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Statement by
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Committee on Banking, Housing, and Urban Affairs

Hearing on Oversight of Prudential Regulators:
A Strong Banking and Credit Union System for Main Street
November 15, 2022

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for inviting me to discuss the state of the credit union system and provide an update on the operations, programs, and initiatives of the National Credit Union Administration.

In the Federal Credit Union Act, Congress charged the NCUA with overseeing the credit union system to "make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." The NCUA is committed to fulfilling this charge by protecting the system of cooperative credit and its member-owners through effective chartering, supervision, regulation, and insurance.

To further these important policy objectives, the NCUA Board in March 2022 unanimously adopted a five-year strategic plan with three core goals.[1] Those strategic goals are:

- Ensuring a safe, sound, and viable system of cooperative credit that protects consumers;
- Improving the financial well-being of individuals and communities through access to affordable and equitable financial products and services; and
- Maximizing organizational performance to enable mission success.

This strategic plan and its goals will guide the agency's work through 2026.

In my testimony today, I will discuss the state of and the factors impacting the credit union system, review the NCUA's efforts to strengthen the credit union system and protect consumers, highlight several of the agency's recent rulemakings, and outline two key legislative requests.

State of the Credit Union System

While the COVID-19 pandemic's economic fallout and a rising interest rate environment have impacted credit union performance over the past year, federally insured credit unions (credit

[1] *See* https://www.ncua.gov/files/agenda-items/strategic-plan-20220317.pdf.

unions), the National Credit Union Share Insurance Fund (Share Insurance Fund), and the Central Liquidity Facility (CLF) have all remained on a solid footing.[2]

Credit Union System Performance

As of June 30, 2022, there were 4,853 credit unions with 132.6 million members.[3] The system's aggregate total assets were $2.1 trillion. Additionally, the system's net worth ratio rose to 10.42 percent, representing a recovery of 40 basis points from a pandemic low of 10.02 percent. Notably, at the end of the second quarter, credit unions recorded a 16.2 percent year-over-year increase in loans.

During the last decade, the credit union system has also experienced growth in size and complexity. Based on the most recent quarterly data, the number of credit unions with assets of at least $1 billion has more than doubled to 412 in the second quarter of 2022, compared to 193 in 2012. Together, these billion-dollar-plus credit unions held $1.6 trillion in assets—three out of every four dollars within the credit union system. These credit unions also reported the most growth in loans, membership, and net worth over the year ending in the second quarter of 2022.

Nevertheless, the credit union system continues to encompass mostly smaller institutions. Nearly two-thirds of all credit unions have less than $100 million in total assets. Smaller credit unions play an important role in providing safe, fair, and affordable financial products and services, particularly in rural areas, within communities of color, and to other underserved places across the country. Smaller credit unions also often face challenges to their long-term viability including lower returns on assets, declining membership, higher loan delinquencies, increasing non-interest expenses, and a lack of succession planning for boards and key personnel.[4]

Moving forward, all credit unions must remain diligent in managing safety and soundness and prepare for rising interest rates, inflationary pressures, and liquidity concerns. Through examinations and supervision, the NCUA continues to monitor economic conditions and these challenges, and the agency stands ready to act expeditiously, when needed, to address identified risks.

External Factors Impacting the System

In the coming year, the NCUA expects credit union performance to be influenced by several external factors. Forecasters expect modest economic growth resulting from inflation and tighter credit conditions. Job growth is also expected to slow, placing moderate upward pressure on the unemployment rate.

Expected changes in the interest rate environment suggest the term spread could turn negative next year, squeezing credit union net interest margins. Therefore, the outlook for credit union loan growth and loan performance is uncertain. Modest growth in automobile and home sales is projected for next year, which should support continued growth in credit union loan balances.

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[2] The information contained in this testimony neither includes nor applies to privately insured credit unions.

[3] *See* https://www.ncua.gov/files/publications/analysis/quarterly-data-summary-2022-Q2.pdf.

[4] To address the issue of succession planning, the NCUA Board currently has under consideration a proposed rule to require boards of directors at federal credit unions to establish and adhere to processes for succession planning. *See* https://www.regulations.gov/docket/NCUA-2022-0016/document.

Delinquency rates may drift higher—moving closer to pre-pandemic levels—but should stay relatively low. However, weaker-than-expected economic conditions or a downturn could produce less favorable outcomes for credit unions. Inflation may remain elevated as well due to geopolitical events, supply chain disruption, and material shortages.

