For release on delivery
Noon Eastern
November 12, 2020

Statement by

The Honorable Rodney E. Hood

before the

Committee on Financial Services

U.S. House of Representatives

November 12, 2020

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, thank you for the opportunity to discuss the state of the credit union industry and to provide an update on the operations, programs, and initiatives of the National Credit Union Administration (NCUA). On behalf of the NCUA and its Board, I am honored to be here with you today.

The NCUA's mission — to "*provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit*" — is a critical one.[1] Indeed, in touching more than one-third of all households, the credit union system is vital to the American economy. In turn, Congress has charged the NCUA with insuring deposits at federally insured credit unions, protecting the members who own credit unions, and chartering and regulating federal credit unions. The NCUA also is charged with ensuring the safety and soundness of the National Credit Union Share Insurance Fund (Share Insurance Fund), which insures members' deposits in federally insured credit unions.

Since I last testified before you in May, our country continues to face extraordinary challenges, as the COVID-19 pandemic has affected virtually every facet of American life, wreaking unprecedented economic harm on our nation's citizens and businesses, especially small businesses. The most important response to the pandemic has come, of course, from our health-care workers, who daily put themselves at risk to care for those who are battling this potentially deadly virus. On behalf of the NCUA, I want to express our sincere gratitude to these dedicated professionals, who have been tirelessly serving our nation since the pandemic began.

Our nation's credit union system was well capitalized at the start of the pandemic, with high levels of net worth and ample liquidity. That strength has allowed credit unions to adapt to a myriad of operational challenges resulting from the pandemic and social distancing measures, while still providing needed credit to members, businesses, and communities.

During this same period, the NCUA has worked diligently to provide regulatory relief where possible to give federally insured credit unions the flexibility they need to continue providing financial services to their members. We have adjusted our supervision and examination program to protect the safety of our staff and staffs of the credit unions we oversee, while addressing emerging risks and implementing statutory and regulatory changes that have occurred in response to COVID-19.

State of the Credit Union System

Credit union performance in the first half of 2020 was influenced by the sudden and steep drop in economic activity that began in the first quarter and accelerated in the second quarter.[2] Despite the challenges, the credit union system performed well and remains well capitalized through our June 2020 reporting.

As of June 30, 2020, there were 5,164 federally insured credit unions, 2.7 percent fewer than a year earlier. This decline in the number of credit unions was due mainly to the long-running

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

[2] The financial performance data presented today are based on the agency's most recent Call Report data, which are for the second quarter of 2020.

trend of consolidation across all depository institutions. During the same period, membership at all federally insured credit unions increased by 3.4 percent, to 122.3 million.

Total assets in federally insured credit unions rose by $229 billion, or 15.1 percent, over the year ending in the second quarter of 2020, to $1.75 trillion. Credit union shares and deposits rose by $210.9 billion, or 16.5 percent, to $1.49 trillion, reflecting the boost in personal income from CARES Act payments to individuals and the sharp economy-wide increase in personal savings. The credit union system's net worth increased by $11.6 billion, or 6.8 percent, over the year to $182.9 billion in the second quarter of 2020. Strong asset growth led to a decline in the aggregate net worth ratio — net worth as a percentage of assets — from 11.27 percent to 10.46 percent. Still, the credit union system remains well capitalized through June 2020.

Credit unions continue to provide needed credit to their members and communities. Total loans outstanding increased to $1.14 trillion in the second quarter of 2020. Credit union loan balances rose in most major categories, including in residential mortgages, auto loans, credit card balances, non-federally guaranteed student loans, and commercial loans.

Federally insured credit unions continued to supply the nation's small businesses and entrepreneurs with needed credit during the pandemic through the Small Business Administration's Paycheck Protection Program (PPP). As of the second quarter, 833 credit unions participated in the PPP and collectively extended 171,000 loans totaling $8.4 billion, with an average loan amount of $49,000. Forty-four of these credit unions were minority depository institutions. Collectively, these MDIs made 6,839 PPP loans totaling $388 million, with an average loan amount $57,000 — helping to ensure minority-owned businesses that have been hardest hit by the COVID-19 pandemic have the support they need to remain open and support their local communities.

