Thank you very much for the opportunity to testify at today's briefing – and most especially thank you for scheduling this briefing in the first place! This is a welcome development and a clear indication that the Board is listening to credit unions and is sensitive to our concerns.

My name is Sean Gaven and I am Senior Vice President and Chief Financial Officer, American Airlines Federal Credit Union, headquartered in Fort Worth, Texas. American Airlines Credit Union manages over $6 billion in assets and serves nearly 267,000 members throughout the country.

As you know c*redit unions face a crisis of creeping complexity with respect to regulatory burden* <u>*and regulatory oversight*</u>*. It is not just one new law or revised regulation that challenges credit unions* -- <u>*not just one new supervisory directive – or revised supervisory directive*</u> - *but the cumulative effect of all these changes. The frequency with which new and revised regulations and supervisory schemes have been promulgated in recent years and the complexity of these requirements is staggering – even for a large institution such as the one I represent.*

As a CFO it's painfully obvious to me that all these changes all come with upfront costs that must be incurred no matter the size of the institution: staff time and credit union resources must be applied in determining what is necessary in order to comply;

forms and disclosures must be changed; data processing systems must be reprogrammed; and staff must be retrained. It also takes time to discuss these changes with credit union members, and at times members get frustrated because of the changes.

Although I recognize that you're focused on improving NCUA's budget process, and I applaud those efforts, I'd like to share some specific thoughts and concerns on additional improvements that would be helpful. Most of these involve efforts to further reduce costs compared to what the agency has proposed.

Every January for the last few years, NCUA has sent a letter to credit unions itemizing its supervisory goals for the New Year. The agency does not provide suitable detailed information to credit unions on how it is allocating examination resources to help achieve those goals.

The agency now provides public information on how its budget expenditures dovetail with strategic or annual performance plans. However, the level of detail and the exact connections between the budget and strategies are insufficient, making it impossible to see how budget expenditures specifically correlate with the achievement of NCUA's strategic goals. We urge the agency to provide additional analysis of how budget allocations more specifically support the achievement of the agency's goals.

I strongly believe NCUA should focus as closely as possible on its mission as a federal insurer and regulator of federal credit unions rather than venture into extraneous activities with costly implications for the agency's budget.

Operations and expenses of the Asset Management and Assistance Center are difficult to evaluate via publicly available documents alone. In the absence of compelling data to the contrary, we propose dramatically reducing the Asset Management Assistance Center. The agency is keeping the office open at what we can only guess is a very low usage rate, simply to have it available for the next recession. There is little to no chance the next recession will not require anything like the last one in terms of asset liquidation, so there is little reason to maintain the resources at anything but substantially lower levels. In fact, it would likely be substantially more cost effective to outsource asset sales on an as needed basis compared to keeping a fully staffed AMAC open all the time.

Employee Pay and Benefits are another big concern. Employee pay (52%) and benefits (21%) comprise nearly three quarters of the agency's proposed budget and account for the two largest groups of expenditures. The cost per full- time employee continues to increase substantially faster than inflation and marginally faster than the increases bestowed on credit union employees: While the agency proposes a 3.3% increase in salary per FTE, CUNA's 2016-2017 Staff Compensation survey reports budgeted salary increases of 2.8% for management (2.7% for non-management) during the upcoming year. This difference isn't large over a one-year period, but if maintained over time the cumulative effect will produce significant differences in pay between the regulator and the regulated.

Naturally, some employees may be entitled to merit raises, but the standards for such raises or other pay increases are not readily available. The agency's *Employee Handbook* does list merit increases, promotions, location changes, location adjustments and equity increase as ways that an employee's compensation may be increased, but it does not discuss factors to be considered in providing increased compensation under these categories.

In a similar vein, I believe credit unions can play a more distinct and important role in this process. Examiners spend a large percentage of their time interacting with the credit unions they supervise. But feedback from credit unions on the performance of individual examiners – to the extent it is collected at all - is obtained haphazardly. The only formal feedback mechanism available is the exam appeals process - but credit unions are loath to use that process mostly due to fear of retribution and a perception that the process is largely ineffective.

I therefore would have the NCUA consider developing and conducting ongoing, confidential exam staff satisfaction surveys – distributed to credit unions at the conclusion of each exam. I further urge these surveys be processed and compiled outside the purview of the agency staff, by an outside third party with each examiner's average rating shared with the regions to assist in the merit pay process. Nearly all of the nation's largest credit unions have adopted similar approaches to assist in evaluating service quality and enhance staff evaluations (both in the aggregate and on an individual basis).

Looking forward, the Exam Flexibility Initiative pushes the exam cycle out from twelve to eighteen months. This suggests that, all equal, when fully implemented, EFI should result in a need for roughly one-third fewer examiners overall. Since not all credit unions are (or will be) healthy in the future, this decrease admittedly overstates potential reductions. The need for exam and agency improvements, including technology upgrades and ongoing examiner training may offset a bit of this. Still, the declines should be more significant than is discussed in material distributed to date. Reductions in the neighborhood of 25% overall seem realistic. A more detailed and robust exploration of the magnitude of possible reductions should be shared with stakeholders

The extent to which the agency employs technology in its examinations is unclear. The agency should strive to move its exam process forward via technology and streamline its examinations to the greatest extent possible, thereby improving the consistency of reviews and reducing the number of examiners needed.

NCUA will spend more this year on technology related expenses (ARIES, Exam Reform, Call Report, CU Online) for purposes of obtaining efficiencies, but that should result later in a decrease in the budget. Again, additional narrative on the possible range of reductions would be helpful.

Travel expenses are the fourth highest budget expenditure, at roughly 10% of the budget. Overall travel expense appears 1.1% lower than the 2016 budgeted amount – due primarily to a reduction in examiner positions. Travel per FTE is up, but only marginally, from $23,491 in 2016 to $23,459 in the revised budget (a 0.2% increase).

Yet with the potential to secure meetings via the Internet and mobile communications it seems the agency could find some savings by reducing the travel budgeted for examiners and other agency officials. We also question whether most staff should be on site at the agency's national conference, particularly since the conference seems to result in NCUA employee absences of up to two weeks.

Finally, I urge the agency to study the composition of the Regions to explore any possibilities for significant cost savings. The current configuration implies that efficiencies may be possible.

Contracted services are the third largest expenditure for the agency, yet there does not seem to be much public information on those specific costs or the process for selecting contractors. As a result, stakeholders cannot evaluate whether the contracts are awarded appropriately and the fees paid are reasonable. We urge the agency to provide more information on expenses for contracted services.

However, the agency's categorization of activities is not clear and more information should be provided to credit unions regarding the supporting data for overheard transfer rate decisions.

Thank you for the opportunity to share my concerns. While you've obviously made big improvements – making the budget process more transparent and opening the lines of communication – I believe the opportunity for additional, thoughtful consideration should be explored prior to adopting the proposed revisions.