California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE

November 27, 2024

Ms. Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Re: **Comments on NCUA Staff Draft 2025-2026 Budget Justification: NCUA-2024-0135**

Dear Melane Conyers-Ausbrooks:

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), whose combined strength makes up one of the largest state trade associations for credit unions in the United States, representing the interests of approximately 285 credit unions and their more than 13.6 million members.

The Leagues welcome the opportunity to provide comments to the National Credit Union Administration (NCUA) on their proposed 2025-2026 budget. The Leagues thank the Board for providing the industry with budget justification materials, holding a budget briefing, and soliciting comments on the proposed budget. We commend the Board for its transparency in the budget process.

While we support the agency's mission to safeguard the credit union system and its stakeholders, we are deeply concerned about the 12.2% increase in the proposed budget, particularly following last year's double-digit increase. These year-after-year budget expansions are unnecessary, unsustainable, and place undue financial pressure on credit unions and the members they serve.

The Leagues strongly urge the NCUA to prioritize fiscal discipline and seek corresponding savings to offset any new spending. As the steward of resources derived from the credit union industry, the NCUA has a responsibility to operate efficiently while balancing its regulatory obligations. Excessive budget growth is inconsistent with the principles of accountability and prudent management that are central to the industry's mission of providing safe, affordable financial services.

Below, we provide our comments and recommendations for consideration.

General Comments

- **Support for Small Credit Unions and Minority Depository Institutions (MDIs)**

The Leagues commend the NCUA's continued focus on supporting small credit unions and Minority Depository Institutions (MDIs), which play a critical role in advancing financial inclusion and economic development in underserved communities.

The proposed allocation of resources to the Small Credit Union and MDI Support Program is a positive step in strengthening outreach, education, and technical assistance for these institutions. We encourage the NCUA to collaborate further with stakeholders to identify and address barriers that prevent small credit unions and MDIs from fully accessing these resources.

- **Investment in Chartering Initiatives**

The Leagues support the NCUA's commitment to fostering financial inclusion by streamlining the credit union chartering process through the proposed multi-year automation project. Simplifying processes such as field-of-membership modifications and charter applications will enhance accessibility and expand opportunities for underserved communities.

Key Concerns with Proposed Increases

- **Creation of the Office of the Executive Secretary**

The NCUA's staff draft budget proposes establishing a new Office of the Executive Secretary, asserting that this structure is common among other federal agencies. According to the budget justification, this office would centralize responsibility for policy review and decision-making processes, coordinate the clearance and submission of policy documents to the Chairman and NCUA Board, and facilitate cross-program office discussions to align policies. The proposed office would handle an array of policy documents, including regulations, recommendation and action memos, Congressional reports, and more.

While we recognize that streamlining administrative functions can improve efficiency, we question the necessity of creating this office at this time. Such a reorganization requires careful consideration of its actual value relative to its cost and whether it introduces unnecessary redundancies within the NCUA's existing structures.

The NCUA already has processes and personnel in place to manage these responsibilities. Without specific evidence of inefficiencies in the current system or examples where the existing framework has hindered decision-making, it is unclear why a new office is required. Further, the establishment of an Office of the Executive Secretary could create an additional bureaucratic layer, potentially slowing decision-making rather than enhancing it.

We also encourage the NCUA to weigh the financial impact of this proposal against its core mission. At a time when resources should be prioritized to ensure the safety and soundness of the credit union system, the creation of a new administrative office must demonstrate clear and measurable benefits to justify its cost.

Credit unions are already operating under considerable regulatory and operational pressures. Any proposed changes to the NCUA's structure should directly contribute to the agency's ability to fulfill its mission effectively without introducing unnecessary complexities or costs.

We recommend the NCUA provide further detail on the specific problems this new office seeks to address and why these issues cannot be resolved within the existing organizational framework. Only with this clarity can the credit union community evaluate whether the office is a prudent and necessary investment.

- **Expansion of the Office of Consumer Financial Protection (OCFP)**

The Leagues recognize the importance of fair lending and consumer protection in financial services. However, we raise significant concerns about the NCUA's justification for increased investments in the Office of Consumer Financial Protection and further expansion of consumer compliance focus as outlined in the staff draft 2025-2026 budget. The justification provided lacks sufficient transparency regarding the specific discriminatory patterns or practices that necessitate such expansion.

1. **The NCUA's Primary Mission is Safety and Soundness**
   The NCUA's mission is first and foremost to ensure the safety, soundness, and viability of the credit union system. While consumer protection is an important component of financial regulation, it should not overshadow the agency's primary mandate. The suggestion that consumer compliance failures often indicate broader financial risks may be valid in some cases, but this is not a widespread issue in the credit union system. Credit unions, unlike other financial institutions, operate under a member-owned, not-for-profit structure that inherently prioritizes member interests. This structural difference reduces the likelihood of systemic consumer compliance failures and diminishes the need for heightened consumer compliance examinations.

2. **Disproportionate Regulatory Burden on Credit Unions**
   Expanding the scope of consumer compliance examinations would disproportionately burden credit unions, which are already known for their strong consumer focus and community-oriented practices. The credit union industry consistently demonstrates higher levels of member trust and satisfaction than other financial institutions. Targeting credit unions for expanded compliance examinations risks diverting resources away from their core mission of serving members and fostering financial inclusion, without sufficient evidence of pervasive issues.