The delinquency rate at federally insured credit unions was 58 basis points in the second quarter of 2020, down 5 basis points compared with the second quarter of 2019. Loan performance was mixed across major categories. The net charge-off ratio for all federally insured credit unions was 53 basis points in the second quarter of 2020, compared with 56 basis points in the second quarter of 2019.

The overall liquidity position of federally insured credit unions improved. Cash and short-term investments as a percentage of assets increased from 13 percent to 18 percent, reflecting a 55 percent increase in cash and short-term investments, from $198 billion in the second quarter of 2019 to $308 billion in the second quarter of 2020. Borrowings to shares and net worth declined from 3.6 percent to 3.2 percent over the same period due to the increase in shares.

While economic conditions are improving, the effects of the recent downturn will likely affect credit union performance through the end of the year and into 2021. System-wide delinquency rates, which remained low through the second quarter, could begin to rise as forbearance programs end, particularly given the current high level of unemployment. Interest rates across the maturity spectrum have fallen to historically low levels. A prolonged period of low interest rates also poses risks, particularly to credit unions that rely primarily on investment income. NCUA is actively monitoring economic conditions and assessing these and other risks to credit unions and their members.

State of the Share Insurance Fund

The Share Insurance Fund reported net income of $20.5 million based on total income of $149.1 million through the second quarter of 2020. The fund reported $17.7 billion in assets as of June 30, 2020.

The equity ratio stands at approximately 1.32 percent.

Through June 30, 2020, there was one federally insured credit union failure that caused a loss to the Share Insurance Fund. Total losses through June 30, 2020 associated with this failure are $1.6 million.

The NCUA's staff have performed multiple scenario analyses of additional share growth and projected losses to determine under what conditions the Share Insurance Fund's equity ratio might fall below the statutory minimum of 1.20 percent. The agency will take all necessary action to ensure the Share Insurance Fund remains strong and retains the public's confidence. While the NCUA remains above the minimum equity ratio for the Share Insurance Fund, vigilance is needed to manage and monitor this situation.

Implementation of BSA/AML

With each examination it conducts, the NCUA is required by the Federal Credit Union Act to perform a Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) review. And though much has changed in the financial services sector since the act was written in 1979, the agency takes its responsibilities under this law very seriously. Technological advances and the emergence of entrepreneurial financial technology firms are transforming the delivery of financial services, but they are not without risks. Accordingly, BSA laws must adapt in terms of coverage, and they must be flexible to ensure that the United States' BSA/AML regime maintains its integrity.

To that end, the NCUA has worked closely with its sister regulators, U.S. Treasury and law enforcement partners to improve effectiveness and efficiency. This includes active participation in numerous working partnerships, including the BSA Advisory Group, which is led by the Financial Crimes Enforcement Network (FinCEN) and an interagency Principals Working Group. These groups have worked extensively to identify improvements, smart regulations, and industry communications and have prioritized work streams to enhance understanding, effectiveness and efficiency in the BSA/AML system. Some examples include recent policy clarifications for the industry in terms of agency enforcement posture, risk-based nature of our regulatory and supervisory oversight, and clarity on politically exposed persons. The NCUA is committed to ensuring the integrity of the credit unions system and the broader U.S. financial system through smart regulation and policies that will drive more efficient and effective identification of illicit finance.

Financial Technology and Related Developments

By providing new products and services, increasing the ease and timeliness of product and service delivery, and opening up greater access of a broad range of financial products and services to unbanked and under-banked communities, financial technology ("fintech") is a growing phenomenon that is poised to transform financial services in the United States and around the world. That is why the NCUA, when appropriate, has partnered with its sister agencies to engage in outreach with the industry. For example, the agency has participated in several projects aimed at enhancing service quality and reducing risk. Due to the increased layers between the credit union or bank and the member/customer, however, and insufficient regulatory and supervisory frameworks, the inherent risks of fintech may shift to consumers. Additionally, reduced transparency in payment systems can increase illicit finance risk, and put consumer data privacy in jeopardy. Therefore, while the emergence of fintech presents broad opportunities to empower consumers and small businesses, the regulatory framework must change and adapt so consumers have improved transparency and information, and make informed decisions.