Given rising interest rates, the NCUA updated its supervisory guidance in September to address market and interest rate risk. Specifically, the agency issued a letter to credit unions outlining changes to how it plans to supervise for interest rate risk and clarifying when the issuance of a document of resolution would be warranted.[5] Going forward, the NCUA will continue to monitor the interest rate environment and take further action, if needed.

Performance of the National Credit Union Share Insurance Fund

The Share Insurance Fund continues to perform well, with no premiums or distributions expected at this time.

By law, the NCUA Board is required to maintain a strong Share Insurance Fund, which is backed by the full faith and credit of the United States. This fund insures individual accounts up to $250,000. As of June 30, 2022, the Share Insurance Fund protected nearly $1.7 trillion in insured shares and deposits across all states, the District of Columbia, and U.S. territories. The Share Insurance Fund also reported a net income of $19.2 million and a net position of $20.3 billion for the second quarter ending June 30, 2022.

The Share Insurance Fund's equity ratio is the overall capitalization of the insurance fund to protect against unexpected losses. When the equity ratio falls below—or is projected within six months to fall below—1.20 percent, the NCUA Board must assess a premium or develop a restoration plan. Conversely, when the equity ratio exceeds the normal operating level—or the desired equity level of the Share Insurance Fund set between 1.20 percent and 1.50 percent—the Share Insurance Fund pays a distribution if the other statutory requirements are met.

At the end of the second quarter of 2022, the equity ratio stood at 1.26 percent. For the period ending December 31, 2022, NCUA projects the equity ratio for the Share Insurance Fund will be 1.30 percent, slightly below the 1.33 percent normal operating level set by the NCUA Board.

State of the Central Liquidity Facility

The NCUA remains concerned about access to liquidity for credit unions given rising interest rates and the increased probability of a liquidity event, combined with the expiration of previously approved statutory enhancements to the NCUA's CLF at the end of 2022.

Established by statute, the CLF is a mixed-ownership government corporation designed to improve financial stability by providing credit unions with a source of loans to meet seasonal, short-term, and protracted liquidity needs.[6] The CLF's ability to respond rapidly to events helps contain or avert liquidity crises before they escalate. For example, during the Great Recession and financial crisis of 2008, the NCUA's deployment of the CLF and Share Insurance Fund enabled many credit unions to survive.

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[5] *See SL No. 22-01, Updates to Interest Rate Risk Supervisory Framework*.

[6] *See* https://www.ncua.gov/support-services/central-liquidity-facility.

Currently, corporate credit unions—or credit unions serving other credit unions—play a critical role to the system by subscribing to capital stock in the CLF to provide access to liquidity for smaller credit unions. While corporate credit unions may act as agent members to purchase capital stock of the CLF, the enhancements that allow for their ability to do so for a subset of credit union members will expire at the end of 2022, unless Congress acts to extend these authorities. Expiration of this provision will make agent membership in the CLF for corporate credit unions cost prohibitive, and it will increase the administrative burden of smaller credit unions to use the CLF for their liquidity needs.

To address this expiration, the NCUA Board has strongly advocated for permanent statutory authority—or at minimum, an extension—to allow corporate credit unions and other agent members of the CLF to purchase capital stock for a subset of credit unions served. Smaller credit unions are more likely to need access to emergency funds should a systemic liquidity event occur. These statutory CLF enhancements make the facility a more affordable option for corporate credit unions to subscribe to on behalf of their smaller credit union members.

If the CLF agent-member provision is not permanently reinstated or extended, there could be a reduction of $9.7 billion in reserve liquidity for the credit union system. Given increasing liquidity concerns within the credit union system, now is not the time to shrink access to an emergency liquidity resource.

NCUA's Efforts to Strengthen the Credit Union System

Over the last year, the NCUA has undertaken several actions to strengthen capital standards, improve the examination process, enhance cybersecurity, protect consumers, preserve Minority Depository Institutions (MDIs), and advance diversity, equity, and inclusion.

Strengthening Capital Standards

The NCUA recognizes that all financial institutions backed by federal share and deposit insurance, including credit unions, should hold capital commensurate with their risks. In 2015, the NCUA Board initially approved a risk-based capital rule (RBC rule) to update, consistent with the Federal Credit Union Act, the risk-based net worth requirement for complex credit unions.[7] The intent was to reduce the likelihood of a small number of high-risk outliers exhausting their capital and causing losses to the Share Insurance Fund.

