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Statement by
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Oversight of Prudential Regulators

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Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for the invitation to discuss the operations, programs, and initiatives of the National Credit Union Administration (NCUA).

In today's testimony, I will discuss the current state of the credit union system; the agency's efforts to maintain its safety and soundness, protect the consumers who use credit unions, advance economic opportunity; the NCUA's response to Hurricanes Helene and Milton; and several of the NCUA's legislative requests.

State of the Credit Union System

Overall, the credit union system remains strong, although there are some warning signs of potential weaknesses that the NCUA is closely monitoring. Namely, the agency is seeing growing signs of weak loan performance, declining capital levels, rising delinquency rates, and lower earnings across the system and at specific institutions.

Credit Union System Performance

As of June 30, 2024, federally insured credit unions' aggregate net worth ratio was 10.84 percent, an increase of 22 basis points over the year. Year-over-year growth in assets and lending continued, albeit at a slower pace. For the first time since 2008, quarter-to-quarter asset growth was negative; however, the total assets of the credit union system nearly reached $2.3 trillion, while total outstanding loans exceeded $1.6 trillion.

Year-over-year share growth remains positive, even after negative quarter-to-quarter share growth in June 2024. Like negative asset growth, declining total shares were last seen during 2008.

The industry's return on average assets has slowed compared to one year earlier but remains sound at 0.69 percent. The net interest margin has also increased to near the levels prior to the most recent rise in interest rates. Credit loss reserving expense has increased given relatively high and rising loan delinquency and charge-offs.

Consumer financial stress continues to flow through credit unions' loan performance data. The delinquency rate for total loans and leases rose to 0.84 percent in the second quarter of 2024, nearing the level last observed in December 2014. Meanwhile, the rolling 12-month net charge-off rate climbed to 0.79 percent, marking the highest rate since mid-2012, when consumers were recovering from the Great Recession. Despite the deterioration in loan performance and earnings, net worth levels indicate the credit union system generally remains resilient and liquidity appears to have stabilized during 2024.

We, however, continue to see the effects of consumer financial stress across the system and at specific institutions as demonstrated in the industry's overall CAMELS composite ratings.[1] Approximately one in five federally insured credit unions has a composite CAMELS code rating

[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.

of 3, 4, or 5. Especially concerning is the increasing number of complex credit unions with $500 million or more in assets falling into the troubled category—CAMELS code 4 or 5 ratings—during the second quarter. The number of troubled complex credit unions, those with $500 million or more in assets, tripled in the second quarter of 2024 alone, and the amount of assets at these institutions grew by more than fivefold.

At the end of the second quarter, CAMELS code 3, 4, and 5 credit unions held 10.01 percent of the industry's assets. It has been nearly a decade since the NCUA last experienced this proportion of insured shares at risk. The decline in CAMELS ratings is a contributing factor to the increase in the reserves held in the Share Insurance Fund, which increased nearly 14 percent from $209 million at the start of 2024 to $231.7 million at the end of the third quarter.

External Factors Affecting the Credit Union System

The current economic environment has posed continuing challenges for some consumers and many credit unions. Although inflation has retreated, the general price level is higher than a few years ago. Higher prices, along with elevated interest rates, have strained household budgets. Loan performance has accordingly weakened. Interest rates have also started to decrease and are expected to decline further in the year ahead. In the near term, however, the elevated interest rate environment may deteriorate loan performance further as adjustable-rate loans reprice at higher interest rates.

Further, the resumption of reporting delinquent federal student loans to credit bureaus will likely lower credit scores for many borrowers. These loans were not reported between September 30, 2023, and September 30, 2024.

Likewise, commercial real estate lending, particularly within the office sector, continues to show signs of stress because of the prevalence of hybrid work environments. While the credit union system has modest exposure to commercial real estate, the NCUA continues to monitor twenty-six individual credit unions with material exposure to this type of lending.