Executive Compensation Policies for Regulated Entities

Section 956 of the U.S. code requires the NCUA, the federal banking agencies, the Securities and Exchange Commission (SEC), and the Federal Housing Finance Administration (FHFA) to jointly prescribe regulations or guidelines regarding incentive-based compensation practices at covered financial institutions. These regulations or guidelines must prohibit incentive-based compensation arrangements that either encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss to the covered financial institution. The agencies have twice previously published proposed rules to implement Section 956, once in 2011 and again in 2016, and the NCUA is committed to successfully concluding this rulemaking.

Update on NCUA's COVID-19 Response Since May

The NCUA's response to COVID-19 has been robust. As I noted during my last appearance before this Committee in May, the NCUA mandated on March 16, 2020, a strict offsite examination and supervision policy that continues to this day. Our examination staff continues working closely with credit unions to obtain documentation and complete examination procedures offsite. In doing so, our goal is to limit the burden on credit unions so they can focus on providing uninterrupted service to their members.

Further, as a voting member of the Financial Stability Oversight Council (FSOC), the NCUA plays a key role in identifying and assessing potential risks to the stability of our nation's financial system. Throughout the ongoing COVID-19 pandemic, the Council has maintained a stance of heightened vigilance, marked by an increase in internal deliberations and risk monitoring. Some of the monitored risks are related to, or exacerbated by, the pandemic, but others are less directly connected to the crisis. In recent months, the Council also conducted a comprehensive, activities-based review of the potential risks associated with the secondary mortgage market and the activities of the Government Sponsored Enterprises (GSEs) in particular. That review concluded that any distress at the Enterprises impacting their secondary mortgage activity could pose a risk to financial stability if these risks are not properly mitigated. On behalf of the NCUA, I voted in favor of the findings of this review, which included a pledge to continue to monitor this important segment of the U.S. economy.

Presently, the NCUA does not see any burgeoning risks to the U.S. financial system emanating from the credit union system. Although growing, the credit union industry remains small relative to the overall financial system.

Revised Supervisory Priorities

In July, the NCUA issued its updated supervisory priorities to account for the pandemic and its economic disruptions, as well as the various statutory and regulatory changes that have occurred.[3]

Among the agency's new supervisory priorities are reviewing credit unions' good-faith efforts to comply with the CARES Act. The NCUA will also review the actions taken by credit unions to assist borrowers facing financial hardship and the adequacy of credit union loan and lease losses accounts to ensure they can adequately manage the financial and economic disruptions resulting from the pandemic.

For example, these disruptions may result in additional stress on credit union balance sheets, potentially requiring robust liquidity management during the remainder of 2020 and into 2021. As a result, NCUA examiners will continue to assess a credit union's liquidity risk-management practices and planning, and will focus on the effects of loan payment forbearance, loan delinquencies, projected credit losses and loan modifications on credit union liquidity and cash flow forecasting. Additionally, our examiners will analyze the potential effects of low interest rates and the decline of credit quality on the market value of a credit union's assets, funding costs, borrowing capacity, and the adequacy of a credit union's contingency funding plans.

The agency will continue to update its policies and procedures and make enhancements to its supervision program as the pandemic and its economic and financial disruptions evolve.

CDRLF Grants and Loans to Support Members and Underserved Communities

The Community Development Revolving Loan Fund (CDRLF) program helps low-income-designated credit unions provide basic financial services to their members and stimulate economic activity in their communities.[4] The NCUA uses CDRLF appropriations to make

[3] NCUA Letter to Credit Unions, 20-CU-22, "Update to NCUA's 2020 Supervisory Priorities" available at https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/update-ncuas-2020-supervisory-priorities

[4] A federal credit union with a majority of members qualifying as low-income is eligible for the low-income designation. Low-income members are those members whose family income is 80 percent or less than the median family income for the metropolitan area where they live or national metropolitan area, whichever is greater, or those members who earn 80 percent or less than the total median earnings for individuals for the metropolitan area where they live or national metropolitan area, whichever is greater. See Section 701.34 (a)(1) and (2) of NCUA regulations.

technical assistance grants and to provide low-interest loans to these credit unions, which serve predominantly low-income members.