Effective January 1, 2022, all federally insured, consumer credit unions defined as complex must comply with the RBC rule. The RBC rule defines a complex credit union as one having more than $500 million in assets. Should one of these credit unions fail, the additional capital buffer afforded by this framework would protect surviving credit unions, their members, and the taxpayers who ultimately guarantee the Share Insurance Fund.

To provide a simplified alternative framework to the risk-based capital requirements, the NCUA Board approved the Complex Credit Union Leverage Ratio final rule (CCULR rule) in December 2022. The CCULR rule relieves complex credit unions that satisfy certain eligibility

[7] 12 USC 1790d(b)(1).

criteria from calculating the risk-based capital ratio. In exchange, these credit unions must maintain a higher net worth ratio than otherwise required for the well-capitalized classification.

The CCULR rule provides complex credit unions with a risk-based capital framework comparable to those developed by the federal banking agencies and consistent with the Federal Credit Union Act. The rule also strengthens the system's capital levels while providing complex credit unions with a streamlined approach to managing their capital.

Together, the CCULR and RBC rules promote responsible capital levels across the credit union system and reduce the Share Insurance Fund premiums surviving credit unions would pay if a large, complex credit union failed. The rules also strengthen the credit union system's ability to better withstand future crises with minimal disruption to credit union members.

Upgrading Legacy Examination Tool

As part of the NCUA's innovation efforts, the agency has developed a new examination tool to modernize the examination process and offer examiners enhanced analytics capabilities. The NCUA officially rolled out its new Modern Examination and Risk Identification Tool (MERIT) in 2022 after conducting training for state and federal credit union examiners in 2021. This cloud-based examination platform replaced the NCUA's Automated Integrated Regulatory Examination System (AIRES), a 25-year-old legacy examination application. The NCUA expects MERIT will help examiners more efficiently perform their functions and apply better analytics, which should result in fewer onsite examination hours.

Maintaining Cybersecurity

Over the last year, the NCUA has continued to reinforce the credit union system's ability to withstand potential cyberattacks and strengthen the cybersecurity of credit unions and the NCUA. One of the agency's notable actions includes warning credit unions about potential threats stemming from malicious cyber activity against the United States in response to sanctions imposed on Russia for its war in Ukraine. The NCUA has also completed the development of a new IT examination tool, encouraged credit union use of the Automated Cybersecurity Evaluation Toolbox (ACET), and offered cybersecurity grants to eligible low-income credit unions.

To protect the credit union system from the cyberattacks of foreign adversaries and other bad actors, the NCUA has regularly provided guidance and resources to credit unions regarding these potential threats.[8] As part of this guidance, the NCUA recommends credit unions report cyber incidents to the NCUA, the Federal Bureau of Investigation, and the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency (CISA). The NCUA has also directed credit unions to CISA's Shields-Up website,[9] which provides information about cybersecurity threats, resources, and mitigation strategies.

Additionally, the prevalence of ransomware, malware, supply-chain vulnerabilities, social engineering, insider threats, and other forms of cyber intrusion are continuing to create challenges at credit unions of all sizes. These threats require ongoing measures for rapid

[8] *See* https://www.ncua.gov/regulation-supervision/regulatory-compliance-resources/cybersecurity-resources.
[9] *See* https://www.cisa.gov/shields-up.

detection, protection, response, and recovery and are likely to accelerate in the future. In response, the NCUA will soon begin deployment of its new Information Security Examination (ISE) program. ISE is a scalable, risk-focused examination system that focuses on compliance with the NCUA's information system regulations.

The NCUA has also created ACET for credit unions to use when evaluating their levels of cybersecurity preparedness. ACET works in tandem with ISE, giving credit unions a better understanding of the cybersecurity issues the NCUA will address during the examination process. ACET is a downloadable, standalone application developed to be a holistic cybersecurity resource for credit unions. ACET incorporates standards and practices established for financial institutions across the cybersecurity discipline, like the Federal Financial Institutions Examination Council's *IT Examination Handbooks* and the National Institute of Standards and Technology's *Cybersecurity Framework*.

Finally, to help improve digital services and cybersecurity, the NCUA provides Community Development Revolving Loan Fund (Revolving Loan Fund) grants and loans to low-income-designated credit unions. Congress created the Revolving Loan Fund to stimulate economic development in low-income communities served by credit unions. During the 2022 grant round, 52 grants totaling $484,165 were specifically provided for digital services and cybersecurity projects.

