessment, strategic planning, and guidance on management transition.

Last month, the agency made another $125,000 available under this program with applications due between May 1 and June 30, 2020.

On March 3 and March 4, 2020, the NCUA co-sponsored the Freedman's Bank Forum with the U.S. Department of Treasury and other federal financial institution regulators. Concurrently, the NCUA hosted an MDI Forum for credit unions. These events provided the opportunity for both cross-sector and in-sector education on ways to improve services to members.

As a companion to its MDI Mentoring Pilot Program, the NCUA introduced this year the MDI Mentoring Cohort, a pilot initiative to provide technical assistance and training to recipients of the MDI Mentoring Pilot Program grants. The MDI Mentoring Cohort allows the NCUA to provide protégés and mentors guidance on the structure of their mentoring projects and effective mentor-protégé communication. Such support is intended to help MDIs achieve success with the projects they have identified.

Looking Ahead

Rural Initiative

Since the beginning of my Chairmanship, I have made it a priority to remove the financial access obstacles that many rural and underserved communities face. From my perspective, financial inclusion is the defining civil rights issue of our time. When communities lose access to financial services, it is almost like cutting off the necessary oxygen supply to fuel the local economy. The lack of financial access is especially prevalent in rural communities, which have experienced the withdrawal of financial institutions over the last decade.

Data from the Federal Reserve show that there has been a 40 percent decline in the number of bank branches in rural, low income, and underserved communities since 2012. In these instances, small businesses struggle to secure loans, workers do not have a place to deposit their paychecks, customers lack local options for addressing their financial needs, and the result is less investment and growth in these areas.

On a positive note, recent research by the Federal Reserve suggested that, despite the many challenges that arise from these branch closures, credit unions might be actively filling the void. My goal is to help underserved, rural communities reconnect with the financial mainstream. I believe credit unions, with their long history of community service, are the vehicle for making that happen.

To close the financial access gap further, the NCUA is preparing a set of initiatives aimed at improving financial services in underserved, rural communities. For example, the NCUA was the first federal financial regulator to provide guidance on working with legal hemp-related businesses. In addition, we have made changes to our commercial and residential appraisal rules, and we are looking at how we can maximize the low-income designation for qualified credit unions, which makes these credit unions eligible for technical assistance grants and loans from the Community Development Revolving Loan Fund.

Looking beyond the formal regulatory process, there are other ways in which we are looking to help credit unions and their members seize existing opportunities for business financing, especially in rural and underserved areas.

Last spring, we signed a memorandum of understanding with the SBA to bring small businesses and credit unions together and to expand awareness of SBA's loan programs. This partnership can help us to share information on financing and training opportunities with local business leaders. We also are having similar discussions with the Department of Agriculture.

Legislative Requests

The NCUA has identified four areas where statutory changes would improve liquidity, provide capital relief, enhance community-lending opportunities, and increase credit union access to remote financial services delivery. Collectively, these measures would enhance the agency's ability to support credit unions further and aid in the nation's recovery following the pandemic.

First, the NCUA recommends two changes to improve liquidity for credit unions:

- Make changes to the Central Liquidity Facility permanent: If temporary changes to the CLF were made permanent, it would provide regulatory certainty to credit unions. This, in turn, would better prepare the credit union system and the NCUA for any future emergencies. Emergency liquidity capacity that does not require special efforts to constitute in a crisis is vital to the NCUA's ability to maintain the safety and soundness of the credit union system.

- Grant temporary authority for the NCUA Board to waive the limit for federally chartered credit unions lending to other credit unions: The figure currently sits at 25 percent of paid-in and unimpaired capital and surplus. Raising this level during the pandemic will allow excess liquidity to flow from healthy credit unions to credit unions in need of funding.

Second, the NCUA recommends three temporary changes to the current prompt corrective action framework to provide regulatory relief:

- Temporary reduction in minimum capital standards for federally insured credit unions: Reduce the level at which credit unions are considered well capitalized, from a net-worth ratio of 7 percent to 6 percent, and adequately capitalized, from 6 percent to 5 percent, during the pandemic.

- Temporary waiver of net-worth restoration plan requirement: Grant the NCUA Board the authority to waive, for up to 180 days, the requirement of a net-worth restoration plan for credit unions that are less than adequately capitalized during the pandemic.

- Temporary increase from $5 million to $100 million for the asset threshold below which the NCUA Board can delegate decisions related to critically undercapitalized credit unions: Some credit unions are likely to come under capital stress as insured shares increase, loans become non-performing, or both. This situation is hopefully temporary, but these changes will provide the NCUA flexibility in dealing with credit unions that are safe and sound but experiencing temporary fluctuations in their capital levels during this pandemic.

Third, the NCUA recommends three changes to lending standards to assist credit unions:

- Temporarily raise the member business lending cap: Business loans that lack government backing can make up only 12.25 percent of most credit unions' balance sheets. During the recovery period, raise the member business lending cap to 20 percent. This adjustment will inject vital capital into the small businesses credit unions serve.

- Permanently increase the federal credit union loan maturity limit from 15 years to 30 years: Credit unions are unable to issue many types of loans with a maturity limit beyond 15 years (mortgages being a key exception). Extending this term will increase the likelihood that credit unions can lend to small businesses on affordable terms and better conduct loan workouts with affected borrowers.

- Permanently expand credit union reach for underserved areas: Authorize all credit union charters to apply for serving areas designated as underserved. Currently, only multiple common-bond federal credit unions are authorized to serve underserved areas. Extending this will provide greater access to financial products and services to those who may have been the most impacted by the pandemic. Additionally, designate Opportunity Zones as underserved areas and allow any credit union located in a designated Opportunity Zone the ability to extend service to businesses and individuals who live or work in the designated area.

Finally, the pandemic prompted many credit unions to limit or suspend in-person transactions in their branches significantly. These restrictions have forced many credit union members to conduct all of their financial transactions through online banking and other electronic means. Consumer survey data show that the share of consumers using online banking is strong, and the share using mobile banking through a smartphone has grown rapidly in recent years. Thus, the pandemic has highlighted the need for permanent statutory changes to allow credit unions to serve the members better:

- Reasonable Proximity: If a multiple common-bond credit union wants to offer services to select employee groups or associations, the group seeking credit union service currently has to be in reasonable proximity to a credit union service facility. This requirement is outdated and unnecessarily restricts access to credit union services for individuals and businesses. The NCUA requests that the reasonable proximity requirement be removed or significantly amended to permit greater flexibility for consumers to join a credit union. Field-of-membership eligibility requirements would remain in place.

Conclusion

The NCUA continues to monitor the situation on the ground to ensure we are protecting our nation's system of cooperative credit.

Before I close, I want to recognize the 1,141 employees of the NCUA and thank them for their unwavering dedication during this pandemic. Each day, they put forth their best effort to protect our nation's federally insured credit union system.

I look forward to continuing to work with the members of this committee to safeguard and strengthen the credit union system.

Thank you.