The COVID-19 pandemic poses unique challenges, both economically and financially, to rural and underserved communities, which are served primarily by small, low-income, and minority credit unions. In April, the NCUA committed the majority of its 2020 CDRLF allocation to COVID-19 assistance. The agency awarded $3.7 million in grants and no-interest loans to 162 low-income credit unions in 40 states and the District of Columbia to help them better serve their members and communities during the pandemic.

There were 153 grants totaling nearly $1.5 million. Of those, 32 went to first-time grant recipients. Forty-eight credit unions were minority depository institutions (MDIs). Grant awards ranged from $900 to $10,000. The agency also approved nine no-interest loans of $250,000 each. The grants and loans fell into four categories:

- Rental, mortgage, and utility payment assistance to members, such as entrepreneurs, small business owners, and hospitality and service industry employees;
- Loan payment relief to affected members;
- New products or services for affected members; and
- Costs associated with moving credit union operations to remote locations, such as laptops, software, and short-term rentals.

The NCUA also awarded more than $960,000 in urgent need grants to 148 eligible credit unions in 42 states and the District of Columbia. Sixteen of these recipients were MDIs. Urgent need grant awards ranged from $1,600 to $7,500. Of these, 144 grants, totaling more than $930,000, were to assist with credit unions' needs resulting from the COVID-19 pandemic, including:

- Hardware, software, and other equipment to help credit unions provide financial products and services from remote locations;
- Marketing materials to keep members informed and assure them their insured deposits are safe; and
- Consulting services to develop programs and partnerships to assist small businesses and schools.

Four urgent need grants, totaling $30,000, were made to repair damage to credit unions from a natural disaster not covered by insurance and to replace necessary equipment to immediately restore services to members because of unexpected events.

The NCUA awarded $75,000 in grants to three low-income, MDI credit unions to support mentoring programs with larger credit unions. This mentoring program helps small, low-income MDIs establish mentoring relationships with larger low-income credit unions to provide expertise and guidance in serving low-income and underserved populations. The larger credit unions will offer technical assistance, such as building staff capacity through training and improvements to credit union operations.

Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA), which was enacted by Congress in 1977 to end the system of banks engaging in redlining, and encourage banks and thrift institutions to "*serve the convenience and needs of the communities in which they are chartered to do business*," does not apply to credit unions, since they exist to serve the credit needs of individuals of modest means. Indeed, the American credit union movement began as a cooperative effort to serve the credit needs of individuals of modest means and credit unions today continue to fulfill this public purpose.

Merger Activity

Across a variety of economic cycles and regulatory environments, the number of credit unions has fallen at a steady rate for nearly three decades.

A number of factors are contributing to this decline. First, economies of scale and consumer demand for more services have led to mergers, reducing the number of active depository institutions. Second, new marketplace competitors are expanding into areas that credit unions have traditionally operated by providing deposit-like products, such as prepaid cards, and alternative lending products, such as crowdsourcing, peer-to-peer lending and small business financing. Third, consumers are increasingly using electronic and mobile devices for their financial needs, meaning that credit unions that lack the resources necessary to acquire new technology and develop new products and services face enormous challenges.

Together, these trends indicate that credit unions will face increased competition and the longstanding consolidation trend will likely continue. The majority of merging credit unions are comprised of smaller credit unions, and the most common reason for merging is to expand services, as larger credit unions tend to offer more complex products and services to their members. However, we have seen a growing number of larger credit unions use mergers and acquisitions as strategies to grow and increase market share.

Due to the pandemic, merger activity for federally insured credit unions has slowed, but may increase as conditions evolve. The NCUA will monitor these trends to ensure the continued consolidation of credit unions and system assets does not create new potential risks to the Share Insurance Fund.

Compared with the volume of bank-to-bank mergers and credit-union-to-credit-union mergers, the number of credit unions' purchasing banks is very small. Of the 36 NCUA-approved bank purchases by federally insured credit unions since 2012, 13 were banks with assets less than $100 million. Another 16 of the transactions involved banks with assets from $100 million to $250 million. Only seven of the approved transactions were banks with assets above $250 million.