Share Insurance Fund Performance

Backed by the full faith and credit of the United States, the National Credit Union Share Insurance Fund provides insurance coverage for individual accounts up to $250,000 at federally insured credit unions.[2] As of June 30, 2024, the Share Insurance Fund insured $1.76 trillion in shares and deposits and 91.2 percent of total shares and deposits in the credit union system. In comparison, uninsured shares and deposits equaled nearly $169.4 billion, or 8.8 percent of total shares and deposits, as of June 30, 2024.

The Share Insurance Fund continues to perform well, with no premiums expected at this time. As of June 30, 2024, the Share Insurance Fund reported a year-to-date net income of $154.3 million, a net position of $21.3 billion, and an equity ratio of 1.28 percent, which is below the 1.33

[2] 12 U.S.C. 1751(k) Insured Amounts Payable (3). The Share Insurance Fund provides individual account holders coverage for $250,000 and joint account holders $500,000 for their aggregate interests at each federally insured credit union. The Share Insurance Fund also separately protects a member's Individual Retirement Accounts and Keogh retirement accounts up to $250,000. The fund is administered by the NCUA.

percent normal operating level set by the NCUA Board.[3] Because of the stress in the credit union system resulting from liquidity and interest rate risks, the NCUA has increased the Share Insurance Fund's liquidity position in recent years. As of June 30, 2024, the Share Insurance Fund's overnight investment balance was $5.7 billion.

The NCUA Board will continue to closely monitor credit union and Share Insurance Fund performance and make needed adjustments to further consumer confidence within the credit union system.

State of the Central Liquidity Facility

A credit union's ability to effectively deal with liquidity risk in all economic environments, especially during times of systemic stress and reduced liquidity, underscores the importance of the NCUA's Central Liquidity Facility (CLF) to individual credit unions and the broader credit union system.

The CLF currently has 431 credit union members of varying asset sizes, representing 9.3 percent of all institutions within the credit union system.[4] These credit unions have access to approximately $21.7 billion in contingent liquidity funding from this federally backed source.

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

In December 2022, the CLF's temporary statutory enhancements that facilitated the agent membership of corporate credit unions—credit unions providing payment and other financial services to consumer credit unions—expired.[5] At that time 3,323 consumer credit unions with less than $250 million in assets, or approximately 67 percent of all credit unions, lost access to approximately $27.5 billion in contingent liquidity through the CLF.

To address this issue, the NCUA Board has repeatedly and unanimously asked Congress for permanent statutory authority to allow corporate credit unions and other agent members of the CLF to purchase capital stock for a subset of the credit unions they serve. These statutory adjustments will make the CLF a more affordable option for corporate credit unions to subscribe to the CLF on behalf of their smaller credit union members while also providing greater access to

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[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.

[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 own the CLF, which exists within the NCUA. The CLF's president manages the CLF under the oversight of the NCUA Board.

[5] See: *https://www.govinfo.gov/content/pkg/PLAW-116publ136/pdf/PLAW-116publ136.pdf*. Title IV - Section 4016.

liquidity for more credit unions. The Congressional Budget Office has scored the CLF reforms at no cost to the taxpayer.[6]

Efforts to Protect and Strengthen the Credit Union System

The NCUA over the last year has worked to enhance cybersecurity, promote the prudent adoption of new financial technologies, enforce consumer financial protection laws and regulations, support minority depository institutions, advance diversity within the agency and industry, and strengthen the resiliency of the credit union system.

Enhancing Cybersecurity

Overall, 442 credit unions with more than $1 billion in assets hold 77.2 percent of industry assets. As a result of this concentration, a cybersecurity vulnerability at a large credit union may threaten the safety and soundness of the entire system. Moreover, cybersecurity threats within the interconnected financial services industry remain high and show no signs of abating. The NCUA, therefore, is fully committed to enhancing its cybersecurity examination program and related activities.