3. **Lack of Data Justifying Expanded Consumer Protection Efforts**
   The budget justification references findings from past examinations, including discriminatory lending patterns, redlining, and Regulation B violations. However, these examples lack transparency and sufficient data to substantiate their prevalence or severity. Importantly, the Consumer Financial Protection Bureau (CFPB) has consumer protection as its primary mission and is already focused on these areas, which creates a discernable overlap with existing efforts. Without clear evidence that these issues are systemic within the credit union system, it is difficult to justify additional expenditures and regulatory

focus. We urge the NCUA to provide detailed data on the violations cited to ensure that the scope of its actions is proportional to the problems identified and to avoid duplicating efforts already undertaken by the CFPB.

4. **Credit Unions are the Original Consumer Protectors**
   Credit unions, by their very design, place members first. Unlike profit-driven institutions, credit unions are member-owned cooperatives that reinvest earnings into better rates, lower fees, and improved services. This structure inherently discourages anti-consumer practices, including excessive fees or unfair terms, making broad-scale consumer compliance failures less likely. Expanding consumer compliance efforts within the credit union system risks duplicating existing safeguards and imposing unnecessary regulatory burdens on institutions that are already aligned with consumer protection goals.

5. **Focus on Risk-Based Examination Processes**
   The NCUA has historically embraced a risk-based examination process that targets its resources to address the most significant risks to safety and soundness. Altering this focus to prioritize expanded consumer compliance examinations would dilute the agency's efforts in areas that more directly impact systemic stability. We urge the NCUA to remain focused on risk-based examination processes and allocate resources based on demonstrable need, ensuring a balanced regulatory approach.

- **Climate Financial Risk Officer**

Under the proposed 2025 budget, the NCUA plans to create a climate financial risk officer position, a move that raises significant concerns.

We appreciate the NCUA's recognition of climate-related financial risk as an area that requires monitoring. As the federal prudential regulator and insurer of credit unions, it is essential for the NCUA to maintain a comprehensive understanding of potential risks to the credit union industry. Collecting relevant information from credit unions on climate-related financial risks is reasonable and aligns with the agency's oversight responsibilities. However, we strongly oppose any regulatory action that would impose mandatory climate-related reporting requirements on credit unions or limit their ability to make independent business decisions tailored to their members' needs.

As we previously shared with the NCUA during its request for information on climate-related financial risk, California and Nevada credit unions are already well aware of these challenges. California, in particular, faces significant climate-related risks, including wildfires, droughts, sea-level rise, and coastal erosion. The state has also set ambitious climate goals, such as achieving

100% zero-emission vehicle sales by 2035, which may have implications for auto lending practices.[1]

Many credit unions in California and Nevada have proactively adopted sustainable practices, becoming leaders in promoting environmental stewardship within the financial services industry. For example:

- **Operational Sustainability:** Credit unions are adopting paperless processes, recycling programs, and other initiatives to reduce their carbon footprint.
- **Green Financial Products:** Many offer loans for eco-friendly vehicles, renewable energy projects, solar installations, and energy-efficient home improvements.
- **ESG Integration:** Environmental, social, and governance (ESG) criteria are being incorporated into investment strategies.
- **Community Partnerships:** Credit unions are working with community organizations, nonprofits, and green businesses to promote sustainable initiatives.
- **Member Education:** Credit unions are actively educating members and communities about sustainability and environmental issues.

These examples demonstrate that credit unions are already addressing climate-related challenges without the need for additional regulatory mandates.

The NCUA is not a climate regulator. Climate-related financial risks are complex and multifaceted, with unique regional characteristics and impacts. A one-size-fits-all regulatory approach risks overlooking the diverse circumstances and risk profiles of credit unions, both across the country and within individual states.

Credit unions are uniquely positioned to assess their own operations, fields of membership, and specific risks. The NCUA should remain focused on its primary mission of ensuring the safety and soundness of the credit union system. Prescriptive climate-related measures could undermine credit unions' ability to serve their members effectively and adapt to evolving challenges in a way that aligns with their unique structures and communities.

Conclusion

[1] California Air Resources Board: Advance Clean Cars II (March 2022), available at https://ww2.arb.ca.gov/our-work/programs/advanced-clean-cars-program/advanced-clean-cars-ii.

The Leagues appreciate the opportunity to comment on the NCUA Staff Draft 2025-2026 Budget. While we recognize the importance of the agency's work in safeguarding the credit union system, we urge the NCUA to approach budget increases with greater fiscal prudence. By focusing on efficiency, accountability, and targeted support for credit unions, the NCUA can better align its resources with the needs of the industry and its members.

We encourage the NCUA to carefully consider the concerns and recommendations outlined in this letter. The Leagues remain committed to collaborating with the NCUA to ensure the continued strength and success of the credit union system.

If you have any questions regarding our comments, please contact me.

Sincerely,

Scott F. Simpson
President/CEO
California and Nevada Credit Union Leagues