National Credit Union Administration

Office of the Chairman

April 29, 2020

SENT BY EMAIL

The Honorable Mike Crapo
Chairman
United States Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo:

Thank you for your April 8, 2020 letter highlighting the Coronavirus Aid, Relief, and Economic Security (CARES) Act's provisions intended to mitigate the economic devastation of COVID-19. The NCUA shares your concerns and the agency has taken prudent and meaningful steps to provide guidance and regulatory relief to the credit union industry and the members they serve, and we will continue to do so.

Among the tools Congress provided in the CARES Act is the Paycheck Protection Program (PPP). To that end, the NCUA issued a Letter to Credit Unions on PPP loans and is working closely with credit unions and the Small Business Administration (SBA) to answer questions about the program.[1] PPP loans receive a risk weighting of zero percent, as decreed by the CARES Act. Credit unions have worked to provide PPP loans to their members. Unfortunately, some credit unions have encountered difficulty gaining access to loans for their members. Our work with the SBA will continue to ensure credit unions have the access they need.

As the scope of the COVID-19 outbreak has become more acute, the NCUA has carefully monitored developments so we can offer guidance to both our employees and regulated entities. We have already provided guidance to credit unions on a host of pressing concerns, including virtual annual meetings, providing branch services, adjusting the NCUA's supervision and examination program, filing quarterly Call Reports, and stressing the need for vigilance in light of the numerous COVID-19-related scams that are emerging.[2]

The NCUA has prioritized issuing the $1.5 million FY 2020 Community Development Revolving Loan Fund (CDRLF) grants appropriated by Congress to credit unions severely impacted by the COVID-19 pandemic. Additionally, "Financial businesses primarily engaged in the business of lending…" cannot borrow under the PPP due to SBA regulations.[3] Since credit unions are unable to access the PPP as borrowers, additional funding for CDRLF grants could

[1] *See:* https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/small-business-administration-loan-programs-help-small-businesses-and-members-during

[2] *See:* https://www.ncua.gov/coronavirus/federally-insured-credit-unions

[3] *See:* 13 CFR § 120.110(b)

help support more credit unions in responding to the fallout from COVID-19. Most credit unions are small businesses themselves and many serve low-income and other underserved communities. This funding could also be especially useful for many minority depository intuitions that are also small businesses.

NCUA's Central Liquidity Facility (CLF) is a unique public-private mixed-ownership entity, and it can only be effective when membership is sufficiently large to create the critical mass of capital amounts needed to achieve sizable borrowing authority. While we hope for the best outcome with the current emergency, we must prepare for the possibility that the CLF will once again prove vital in addressing the liquidity needs for credit unions and the Share Insurance Fund. We know from our experience with the last financial crisis that addressing liquidity needs aggressively reduces the corresponding threat to capital adequacy.

As you know, the CARES Act increased the borrowing authority of the CLF by increasing the liquidity multiplier from 12 times to 16 times of the amount of paid-in capital. This was a significant change that will better position credit unions to withstand the current crisis. Thank you for adding this provision and accepting my recommendation to enhance the CLF for the credit union system.

The NCUA Board recently implemented the CARES Act's changes to the CLF and made additional enhancements to our regulations to augment these flexibilities.[4] The steps taken by the NCUA in amending its CLF regulation (Part 725) make it easier for new members to get loans immediately and make it more appealing to join by temporarily relaxing the notice requirements for credit unions seeking to end their membership, should they choose to do so. The changes to the CLF also make it easier for corporate credit unions to join as agent members. By constituting an agent network and making the CLF more robust, we have the chance to provide thousands of smaller credit unions with access to this unique form of liquidity.
The NCUA has also adopted changes to the loan participation rule to provide additional liquidity for credit unions. This temporary relief will provide more flexibility to credit unions to purchase loan participations from one originator.

Along with other federal and state regulators, the NCUA has encouraged financial institutions to meet the financial needs of customers and members impacted by COVID-19.[5] The NCUA urges financial institutions to work constructively with borrowers and other customers in impacted communities.[6] Specifically, prudent efforts consistent with safe and sound lending practices will not be subject to examiner criticism. The NCUA understands that many financial institutions may face current staffing shortages and other challenges. Where operational challenges persist, regulators will expedite, as appropriate, any request to increase availability of services in

[4] *See:* https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/enhancements-central-liquidity-facility-membership-and-borrowing-authority
[5] *See:* https://www.ncua.gov/newsroom/press-release/2020/agencies-encourage-financial-institutions-meet-financial-needs-customers-and-members-affected
[6] *See:* https://www.ncua.gov/newsroom/press-release/2020/agencies-issue-revised-interagency-statement-loan-modifications-financial-institutions-working

impacted communities. The NCUA also will continue to work with financial institutions in scheduling examinations or inspections to minimize disruption to credit union services.

The NCUA has identified four areas where statutory changes would assist the agency's efforts in light of COVID-19. The NCUA recommends statutory changes that improve liquidity, provide capital relief, enhance community lending opportunities, and increase access for remote financial services delivery for credit unions.

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

- **Make changes to the Central Liquidity Facility permanent**: The temporary changes to the Central Liquidity Facility should be made permanent. This will provide regulatory certainty to credit unions to 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 seven percent to six percent and adequately capitalized from six percent to five 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 and/or loans become non-performing. 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 impacted 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 significantly limit or suspend in person transactions in their branches. 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 via a smartphone has grown rapidly in recent years. Because of this, the pandemic has highlighted the need for permanent statutory changes to allow credit unions to best serve members:

- **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. NCUA requests that the reasonable proximity requirement be removed or significantly amended to permit greater flexibility for members to join a credit union. Field of membership eligibility requirements would remain in place.

We will learn additional lessons as the recovery continues. Post recovery, I believe Congress should consider providing the NCUA vendor authority to allow the agency to better supervise for third-party cybersecurity risks. The NCUA will continue to monitor the situation on the ground during the pandemic to ensure protection of our nation's system of cooperative credit.

Despite the obstacles COVID-19 raises, the NCUA is confident that the credit union system will continue to meet the needs of Americans by providing affordable financial products to the underserved. If you have any questions or would like more information about the NCUA's efforts, please contact Gisele Roget, Deputy Chief of Staff and Director, Office of External Affairs and Communications at 703-518-6330 or GRoget@ncua.gov.

Sincerely,

Rodney E. Hood

Rodney E. Hood
Chairman