July 30, 2020

The Northwest Credit Union Association's Regulatory Affairs team monitors all National Credit Union Administration Board of Directors' meetings. The July 30 meeting brought a number of headlines important to credit unions.

Final Rule Amending the Chartering of Field of Membership Rules

This applies to credit unions seeking a rural community charter. The rule sets forth guidelines that will allow credit unions to seek a rural FOM of up to 2.5 million people. Under the rule credit unions are required to demonstrate how the communities share common interest.

During the discussion NCUA Board member J. Mark McWatters pointed to Christmas Valley, Oregon as an example of an underserved rural community that credit unions could more easily expand into. (Note*In 2017, Pacific Crest Federal Credit Union stepped up to open a branch in Christmas Valley, which had been a banking desert.)

Credit unions that had their combined statistical areas removed from their fields of membership because of litigation will be contacted by the agency to determine if they would like for those to be reinstated. If so, then NCUA will do so as soon as the rule is effective.

CECL Implementation Update

NCUA board proposed a phased in approach to the one-time capital expense that credit unions will recognize with the implementation of Current Expected Credit Loss (CECL). The proposal will allow credit unions to recognize the capital expense over a three-year period.

Since I started at the Association eight years ago, the changes for calculating losses has been an issue of high importance. If the rule is adopted, credit unions can build the necessary capital over time to offset the losses that are recognized.

Prior to issuing the proposed rule Chairman Rodney Hood recognized his board colleague Todd Harper for collaborating to bring this important rule forward. All three board members voted in favor of issuing a notice of proposed rulemaking.

Assessment of Annual Operating Fee for Federal Credit Unions

The NCUA issued a proposed rule that amends the agency's regulation governing the assessment of an annual operating fee on federal credit unions. Key aspects of the proposal include:

- Exclusion of any Small Business Administration Paycheck Protection Program loan from a federal credit union's total asset; and
- Amendment of the period used for the calculation of a federal credit union's total assets when determining the annual operating fee. Currently, total assets are calculated using a federal credit union's December 31 Call Report from the previous year. Assets will now be based on the four-quarter average.

> The four-quarter average methodology will help smooth out the impacts of rapid asset growth or rapid asset declines on the amount of operating fees assessed. In the short run, the proposal would reduce the share of the operating fees paid by credit unions that have experienced rapid asset growth.

The Association is reviewing this proposal and will assess the impact on Northwest federal-chartered credit union. We will evaluate whether the proposed rule could impact the Overhead Transfer Rate both today and in the future. We will review overall FCU asset growth to see whether this will reduce the operating fees for the largest FCU's resulting in additional burden for smaller FCU's that make up the majority of FCU's in the NW.

Midyear Budget Review

NCUA staff indicated the agency will likely have a budget surplus due to a reduction in employee travel and lower than expected National Credit Union Share Insurance Fund administrative expenses.

We intend to seek clarity on how the budget savings will be realized by credit unions. Generally, examiner savings related to travel, hotel, and per diems are clearly share insurance fund expenses and therefore savings should be recognized through a reduction in the overhead transfer rate. The Association is concerned that paying more of the overall NCUA budget through the OTR will result in downward pressure on the normal operating level which is already strained by rapid asset growth at credit unions. .

As always, reach out to me directly to share your concerns, so that we may continue to advocate for policies that help credit unions do what they do best – serve their members.

Warm regards-

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