



June 14, 2022

The Honorable Joyce Beatty
House Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Warren Davidson
House Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Anthony Gonzalez
House Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Representatives Beatty, Davidson, and Gonzalez:

On behalf of the collective interests of Ohio's 232 credit unions and their 3.1 million members, the Ohio Credit Union League (OCUL) is writing to express our concern with H.R. 7022, the Strengthening Cybersecurity for the Financial Sector Act of 2022. H.R. 7022 would infuse the National Credit Union Administration (NCUA) with overly broad and direct third-party examination authority, including direct supervisory authority over credit union service organizations (CUSOs) and other consumer-facing vendors connected to credit union service offerings. OCUL is concerned that H.R. 7022 is overly broad and must be tailored to focus third-party examination efforts on systemic safety and soundness risks such as system partners holding a large share of consumer data or those without direct BSA/AML obligations.

Under current authority, the NCUA directs credit unions to routinely complete a comprehensive risk assessment prior to contracting with third-party entities.¹ As such, operational partners, such as strategic vendors that deliver financial service access to consumers, undergo rigorous due diligence reviews and vendor management processes by their partner credit unions to minimize risk and ensure compliance calibrated to each credit union's unique risk tolerance profile. At times, credit unions will contract with third parties to provide the necessary technology and support to automate and execute these extensive due diligence and vendor management processes. Empowering the NCUA to infuse the current third-party due diligence process into direct examination could supplement the cost and time credit unions dedicate to ensuring partners do not add unsupported risk to the system.

The broad language in H.R. 7022 suggests any third-party as well as any CUSO will be subject to direct NCUA examination, increasing agency costs borne by federally chartered or federally-insured credit unions supporting prudential regulation through financial assessments. Currently, NCUA funds its activities through operating fees levied on all federal credit unions and through reimbursements from the National Credit Union Share Insurance Fund (NCUSIF), which is financed by both federal credit unions and federally insured state-chartered credit unions. The Overhead Transfer Rate (OTR) calculation determines the annual amount that the NCUSIF reimburses NCUA operations to pay for insurance-related examination activities. As H.R. 7022 is currently drafted, OCUL is concerned that third-party entities, including CUSOs, will significantly increase examination scope and costs at the expense of federal credit unions and federally insured state-chartered credit unions.

Additionally, NCUA already exercises examination authority over CUSOs either by voluntary request or inquiry. CUSOs are proven, trusted vehicles for mortgage lending, credit cards, student lending, business lending, and other essential activities and allow credit unions of all sizes to serve their members and improve their experience. CUSOs have been effectively regulated by NCUA since their inception without

¹ <https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/evaluating-third-party-relationships-0>



issue; specifically, both the NCUA and state regulators regularly exercise established authority to request information regarding CUSO activity. As subsidiaries of prudentially regulated credit union owners, CUSOs can rarely undertake an activity or provide information not born from the credit union owners and the routine service activities thereof (home ownership services and mortgage lending solutions stand as a prominent illustration). Moreover, the permissible activities of a CUSO are limited in scope by law, and the NCUA retains oversight of both the operational compliance as well as the execution.² All CUSOs must also register with the NCUA and report financial activity with annual affirmations and updates.³

To better meet the intended outcome of strengthening cybersecurity in the financial sector, H.R. 7022 must focus NCUA direct examination authority more on cryptocurrencies, large fintechs, and other money transmitters with large consumer data exposure and anti-money laundering risk rather than credit union service providers that simply enable expanded, more efficient member services. Any legislation focused on regulating those who put consumers at financial risk should be narrowly tailored to those market players that are entirely or largely unregulated, not services born from prudentially regulated, member-owned financial cooperatives.

OCUL is also concerned that, as drafted, H.R. 7022 does not accommodate the necessary financial, expertise, and infrastructure support for the NCUA to effectively implement this new authority. The NCUA operates efficiently on a sound, well-balanced budget, and federally chartered or federally insured credit unions should not support the costs associated with examining other financial market participants. We respectfully ask your consideration of amending H.R. 7022 to limit NCUA third-party vendor authority to those entities posing significant data security risk or without BSA/AML compliance.

Thank you for your consideration, and please reach out to us should we be of any assistance to you and your office.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul L. Mercer".

Paul L. Mercer
President

A handwritten signature in black ink, appearing to read "Jared Weiser".

Jared Weiser
Director, Legislative Affairs

² <https://www.ecfr.gov/current/title-12/chapter-VII/subchapter-A/part-712/section-712.5>

³ <https://www.ncua.gov/regulation-supervision/regulatory-reporting/cuso-registry>