The NCUA does not prohibit the transactions because credit unions are permitted by regulation to purchase banks. Additionally, bank-to-credit union transactions must also be approved by the

Federal Deposit Insurance Corporation, per the Bank Merger Act, and the state credit union regulatory agency, as applicable for transactions involving a state-chartered credit union.

The NCUA has regulations to oversee the sale of a credit union to a bank. These regulations ensure the members' equity is properly valued by an independent third party who establishes a market valuation of the credit union. The purchasing bank must pay the credit union at least that amount thereby ensuring the selling members are paid a fair value for their equity.

Working with Borrowers Affected by COVID-19

The credit union industry has a long history of assisting its member-owners in times of need, and we have encouraged credit unions to work with affected members. For example, a credit union may work with a borrower to extend the terms of repayment or otherwise restructure the borrower's debt obligations. Such efforts can ease pressures on troubled borrowers, improve their capacities to service debt, and strengthen a credit union's ability to collect on its loans. Credit unions may also ease terms for new loans to affected borrowers when prudent. This may help consumer and business members deal with any impact on their cash flows due to COVID-19.

I want to assure you that the NCUA's examiners will not criticize a credit union's efforts to provide prudent relief for members when such efforts are conducted in a reasonable manner with proper controls and management oversight.

Central Liquidity Facility

Following the regulatory enhancements provided by the CARES Act and changes to the agency's regulations, the Central Liquidity Facility (CLF) experienced a significant increase in its membership and borrowing capacity.

The CLF is a mixed-ownership government corporation that provides the credit union system with a contingent source of funds to assist credit unions experiencing unusual or unexpected liquidity shortfalls during individual or system-wide liquidity events. The CLF also serves as an additional liquidity source for the Share Insurance Fund, which helps to ensure the credit union system and the fund remain strong. Member credit unions own the CLF, which is managed by the NCUA. Joining the facility is voluntary.

As of October 9, 2020, the number of regular members of the CLF, which consists of natural-person credit unions, was 340, up from 283 members in April. All 11 corporate credit unions became agent members in May, meaning most of their member credit unions now also have access to CLF loans. In total, 4,145 credit unions, or 80 percent of all federally insured credit unions, have access to the CLF, either as a regular member or through their corporate credit union.

New memberships have added $989.8 million in additional subscribed capital stock to the facility. Under the temporary authority granted by the CARES Act, the CLF can borrow sixteen times its total capital. As of October 9, the facility's borrowing authority stood at $32.2 billion, an increase of $21.7 billion since April. The NCUA encourages all credit unions to consider joining the CLF to bolster the system's access to emergency liquidity, should the need arise.

Rulemakings since May 2020

My goal is to create a regulatory environment that allows for innovation and flexibility, creates new avenues for growth, and accounts for the constantly evolving economic, competitive, and regulatory environment. In addition, the NCUA Board continues to prioritize regulatory relief measures that will help credit unions through this pandemic.

I would like to highlight our most significant rulemakings and actions since my appearance before this committee in May. Additional information about the Board's regulatory actions can be found on the NCUA's public website.

NCUA's Prompt Corrective Action Rules

The NCUA Board unanimously approved an interim final rule that makes two temporary changes to the agency's prompt corrective action regulations to provide relief to credit unions that temporarily fall below the well-capitalized level. This interim rule temporarily waives the earnings retention requirement for credit unions classified as adequately capitalized. Those credit unions unable to meet the earnings retention requirement will not have to submit a written application requesting approval to decrease their earnings retention amount. If a credit union poses an undue risk to the Share Insurance Fund or exhibits material safety and soundness concerns, the appropriate NCUA Regional Director may require the credit union to submit an earnings transfer waiver request.

By statute, credit unions that fall to less than adequately capitalized must submit a net worth restoration plan to their NCUA Regional Director. The interim final rule temporarily permits an undercapitalized credit union to submit a streamlined net worth restoration plan when the reduction in the net worth ratio was caused predominantly by share growth and is a temporary condition because of the pandemic. If a credit union becomes less than adequately capitalized for reasons other than share growth, it must still submit a full net worth restoration plan under the current requirements in NCUA's regulations. These temporary modifications will remain in place until December 31, 2020.