Last year, the NCUA deployed its updated, scalable, and risk-focused Information Security Examination (ISE) procedures. The ISE examination provides examiners with standardized review steps to facilitate data collection and analysis. The NCUA also continues to expand its partnerships with the Cybersecurity and Infrastructure Security Agency and the Federal Bureau of Investigation to support credit unions, especially as the number of ransomware incidents increase.

In addition, the NCUA's cyber incident reporting rule that went into effect on September 1, 2023, requires a federally insured credit union to report a cyber incident to the agency as soon as possible but no later than 72 hours after the credit union reasonably believes a reportable cyber incident has occurred. The NCUA uses this information to understand potential cyber threats to the credit union system and to provide recommendations to protect credit union and member information.[7] After one year, the NCUA has received more than 1,000 reportable cyber incidents. The data also shows that 7 out of 10 reportable cyber incidents are related to credit union vendors, further underscoring the need for Congress to reinstate the NCUA's third-party vendor examination authority, which is further discussed below.

The NCUA also provides credit unions the Automated Cybersecurity Evaluation Toolbox (ACET). This tool allows credit unions of all asset sizes to conduct cybersecurity maturity assessments to measure their preparedness. The ACET maturity assessment is voluntary for all credit unions.

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[6] The Congressional Budget Office has traditionally scored enhancements to the CLF as having no cost; see text on the bottom of page four of the Congressional Budget Office score of S. 414, Credit Card Accountability Responsibility and Disclosure Act of 2009 (Opens new window).

[7] Recommendations are provided to the credit unions through alerts and guidance. The NCUA disseminates information by distributing letters to credit unions, cybersecurity alerts, and public board briefings.

Enforcing Consumer Financial Protection Laws and Regulations
An essential part of the NCUA's statutory responsibilities is to examine credit unions with $10 billion or less in assets for compliance with consumer financial protection laws and regulations. The agency's consumer compliance oversight ensures the credit union system not only protects credit union member-owners from unfair practices or predatory products but also meets the saving and credit needs of its members, especially those of modest means.

In 2024, the agency focused its attention on overdraft programs, fair lending, automobile lending, Truth in Lending Act requirements, and Guaranteed Asset Protection insurance. The NCUA also prioritized credit union compliance with the Flood Disaster Protection Act.

The NCUA has also recently increased visibility into the overdraft and non-sufficient funds fees charged by credit unions. Beginning with the 2024 first quarter Call Report, the NCUA has required federally insured credit unions with more than $1 billion in assets to separately disclose their income from overdraft and non-sufficient funds fees. In addition to promoting transparency, these Call Report changes allow credit unions to benchmark their overdraft programs against their peers.

Separate from the agency's annual supervisory priorities for consumer financial protection, the agency completes fair lending examinations at selected institutions. In the NCUA's fair lending examinations conducted in 2023 and 2024, the agency identified some patterns or practices of:

- Discrimination based on age and marital status,
- Illegal race-based redlining,
- Indirect lending pricing concerns,
- Home Mortgage Disclosure Act violations,
- Equal Credit Opportunity Act notification and government monitoring information violations,
- Servicemembers Civil Relief Act violations, and
- Instances of inadequate fair lending compliance management systems.

The NCUA's fair lending efforts aim to create a financial system that works for all Americans, regardless of their race, ethnicity, age, sex, orientation, marital status, religion, or disability. By working to enforce fair lending and consumer financial protection laws, the NCUA is ensuring that the American system of cooperative credit remains faithful to its mission of "people helping people."

In 2024, the NCUA referred six credit unions to the U.S. Department of Justice for illegal age discrimination, one for age and marital status discrimination, and one for race-based redlining. These referrals have affected over 23,000 consumers, and associated remediation expenses exceeded $500,000. Separately, the U.S Department of Justice announced in October the first ever race-based redlining settlement against a federally insured credit union.[8]

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[8]See Statement by Chairman Harper on Citadel Federal Credit Union's Redlining Settlement, press release, NCUA, Issued on Oct. 10, 2024. Available at https://ncua.gov/newsroom/press-release/2024/statement-chairman-harper-citadel-federal-credit-unions-redlining-settlement.