Ensuring Consumer Financial Protection

Consumer financial protection is an NCUA supervisory priority, equally important as safety and soundness. This year, NCUA examiners are reviewing credit union compliance with COVID-19 consumer-assistance programs, fair lending rules, servicemember protections, and fair credit reporting laws. The NCUA is also conducting more fair lending examinations and reviews than in prior years. Of note, the NCUA has found compliance management system weaknesses during recent fair lending examinations and reviews.

In addition, the NCUA has included a review of credit union overdraft programs as a supervisory priority. In particular, the agency is focusing on credit unions' use of overdraft protection programs and the safety-and-soundness issues that can occur with overreliance on these programs. Further, the overdraft fees charged by some credit unions can be detrimental to members and inconsistent with the system's mission. For that reason, examiners are requesting information about overdraft policies and procedures and audits of credit union overdraft programs. The agency is also reviewing credit union communications with members about these programs. The information gathered this year may be used for a more thorough review of credit unions' overdraft programs in 2023.

Ultimately, the NCUA recognizes that a strengthened consumer compliance program is in the best interest of the system and its members.

Supporting MDIs and Low-Income Designated Credit Unions

The NCUA is also developing more tailored examination procedures for MDI and low-income designated credit unions to assist examiners in supervising these institutions based on their unique strategies and member needs.

MDI and low-income credit unions are important to providing access to safe, fair, and affordable financial services and products, particularly to underserved individuals and communities. As of June 30, 2022, 507 credit unions had the MDI designation, and 412 MDI credit unions held the low-income designation. In all, MDI credit unions served more than 5 million members and held more than $65 billion in assets.

Despite the ongoing challenges to the economy and the financial system resulting from the COVID-19 pandemic, MDI credit unions generally saw improved financial performance in 2021. While the number of MDIs declined slightly, membership, assets, and loans grew. For example, the total amount of MDI credit union lending rose by $2.9 billion during 2021, an increase of more than 9 percent over the prior year and a higher growth rate than credit unions overall.[10]

Additionally, a critical component of the NCUA's efforts to support credit unions is the low-income designation. To qualify as a low-income designated credit union, a majority of the credit union's membership (50.01 percent) must meet certain income thresholds based on data from the Census Bureau and requirements outlined in the NCUA's rules and regulations. As of the end of the second quarter of 2022, more than 2,600 credit unions with low-income designations served more than 68 million members and held in excess of $1 trillion in assets.

Advancing Diversity, Equity, and Inclusion

The NCUA is committed to fostering diversity, equity, and inclusion within the agency and the credit union system. The agency understands that diversity, equity, and inclusion drive fairness, employee engagement, and effective decision-making. Additionally, organizations that embrace diversity, equity, and inclusion often experience higher workforce engagement, greater employee retention, and increased organizational productivity and earnings.

As noted in the NCUA's 2021 OMWI Report to Congress,[11] the agency's diversity, equity, and inclusion efforts helped attract, hire, and retain a diverse workforce; led to an increase in hiring of employees with disabilities; and led to an increase in contracting dollars awarded to minority- and women-owned businesses. In 2021, two of every five new hires were people of color; more than half the participants in leadership development programs were female; and nearly four out of every 10 contract dollars went to minority- and women-owned businesses.

Despite this progress, the NCUA recognizes that Hispanic and Latino professionals remain underrepresented within the agency's ranks. The agency also needs to improve its performance in hiring and retaining women. As such, the NCUA is developing recruitment and development strategies to increase representation of both these demographic groups.

Lastly, the NCUA's annual voluntary Credit Union Diversity Self-Assessment (CUDSA) results showed improvements over the last year.[12] In 2021, 240 credit unions participated in the survey—a 28 percent increase from 2020. Among the highlights for 2021, 61 percent of responding credit unions reported a leadership and organizational commitment to diversity, 56 percent reported taking steps to implement employment practices to demonstrate that

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[10] *See* https://www.ncua.gov/files/publications/2021-mdi-congressional-report.pdf.
[11] *See* https://www.ncua.gov/files/publications/2021-omwi-congressional-report.pdf.
[12] *See* https://www.ncua.gov/files/publications/2021-cudsa-report.pdf.

commitment, and 31 percent reported monitoring and assessing their diversity policies and practices. As part of the 2022 CUDSA cycle, the NCUA has also made several improvements to enhance security, ensure data integrity, and improve the overall user experience.