NCUA's Chartering and Field-of-Membership Regulations

The NCUA Board unanimously approved a final rule that would allow greater access to safe and affordable financial services by changing the agency's chartering and field-of-membership regulations for community charter approvals, expansions, or conversions.

The final rule re-adopts a provision to allow a credit union applicant to designate a combined statistical area, or an individual, contiguous portion thereof, as a well-defined local community if the chosen area has a population of 2.5 million or fewer. The rule also clarifies existing requirements and adds an explicit provision to the NCUA's field-of-membership regulations to address concerns about potential discrimination in the selection process for combined statistical areas and core-based statistical areas.

The rule became effective on October 14, 2020.

NCUA's Prompt Corrective Action Rule in Response to CECL

The NCUA Board unanimously approved a proposed rule that would phase-in the day-one adverse effects on regulatory capital that may result from the current expected credit losses (CECL) accounting methodology. This proposal is consistent with regulations issued by the federal banking agencies.

Under the proposed rule, the NCUA Board would phase-in the day-one effects on a federally insured credit union's net worth ratio over a three-year period under the NCUA's prompt corrective action regulations. The proposed rule would temporarily mitigate the adverse consequences of the day-one capital adjustments, while requiring that credit unions account for CECL for other purposes, such as on their Call Reports.

The phase-in would be applied to only those federally insured credit unions that adopt the CECL for the fiscal years beginning on or after December 15, 2022, which is the deadline established by the Federal Accounting Standards Board. Credit unions that decide to adopt CECL for the fiscal years beginning before that date would not be eligible for the phase-in.

Under the proposal, federally insured credit unions with less than $10 million in assets would no longer be required to determine their charges for loan losses under GAAP. Instead, these credit unions could use any reasonable reserve methodology if it adequately covers known and probable loan losses.

The comment period for this proposed rule closed on October 19, 2020. The NCUA is reviewing the comments before finalizing the rule.

NCUA's Derivatives Regulations

The NCUA Board approved a proposed rule that amends the agency's derivatives rule in Subpart B to Part 703 to allow more flexibility for federal credit unions to manage their interest rate risk through these financial instruments. The proposed changes include eliminating the preapproval process for federal credit unions that are complex with a Management CAMEL component rating of 1 or 2, the specific product permissibility, and the regulatory limits on the amount of derivatives a federal credit union may purchase.

The comment period for this proposed rule is currently open.

Cybersecurity Efforts in Response to COVID-19

The COVID-19 pandemic has prompted a heightened cybersecurity stance on the part of both the agency and industry, with an emphasis on credit union service continuity, remote workers' security and compliance, and flexibility regarding internal agency supervision and examination operations. Like others in the financial services sector, the NCUA has seen increasing fraudulent activity, such as phishing, identity theft, and credential acquisition; ransomware; and cyber-enabled fraud methods. In August, drawing on partnerships with the Department of Treasury, Department of Homeland Security, Secret Service, and the Federal Bureau of Investigation

(FBI), the agency issued a guidance letter informing credit unions about the risk of fraud associated with the COVID-19 pandemic. The NCUA continues to monitor developments in these areas.

Diversity, Equity, and Inclusion

I am proud to lead an agency where its core values embrace the tenets of diversity, equity, and inclusion (DEI). As foundational elements of who we are and how we operate as an agency, the principles of diversity and inclusion are strategic imperatives for the NCUA. Indeed, the NCUA believes a diverse workforce, an inclusive work environment, and a diverse supply chain make good business sense, and the agency is equally committed to all three areas.

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act has been a catalyst for growth and change in the diversity and inclusion space at the NCUA. We are proud of the progress we have made over the last decade, but this vital work is ongoing and takes long-term dedication and commitment.

Our investment in this vein is already paying dividends in the form of improvements in diversity within our leadership pipeline. For example, over the past five years, racial and ethnic diversity in our management-level staff, those in grades 13 through 15, has increased by more than five percent. During the same period, racial and ethnic diversity among our senior staff positions has increased by almost 12 percent.