In February of this year, the NCUA also joined with other Federal Financial Institution Examination Council (FFIEC) agencies to issue a statement of examination principles related to valuation discrimination and bias in residential real estate lending.[9] These principles assess whether credit unions' compliance and risk management practices are sufficient to identify and mitigate discrimination or bias in their residential real estate valuation practices.

In July, the NCUA again collaborated with the other FFIEC agencies to issue Interagency Guidance on Reconsiderations of Value (ROV) of residential real estate valuations.[10] The guidance offers examples of ROV policies and procedures that a financial institution may implement to help identify, address, and mitigate discrimination risk.

Also in July, the NCUA, the other FFIEC agencies, and the Federal Housing Finance Agency issued the Automated Valuation Model (AVM) final rule as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.[11] The rule implements quality control standards, including a non-discrimination standard, for AVMs used by mortgage originators and secondary market issuers.

Supporting Minority Depository Institutions

Minority depository institutions (MDIs) offer safe, fair, and affordable financial services and products to minority individuals and communities that the financial services system has historically underserved.

At the end of the second quarter of 2024, there were 490 MDI credit unions—more than one in ten federally insured credit unions—collectively serving more than 6.6 million members and holding assets of more than $90 billion. MDI credit unions tend to be smaller institutions with approximately $183 million in average assets. Yet, their financial performance measures, including return on average assets, net worth ratio, and net interest margins, are frequently comparable to and often exceed those of other credit unions.

In 2022, the NCUA launched the Small Credit Union and MDI Support Program to provide these institutions with help on a range of operational and financial topics. For 2024, the NCUA allocated 4,600 staff hours across its three regions to support MDIs through this initiative.

Further, MDI credit unions with a low-income designation are eligible for Community Development Revolving Loan Fund grants and loans. In the 2024 grant round, 39 MDIs received nearly $1.4 million in technical assistance grants. These grants assist MDIs in remaining competitive by helping them expand access to fair and affordable products, offer new and innovative financial products and services tailored to the needs of their members and communities, build greater internal capacity, and bolster cybersecurity systems and practices.

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[9] Statement on Examination Principles Related to Valuation Discrimination and Bias in Residential Lending (February 12, 2024).
[10] Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations (July 26, 2024).
[11] Quality Control Standards for Automated Valuation Models (August 7, 2024).

Congress authorized all MDIs to be eligible for Revolving Loan Fund grants and loans during the 2023 grant round. However, that authorization was not extended in the 2024 appropriation, removing access to the Revolving Loan Fund for nearly 100 MDIs. The NCUA accordingly requests lawmakers reinstate eligibility for all MDI credit unions.

Promoting Financial Technology

The financial technology industry is rapidly evolving with developments to enhance products and services. To address these developments the NCUA has recently:

- Established a public-facing financial technology and digital asset webpage;
- Updated the share insurance FAQs to clarify that digital assets do not qualify for share insurance coverage;
- Established office hours to engage credit unions and financial technology companies; and
- Updated the Credit Union Profile to collect information about credit unions' use of financial technology companies.

Based on data collected by the NCUA, few credit unions use distributed ledger technology or offer cryptocurrency services, through third-party vendors, to their members. The agency is monitoring the use of these technologies to ensure proper governance, risk management, and compliance.

Advancing Diversity, Equity, Inclusion, and Accessibility

The NCUA is committed to promoting diversity, equity, inclusion, and accessibility (DEIA) within the agency and the credit union system. The agency advances these principles through external initiatives, like its annual DEI Summit, an MDI Symposium, the statutorily mandated voluntary Credit Union Diversity Self-Assessment, and internal efforts such as employee resource groups (ERGs), outreach to potential suppliers, and hiring initiatives to encourage a diverse pool of applicants.[12]

The agency's Federal Employee Viewpoint Survey results show that the NCUA draws strength from diverse talents and perspectives. The agency uses data from the survey, including the DEIA index, to inform its data-driven strategies and activities.[13] In 2024, the index revealed that 79.1 percent of NCUA respondents reported positive perceptions of agency's practices related to DEIA, compared with the government-wide DEIA index average of 72.8 percent and 76.2 percent for medium-sized agencies.