Finally, the agency hosted its third industry-wide summit on diversity, equity, and inclusion at the start of November.[13] The in-person and online hybrid event attracted hundreds of diversity, equity, and inclusion advocates and practitioners. Going forward, the NCUA will continue to host similar summits annually and encourage more credit unions to complete the CUDSA.

Rulemaking and Guidance

As the financial services system and credit unions continue to evolve—especially with many credit unions growing larger and more complex—the regulatory framework must keep pace to maintain the strength and stability of the credit union system. In response to these changes and to legislation enacted into law, the NCUA has undertaken several rulemakings or implemented new rules during the last year that address member expulsion, subordinated debt, emergency capital investments, and cybersecurity notifications. The NCUA has also issued guidance on the use of distributed ledger technologies.

Member Expulsion

On September 22, 2022, the NCUA Board unanimously approved a proposed rule to develop a policy by which a federal credit union member may be expelled for cause by a two-thirds vote of a quorum of the federal credit union's board of directors.[14] This proposal would implement the Credit Union Governance Modernization Act, passed by Congress in March 2022.[15] Comments on the proposed rule are due December 2, 2022.

Subordinated Debt/Secondary Capital Rule

Effective January 1, 2022, the NCUA Board adopted a final subordinated debt rule that replaced the previous secondary capital rule.[16] The final rule allows eligible credit unions to issue subordinated debt under the statutory authority to borrow from any source.

Among the changes included in the final rule were increased categories of credit unions eligible to use subordinated debt for purposes of regulatory capital treatment. This rule now permits low-income-designated credit unions, as well as complex credit unions that are not low-income-designated, to count qualifying subordinated debt to meet certain capital requirements. This rule also enables newly chartered credit unions to use subordinated debt to support their startup phase.

Subordinated debt, as defined by NCUA's regulation, can help increase regulatory capital levels to protect against future losses and enable credit unions to provide lending and other member services to under-resourced communities.

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[13] *See* https://www.ncua.gov/news/dei-access-summit-2022.
[14] *See* https://www.regulations.gov/document/NCUA-2022-0132-0001.
[15] Public Law 117-103 (Mar. 15, 2022).
[16] *See* https://www.regulations.gov/docket/NCUA-2020-0016/document.

Emergency Capital Investment
In December 2021, the Board approved amendments to the Subordinated Debt rule to address Emergency Capital Investment Program (ECIP) secondary capital applications approved and scheduled for funding after the final rule went into effect.[17] This change benefits eligible MDI or Community Development Financial Institutions credit unions that are either participating in the U.S. Department of Treasury's ECIP or other programs administered by the U.S. Government.

Credit unions, for the most part, have completed receiving approximately $2 billion in ECIP investments. It is expected upon completion that close to 80 credit unions will have received ECIP investments. ECIP funding will provide long-term, low-cost regulatory capital for participating institutions to support low-income and minority communities. Such efforts are consistent with the statutory mission of credit unions to serve the credit and savings needs of their members, especially those of modest means.

Cyber Incident Notification
As part of the NCUA's cybersecurity efforts, the agency proposed a cyber incident notification rule that would require a credit union to notify the agency as soon as possible, but no later than 72 hours, after it reasonably believes a reportable cyber incident has occurred.[18] The rule would provide an early alert to the NCUA and other agencies, allowing the government and the private sector to react to threats before they become systemic.

To that end, the proposed rule would set parameters for what constitutes a reportable incident and the minimum notification requirements. The proposed rule is intended to align where possible with the Cyber Incident Reporting for Critical Infrastructure Act signed into law in March.[19] The proposed rule would also bring the NCUA's cyber incident reporting framework into general alignment with the federal banking agencies.

Use of Distributed Ledger Technologies
The NCUA recognizes that the maturing of financial technology is creating opportunities for credit unions to increase speed of service, improve security, and expand products and services. To assist credit unions regarding financial technology adoption in a safe-and-sound manner, the NCUA issued a letter to credit unions that clarifies expectations for credit unions contemplating the use of new or emerging distributed ledger technologies (DLT).[20] The letter specifies that while the NCUA does not prohibit credit unions from developing, procuring, or using DLT, the technology used must be deployed for permissible activities and in compliance with state and federal laws and regulations.