More than 20 percent of the NCUA's workforce belongs to one of our six employee resource groups, which support our diverse employees and create a strong sense of belonging within the agency. We also repurposed our diversity council to create a Culture, Diversity, and Inclusion Council to examine our organizational culture and make needed changes to create a more inclusive work environment.

The NCUA has also been a leader in supplier diversity. For the past two years, the agency awarded more than 40 percent of our total contract dollars to minority- or women-owned businesses.

More broadly, within the credit union system, the NCUA is committed to promoting diversity, equity, and inclusion. In my May testimony, for example, I noted that the NCUA hosted its first annual DEI Summit in late 2019. This summit was a first-of-its-kind event in the credit union industry and attracted more than 150 attendees. Following that event, interest in diversity, equity, and inclusion in the credit union system has grown significantly. In fact, several industry leaders came together with the NCUA and formed the Credit Union DEI Collective, which serves as a resource to the industry on all things related to DEI.

Following the event, the NCUA saw a significant uptick, especially from larger credit unions, in the number of voluntary Credit Union Diversity Self-Assessments submitted in 2019. Though the volume received is still low, and we remain dissatisfied with the credit union industry's response levels, we have seen steady increases in submissions every year. To address this, the NCUA Board voted unanimously at its July meeting to seek comment from credit unions on potential ways to incentivize submissions of the diversity assessments. For example, the NCUA is considering the viability of reducing the operating fees charged to credit unions that submit assessments. We hope this Committee would support the agency in this effort.

Another way that the NCUA is supporting diversity, equity and inclusion is through its internship programs, which provide valuable work experience for high school undergraduate, graduate, law, and Ph.D. students who are considering careers in economics, finance, accounting, information technology, law, and human resources.

Among these programs is the NCUA's High School Scholars Internship Program, which provides high school students from the most economically disadvantaged areas of Washington D.C. to earn a salary of $20 per hour, $20 per day special compensation benefits for lunch, and a $650 professional attire clothing allowance. High school interns are also gifted with a laptop, which they can keep at the end of the internship.

Similarly, the NCUA's Pathways Summer Intern Program enables summer college interns to receive an hourly salary ranging from $18.80 to $20.68 per hour, depending on the grade level at which they were hired. The interns earn annual and sick leave at a rate of four hours per pay period, and are reimbursed for internet service charges at a rate of $50 per month. The NCUA also has six individual multi-year contracts with minority-serving organizations to provide summer internships and opportunities to college and university students in undergraduate, graduate, doctorate, and juris doctorate programs.

ACCESS Initiative

During my tenure as Chairman, I have consistently characterized financial inclusion as the civil rights issue of our era. Fundamentally, financial inclusion means expanding access to safe and affordable financial services for unbanked and underserved people and communities as well as broadening employment and business opportunities. Whether it's the challenges faced by African American, Latino or Native American working families; the obstacles that military veterans or disabled Americans must overcome; or the stress that communities throughout rural America face due to their lack of capital, we must do more to make safe and affordable financial services and products available to our fellow citizens. There is also a clear business case for credit unions to increase outreach to underserved populations. Accordingly, I have directed the NCUA to identify ways to bring more Americans into the financial mainstream.

To that end, the agency launched in October a new initiative called ACCESS, or **A**dvancing **C**ommunities through **C**redit, **E**ducation, **S**tability & **S**upport. Comprised of representatives from across the agency, this initiative will refresh and modernize regulations, policies, and programs that support financial inclusion within the agency and, more broadly, throughout the credit union system. By dedicating resources from across its business units, the NCUA will work to ensure an inclusive and open-minded approach to making access to safe and affordable financial services more widely available.

It is fitting that the NCUA play a driving role in these efforts, as credit unions have a strong emphasis on service to their members and to the surrounding community. Those qualities are captured in the credit union's "people helping people" ethos, which is exactly the mindset we need in the coming recovery.