The NCUA also supports workforce diversity, equity, inclusion, and belonging through its training, outreach, and recruitment; special emphasis programs; and ERGs. During fiscal year 2024, 42.5 percent of NCUA employees were members of an ERG, putting the NCUA well above the standard membership goal of 10 percent of an organization's workforce.

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[12] ERGs are voluntary, employee-led groups participated in by employees who share a characteristic, whether it is gender, ethnicity, religious affiliation, lifestyle, or interest. They provide support and help in personal or career development. Allies may also be invited to join the ERG to support their colleagues.

[13] See: Federal Employee Viewpoint Survey [Data Reports (opm.gov)].

The agency continues building a diverse talent pipeline to attract, hire, and retain highly skilled employees. Since 2017, the NCUA has consistently exceeded the federal employment goals for employees with disabilities and employees with targeted disabilities. In fiscal year 2024, 17.7 percent of the agency's workforce was made up of individuals with disabilities, and 4.4 percent of employees reported having a targeted disability.[14]

The NCUA supports accessibility through its hiring efforts, reasonable accommodations program, Disability Solutions Desk, and Section 508 compliance program. In the General Services Administration's 2023 report to Congress on compliance with Section 508 of the Rehabilitation Act of 1973, the NCUA had a maturity level of ***Moderate*** and a conformance level of ***Very High*.**[15]

The NCUA is also building a diverse supplier network to obtain innovative solutions and the best value for its contract actions, particularly in information technology. By fiscal year-end 2024, the agency awarded 42.2 percent of reportable contract dollars to minority-owned or women-owned businesses.

To promote DEIA in the broader credit union industry, the NCUA provides credit unions a voluntary diversity self-assessment tool to measure their progress in applying DEIA principles.[16] The NCUA administers the self-assessment through a third party and receives and reports aggregate data in its *Office of Minority and Women Inclusion Annual Report to Congress*.

Rulemaking Activities

During the last two quarters, the NCUA has pursued several rulemaking activities. In April, for example, the NCUA Board issued an advance notice of proposed rulemaking to improve and update the agency's records preservation program regulation and accompanying guidelines.[17] In 2023, the NCUA received feedback that aspects of Part 749 were potentially burdensome and unclear. Based on this feedback, the Board sought input on whether there was a need to update Part 749 to ensure that credit unions continue to properly preserve records vital to their business operations, the NCUA's supervisory needs, and the needs of their members.

In July, the NCUA Board approved a proposed rule on incentive-based compensation as required by the Dodd-Frank Act.[18] Specifically, Section 956 of the Dodd-Frank Act requires that the appropriate federal regulators jointly issue regulations or guidelines prohibiting incentive-based compensation arrangements at covered financial institutions that encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss. These

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[14] The Office of Personnel Management defines "targeted disabilities" on Standard Form-256, *Self-Identification of Disability*, see: https://www.opm.gov/forms/pdf_fill/sf256.pdf (opens new window).

[15] See: Message from the GSA Administrator | Section508.gov.

[16] 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).

[17] 12 CFR 749. Advance Notice of Proposed Rulemaking *available at* https://www.regulations.gov/document/NCUA-2024-0026-0001 (Jun 24, 2024).

