

May 13, 2024

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: NCUA Request for Supervision Authority Over Third-Party Vendors

Dear Chairman McHenry and Ranking Member Waters:

We, the undersigned bipartisan former Chairs of the National Credit Union Administration (NCUA), write to fully support Chairman Harper's request of the Congress to provide the NCUA with the statutory authority to supervise and examine Credit Union Service Organizations (CUSO) and third-party vendors—a policy already supported and vocalized by the NCUA's Inspector General, the Financial Stability Oversight Council, and the Government Accountability Office: all of whom have called for the restoration of the NCUA's authority over third-party vendors.¹

Currently, there are more than 139 million members of roughly 4,600 credit unions with total assets of \$2.26 trillion in the United States.² This equates to roughly one in three Americans using a credit union for basic financial products and services. As this committee well knows, financial institutions make up a vital part of our nation's critical infrastructure—a complex and interconnected web of organizations as well as physical and virtual operations that the federal government has a solemn obligation to protect from ordinary criminals, as well as our nation's most capable and determined foreign adversaries.

Given the increasing reliance of credit unions on third-party vendors for critical functions such as data processing, deposit taking, payment services, loan servicing, and mobile and online member services, it is imperative that the NCUA be granted the authority to oversee these vendors effectively. Without proper oversight of these service providers, credit unions may be exposed to greater chances of operational disruptions, financial losses, reputational damage, and, most importantly, threats to the security and privacy of their members' information.

Granting the NCUA statutory authority to supervise and examine third-party vendors would align with the regulatory framework of other federal financial regulatory agencies, such as the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC), which already possess this authority. Contrary to industry talking points in opposition to this request, this is not simply a data sharing issue, as the other prudential regulators are not legally allowed to share exam information with the NCUA, nor would other regulators be examining for matters that would normally be within the NCUA's regulatory purview such as specific impacts to the Share Insurance Fund or field of membership regulatory compliance.

¹ NCUA Third-Party Vendor Authority White Paper (<https://ncua.gov/files/publications/regulation-supervision/third-party-vendor-authority.pdf>)

² 2023 NCUA Annual Report (<https://ncua.gov/files/annual-reports/annual-report-2023.pdf>)

Additionally, this authority would translate to significant regulatory *relief* for many small and mid-size credit unions who, in many cases, do not have the requisite experience, or resources to conduct due diligence on vendors who are vital to their survival.

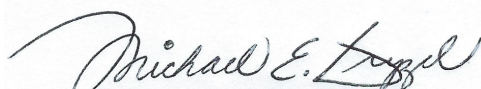
Many credit unions also have large concentrations of members that could be of high value to our nation's foreign adversaries. These fields of memberships are tied to military installations, the State Department, agencies of the United States Intelligence Community, Congressional staff, and others. A cyber incident could create devastating consequences for these very sensitive populations. Vendor authority would, at a minimum, mitigate the risk of a vendor-created cyber event.

It is not hyperbolic to say that the safety and soundness of the credit union system is at risk due to the potential for operational failures, cybersecurity breaches, and compliance violations by third-party vendors. Credit unions in many cases unknowingly expose themselves to financial losses, reputational damage, and regulatory enforcement actions because of vendors who fail to meet regulatory requirements or adequately manage risks.

Moreover, these types of risks are not posed in a vacuum. The ability for the NCUA to contribute substantively with greater insight into vulnerabilities or cyber tactics used in the credit union industry, would be valuable in discussions with the broader federal government to protect our nation's critical financial infrastructure—primarily in the agency's work on the Financial and Banking Information Infrastructure Committee.

For these reasons and so many more, we reiterate our strongest support for the NCUA's request to amend the Federal Credit Union Act to provide the agency with the authority to supervise and examine CUSOs and third-party vendors that operate within credit unions in every community in the country. With cyber incidents occurring every day, it is time that the NCUA be granted the same authorities that already exist within its peer regulators.

Sincerely,



The Honorable Michael Fryzel
NCUA Chairman 2008-2009



The Honorable Debbie Matz
NCUA Chairwoman 2009-2016



The Honorable Rick Metzger
NCUA Chairman 2016-2017



The Honorable Mark McWatters
NCUA Chairman 2017-2019

CC: The Honorable Todd Harper, Chairman, National Credit Union Administration
The Honorable Kyle Hauptman, Vice Chairman, National Credit Union Administration
The Honorable Tanya Otsuka, Board Member, National Credit Union Administration