Legislative Requests

The CARES Act contained several provisions that provided the NCUA with additional measures to ensure the continued stability and liquidity of the credit unions system as it responded to the COVID-19 pandemic. However, these provisions are set to expire on December 31, 2020. We ask that Congress extend the authority it granted the NCUA in the CARES Act for the length of the pandemic. This is especially true for the statutory changes that provided the Central Liquidity Facility with increased flexibility and borrowing authority to support the liquidity needs of the system and the Share Insurance Fund.[5]

Before the CARES Act was enacted into law, the CLF had the authority to borrow provided its obligations do not exceed twelve times the subscribed capital stock and surplus of the CLF (that is, the sum of its retained earnings and capital stock).[6] The CARES Act temporarily increased the multiplier from 12 to 16, meaning that, for every $1 of capital and surplus, the CLF can now borrow $16. Because a credit union that joins the CLF pays in only half of the subscribed capital stock subscription amount, the CLF can now borrow, $32 for each new dollar of paid in capital it raises. [7]

Second, the CARES Act temporarily relaxes the requirements on agent membership, making such membership more affordable for corporate credit unions.[8] An agent member is no longer required to buy capital stock for all of its member credit unions, but may buy CLF capital stock for a chosen subset of the credit unions it serves.[9]

Third, the CARES Act changed the definition of "liquidity needs" to include the needs of any credit union, not only natural-person credit unions.[10] This new definition broadens access by allowing the CLF to meet the liquidity needs of corporate credit unions.

Lastly, the CARES Act provides more clarity about the purposes for which the NCUA Board can approve liquidity-need requests by removing the phrase "the Board shall not approve an application for credit the intent of which is to expand credit union portfolios."[11] The NCUA Board now has more flexibility and discretion to approve applications for CLF members that

---

[5] The CLF borrows from the U.S. Treasury's Federal Financing Bank to make loans to member credit unions and the Share Insurance Fund.
[6] See 12 U.S.C. § 1795f(a)(4)(A)
[7] Credit unions must subscribe to the CLF capital stock in the amount of one-half of one percent of the credit union's six-month average of paid-in and unimpaired capital and surplus (that is, the total of shares and deposits and undivided earnings). Credit unions only have to remit to the CLF one-half of the subscription amount (one-quarter of one-percent of paid-in and unimpaired capital and surplus), and hold the remaining half (which is callable by the NCUA Board).
[8] A credit union or group of credit unions that primarily serve other credit unions may become an agent member by meeting certain requirements outlined in 12 U.S.C. § 1795c(b).
[9] See 12 U.S.C. § 1795c(b)(2)
[10] See 12 U.S.C. § 1795a(1)
[11] See 12 U.S.C. § 1795e(a)(1)

have made a reasonable effort to first utilize primary sources of funding. This change increases the transparency and efficiency of the loan-approval process by removing doubt about whether a credit union's portfolio may expand if it borrows from the CLF to meet liquidity needs.

As I noted earlier in my testimony, the NCUA has successfully encouraged natural-person and corporate credit unions to join the facility. New memberships have added $989.8 million in additional subscribed capital stock to the facility since April. Under the temporary authority granted by the CARES Act, the facility's borrowing authority, as of October, stood at $32.2 billion, an increase of $21.7 billion since April. In total, 4,145 credit unions, or 80 percent of all federally insured credit unions, now have access to the CLF, either as a regular member or through their corporate credit union.

The growth in the number of CLF's members and its borrowing authority is a testament to our nation's credit unions coming together in a time of crisis to strengthen the national system of cooperative credit. The COVID-19 pandemic has caused severe economic and financial distributions, and it is likely these disruptions will continue in to 2021.

As such, I respectfully request that these changes be extended for the pandemic's duration. This extension would provide regulatory certainty to credit unions. Having a reinforced CLF will also ensure the credit union system can continue to support its members and communities should the need for emergency liquidity arise.

Conclusion

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, we appreciate your continued support of the credit union system, as well as the goals, priorities, initiatives, and employees of the NCUA.

While we have seen signs of improvement in the overall economy, the NCUA recognizes that the challenges before us are far from over. We remain steadfast in our mission of maintaining the safety and soundness of the credit unions system and protecting the deposits of the millions of Americans who rely on credit unions for their financial needs. We will not waiver from that responsibility.

We look forward to working with all of you to ensure we are putting forth our best efforts to protect our nation's federally insured credit union system and our nation's system of cooperative credit.

Thank you.