[18] https://www.regulations.gov/document/NCUA-2024-0038-0001.

standards must also require those covered financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

Also in July, the NCUA Board approved a proposed rule requiring federally insured credit union boards of directors to establish, and update at least annually, written succession plans for key positions.[19] A succession plan would be required to include a credit union's strategy for recruiting candidates to each of the key positions and to promote the credit union's safe and sound operation. The revised proposed rule is based on a 2022 proposal and includes several changes based on industry comments and feedback received. The lack of succession planning continues to be cited as a driving factor in credit union mergers, and the revised proposal aims to moderate some of those factors leading to such mergers.

The interagency notice of proposed rulemaking required by the Financial Data Transparency Act of 2022 was published in the *Federal Register* on August 22, 2024. This joint proposal serves to promote the interoperability of financial regulatory data across the financial regulatory agencies through the establishment of data standards for identifiers of legal entities and other information collections submitted to the agencies. Once the interagency rule is finalized, the NCUA will develop an agency-specific rule to determine the applicability of the joint standards to the collections of information under its purview.

In September, the NCUA Board approved a final rule to implement the Fair Hiring in Banking Act, enacted by Congress in the 2022 National Defense Authorization Act.[20] As required by Congress, the final rule allows people with convictions for certain minor or older offenses to work in the credit union industry without applying for the NCUA Board's approval. Section 205(d) of the Federal Credit Union Act, as amended by the Fair Hiring in Banking Act, generally prohibits, except with the prior written consent of the NCUA Board, a person who has been convicted of or has a program entry for certain criminal offenses involving dishonesty or breach of trust from participating in the affairs of a credit union. The final rule addresses the individuals and types of offenses covered by Section 205(d) and the NCUA's procedures for reviewing a consent application. This final rule also aligns the NCUA's regulations with those of the Federal Deposit Insurance Corporation (FDIC).

Also in September, the NCUA Board approved a final rule which simplifies the NCUA's share insurance regulations by establishing a "trust accounts" category to provide coverage of funds in both revocable and irrevocable trusts deposited at federally insured credit unions in the accounts of members or those otherwise eligible to maintain insured accounts.[21] The rule aligns the insurance coverage provided to federally insured credit union members' revocable and irrevocable trust accounts with the coverage provided to consumers who maintain the same accounts at federally insured banks.

Hurricane Recovery Efforts

Given the importance of hurricane recovery efforts to the Chairman and members of the committee, the NCUA has worked diligently in recent weeks to respond to Hurricane Helene and

[19] https://www.regulations.gov/document/NCUA-2024-0037-0001
[20] https://www.regulations.gov/document/NCUA-2023-0023-0011
[21] https://www.regulations.gov/document/NCUA-2023-0082-0014

Hurricane Milton. Hurricane Helene struck the "big bend" area of the Florida Panhandle as a Category 3 hurricane on September 26, affecting several states. Hurricane Milton followed closely behind as a Category 3 on October 9 near Siesta Key, Florida, primarily affecting Florida and Georgia.

Credit unions worked quickly to resume services, where possible, at affected branches. Credit unions also undertook unprecedented efforts to respond to a need for cash when the telecommunications needed to operate credit and debit services broke down. NCUA staff additionally contacted 113 low-income designated credit unions in the worst-hit areas to inform them on how to receive emergency grants and loans from the Community Development Revolving Loan Fund. The NCUA also delayed its examination and supervision activity and provided extensions for regulatory filing deadlines so the management of affected credit unions could focus on restoring facilities and services to their members.

Legislative Requests

As the current Congress draws to a close and lawmakers prepare for a new Congress, the NCUA suggests certain statutory changes to better enable the agency to achieve its mission to protect the system of cooperative credit and its member-owners through effective chartering, supervision, regulation, and insurance.

Restoring Third-Party Vendor Oversight

Credit unions frequently engage third-party vendors and credit union service organizations to improve operational efficiencies and enhance member services. The NCUA's lack of third-party vendor oversight remains a significant regulatory blind spot that has led to vulnerabilities in the credit union system and obstacles to effective collaboration amongst all financial regulatory agencies.

