CUNA commends the NCUA Board for listening to, and acting on our recommendations for more transparency overall and more input earlier in the annual budget process. The agency has clearly improved the flow of information about its budget, and the fact that we're here at this point in the process having this discussion is a critically important development: Enhanced communication, increasing transparency, and growing cooperation between the NCUA and credit unions advances and strengthens the credit union system – allowing more consumers to directly experience the transformative power of cooperative finance.

CUNA strongly believes credit unions deserve a leaner, more efficient and more innovative regulator, and this concern remains the core issue to reconcile.

NCUA's post-crisis budget trends have been – and continue to be - deeply concerning.

The agency's budget was significantly affected by the financial crisis and its immediate aftermath: The insurance fund experienced increases in troubled institutions, failures, insurance fund losses, and in annual operating expenses during the crisis.

That's to be expected: It's reasonable for the operating expenses of a federal deposit insurance fund to rise in periods of economic stress. Greater supervision and monitoring are necessary to control insurance losses in such an environment.

However, the crisis and the overwhelming majority of the difficulties it created are squarely behind us – and have been for several years: Assets in problem-case credit unions reflect a six-fold increase between 2007 and their $43.3 billion peak in 2010 but have declined by nearly 80% since that time.

The total number of problem case credit unions fell by 49% in approximate straight-line fashion - from 409 in 2011 to 209 at mid-year 2016. The current number of problem case credit unions is below the level seen at year-end 2007, when 207 problem case credit unions were reported.

Still, NCUA's post-crisis budget continues to increase substantially in the face of these substantial improvements: In 2010 the NCUA's total budget was $200 million – a sum that has ballooned to $300 million in just six years. That's an all-in, six-year budget increase of 45% since 2010 and an annual average jump of 6.4%.

Budget increases have significantly outpaced inflation year-in and year-out for nearly a decade. While the budget reflects a 45% increase compared to 2010, inflation, measured by changes in the CPI, increased by only 10% over the same period (an annual average increase of merely 1.6%). On average, this means that NCUA budgets have increased more than four times faster than inflation during a period when most of the effects of the financial crisis quickly faded.

NCUA's Stark Contrast with FDIC The budgets of *both* federal deposit insurance funds, NCUA for credit unions and FDIC for commercial banks, increased during the financial crisis. However, because of their cooperative ownership structure and resulting less risky operations, the stresses of the financial crisis among credit unions paled to those in the banking industry.

More recently, following the peak of the crisis, as financial pressures on the share insurance fund have abated, NCUA's spending has continued to increase each and every year while FDIC spending has declined each year. As noted above, since 2010 the NCUA's budget increased by 45% - a stark contrast to the 45% *decline* in the FDIC budget over the same period of time.

We conducted a detailed analysis of budgets and assets in troubled institutions for NCUA and FDIC over three periods:

1. Averages from 2005 to 2007, a baseline prior to the crisis;
2. Averages from 2009 to 2010, the peak of the effects of the crisis on FDIC and NCUSIF; and
3. Averages from 2014-2016, the post-crisis norm.

The data reveals that:

- Assets at troubled institutions insured by the FDIC increased much more severely than did assets in troubled NCUSIF-insured credit unions. While troubled assets rose for both NCUA and FDIC from before the crisis to its peak, the approximate 25-fold increase at FDIC (2,425%) dwarfed the less than five-fold increase at NCUA (477%).

- Since the peak of the crisis, troubled assets declined by almost three-quarters for NCUA (-74%) and by a similar magnitude for FDIC (-81%).
- Comparing pre- to post-crisis we find, troubled assets for NCUA have less than doubled, rising from a pre-crisis average of $7.2 billion to a post crisis norm of $11.0 billion. In contrast, troubled assets for FDIC are roughly five times greater, rising from a pre-crisis average of $15.7 billion to a post crisis average of $75.4 billion.
- In response to the increases in assets in troubled institutions, both NCUA and FDIC increased spending. Despite its much smaller increase in troubled assets, NCUA nevertheless did increase spending from pre-crisis to its peak by 26%. With its dramatically greater increase in troubled assets, FDIC increased its budget by a whopping 201% over the same period.
- Since the peak of the crisis, as troubled assets fell at both NCUA and FDIC, FDIC reduced its budget by 28%. However, NCUA has continued to increase spending, again - by 45%.
- Compared to the three-year average prior to the crisis, NCUA's budget has risen by slightly less than double, or 86%; while FDIC's is up by slightly more than double, or 112%. However, during this period, the 480% increase in troubled assets under FDIC supervision dwarfs the 52% increase in such assets under NCUA's supervision.

We greatly appreciate both the NCUA's responsiveness to CUNA's request for more budget process transparency and for the agency's willingness to accept feedback earlier in the budget process.

We urge NCUA to provide a bit more budget detail with more intuitive comparisons and more detail on underlying assumptions; to pursue material reductions in the budget while focusing on slowing the growth rate of expenditures; and to embrace efforts to transform into a "world class" regulator.