Legislative Requests

The NCUA recognizes that laws and regulations must evolve to reflect changes in the economic environment and technological advances. Accordingly, there are two legislative changes that I would like to highlight. The first change relates to the CLF agent-membership requirements

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[17] *See* https://www.regulations.gov/docket/NCUA-2022-0040/document.
[18] *See* https://www.regulations.gov/docket/NCUA-2022-0099/document.
[19] Public Law 117-103 (Mar. 15, 2022).
[20] *See* *22-CU-07, Federally Insured Credit Union Use of Distributed Ledger Technologies*.

mentioned earlier in this testimony. Extension of this provision by Congress would allow the CLF to continue to provide a shock absorber that will allow the credit union system to better withstand liquidity events. The second change concerns restitution of the agency's vendor authority. Action by Congress on this legislative recommendation would close a growing regulatory blind spot. Enactment of both legislative proposals would facilitate the ability of the NCUA to fulfill its statutory mission.

Central Liquidity Facility Permanency
Most timely, the NCUA requests Congress permanently adjust the CLF agent-member requirements to allow agent members to purchase capital stock for a subset of credit unions served. Permanent agent membership would make it economically feasible for agent members, such as corporate credit unions, to participate in the CLF. The statutory change would protect the taxpayer at no cost, provide a buffer for the Share Insurance Fund, maintain immediate access to emergency liquidity for more than 3,600 credit unions with assets under $250 million, and support the financial services sector in a liquidity event.

If the current CLF enhancements—which expire at year's end—are not permanently adopted by Congress or if a statutory extension is not provided, there will be a decline in the CLF's capitalization and funding capacity as corporate credit unions are "priced out." Given the prohibitive cost of the stock purchase for all institutions a corporate credit union serves, many corporate credit unions have already announced plans to terminate membership at the end of this calendar year if the agent-member provision is not extended or made permanent.

Permanence would provide regulatory certainty for smaller credit unions and strengthen the system's ability to respond to future emergencies. The House Financial Services Committee has favorably reported H.R. 3958, the Central Liquidity Facility Enhancement Act, and the language to renew this expiring enhancement for an additional year is contained in the House-passed 2023 National Defense Authorization Act.

Restoration of Third-Party Vendor Authority
The NCUA also seeks the restoration of statutory examination and enforcement authority over third-party vendors—including credit union service organizations (CUSOs)—that expired at the end of 2001. This statutory change would give the NCUA parity with other agencies that supervise and regulate federally insured depository institutions.

Currently, the NCUA may only review credit union third-party vendors with their permission, and often, vendors decline these requests. Vendors and CUSOs may also reject NCUA recommendations to implement appropriate corrective actions that mitigate identified risks. The NCUA needs visibility into these entities for several reasons, including the credit union system's growing reliance on digital services, increased credit union outsourcing of core business functions and resulting concentration risks, and cybersecurity, which could be a national security risk given this lack of oversight.

For these reasons, the Government Accountability Office, the Financial Stability Oversight Council, and the NCUA's Office of Inspector General have each recommended that Congress pass legislation to restore the NCUA's vendor authority. The preamble to the CUSO final rule adopted in October 2021 also noted the NCUA Board's "continuing policy to seek third-party vendor authority for the agency from Congress."[21] If the NCUA's third-party vendor authority is reauthorized, the agency will adopt a program that prioritizes examinations based on risk to the Share Insurance Fund, cybersecurity, consumer financial protection, Bank Secrecy Act/Anti-Money Laundering compliance, and national security issues.

The U.S. House of Representatives passed legislation to provide NCUA third-party vendor authority within the 2023 National Defense Authorization Act. In the Senate, bipartisan legislation has been introduced, which if enacted, would enable the NCUA to develop a risk-focused examination program for CUSOs and third-party vendors.[22]

I would like to extend my appreciation to the committee for its continued support and thank Senators Ossoff, Lummis, and Warner for introducing S. 4698, the Improving Cybersecurity of Credit Unions Act, to restore the NCUA's third-party vendor examination authority. The enactment of this legislation would close this regulatory blind spot the NCUA continues to confront.

Conclusion

Thank you again for the invitation to testify about the NCUA's work and the state of the credit union system. As the NCUA continues to navigate through a challenging and changing economic environment, the NCUA will stay focused on protecting credit union members, ensuring the safety and soundness of credit unions, and insulating the Share Insurance Fund from losses. By attending to these issues, the NCUA Board and staff will keep the credit union system strong and ensure greater access to safe, fair, and affordable financial products and services for all Americans, including those of modest means. I look forward to your questions.

[21] *See* https://www.ncua.gov/files/agenda-items/AG20211021Item2b.pdf.
[22] *See* https://www.congress.gov/bill/117th-congress/house-bill/7900.