Credit unions holding approximately 90 percent of industry assets use key services provided by unregulated third-party service providers, posing potential risks to financial stability. Last November, a single third-party vendor's cybersecurity incident disrupted the daily operations of 60 credit unions. In June, a large credit union with $9.5 billion in assets reported the personal information of more than one million current and former members and employees had been accessed during a ransomware attack. The breach initially occurred on May 23, but the ransomware hackers did not shut down most of the credit union's online and mobile banking systems until June 29.

These incidents highlight a significant vulnerability to the $2.3 trillion credit union industry and have the capacity to debilitate our nation's critical infrastructure if left unchecked. At a minimum, this lack of visibility impacts credit union safety and soundness and the Share Insurance Fund.

If Congress were to restore vendor authority, the NCUA would implement this oversight through a risk-based examination program focusing on services related to safety and soundness, information security, cybersecurity, BSA/AML compliance, consumer financial protection, and areas posing significant financial risk for the Share Insurance Fund and national economic security. Having this oversight would reduce NCUA's requests to credit unions for intervention when vendors are experiencing problems. It would also provide credit unions with access to NCUA examination summaries to aid in their due diligence of vendors. This ability is currently available to commercial banks, not credit unions, which places the industry at a competitive disadvantage.

Independent entities like the Government Accountability Office, the Financial Stability Oversight Council, and the NCUA's Office of Inspector General have all identified this deficiency as a significant obstacle to the NCUA's financial stability mission.

Reforming the Central Liquidity Facility
As discussed earlier in this testimony, the NCUA Board unanimously supports a proposed statutory amendment to allow corporate credit unions to serve as CLF agents for their member credit unions. A bipartisan bill introduced in the first session of the 118th Congress would enable corporate credit unions to purchase CLF capital stock on behalf of a subset of their members. Specifically, the legislation would allow corporate credit unions to contribute capital to provide coverage for smaller members with assets under $250 million. Enacting this legislation would help insulate the credit union system from future liquidity events, like those that occurred in the first half of 2023.

Providing Flexibility for Administering the Share Insurance Fund
The NCUA further urges Congress to amend the Federal Credit Union Act to eliminate restrictions on the Share Insurance Fund's equity ratio and on the agency's ability to levy premiums. Such changes would improve fund management and align the NCUA's authority to manage the Share Insurance Fund with the FDIC's authority in maintaining its Deposit Insurance Fund.

Specifically, proposed changes should remove the restrictions on levying Share Insurance Fund premiums when the fund's equity ratio is equal to or greater than 1.30 percent and when the premium charged exceeds the amount needed to restore the equity ratio to 1.30 percent. A statutory change should also eliminate the 1.50 percent ceiling from the current statutory definition of the "normal operating level" for the Share Insurance Fund, which limits the Board's ability to increase the size of the fund above this level.

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

Increase Grant Assistance for the Community Development Revolving Loan Fund
Grants and loans from the Community Development Revolving Loan Fund give eligible credit unions resources to improve service to their members and stimulate economic development in their communities. Through its stewardship of the Revolving Loan Fund, the NCUA provides funds to these credit unions for various initiatives approved by the agency's Board, including

expanding outreach to underserved populations, improving digital services and cybersecurity, enhancing staff training, and facilitating capacity-building efforts.

Maintaining a long-running trend, the NCUA's ability to fulfill grant requests continued to be surpassed in the 2024 grant round. The agency received 271 applications requesting more than $8.3 million but was only able to fund about $3.5 million in grants to 135 credit unions. The NCUA, therefore, requests Congress increase the Revolving Loan Fund appropriation to $10 million to keep up with the growing demand for requests. The Revolving Loan Fund has a long and successful track record as an effective way to provide essential resources to low-income credit unions.

Conclusion

In sum, the NCUA will continue to oversee 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. Congress can further these efforts by adopting the legislative changes suggested above.

Thank you again for the invitation to testify. I look forward to working with the committee to safeguard and strengthen the credit union system.