National Credit Union Administration
Chairman Debbie Matz

Remarks to the
African-American Credit Union Coalition

St. Louis, Missouri
August 6, 2010

Thank you, Bert, for that very kind introduction. I am delighted to join you at the AACUC's12th annual conference. It is certainly fitting to hold this meeting in this great city where AACUC was founded.

St. Louis, of course, has long been known as "the Gateway to the West." Credit unions have served as the gateway to prosperity for millions of Americans – especially those who have been excluded from our nation's financial mainstream. Thanks to your credit unions in your local communities, thousands of families are now on a path toward economic success.

Your commitment is an inspiration to the communities you serve. Your credit unions offer both hands-on help and long-term hope to those who envision more prosperous families and stronger neighborhoods. By empowering the underserved, the credit union movement has played an especially important role as a catalyst for growth in the African-American community. You have given your members a firm foothold on the ladder of opportunity. You have not only raised your members' standard of living; you have raised their standing in their communities.

Your mission has always been to provide person-to-person service. You empower every person with the opportunity to achieve the American dream.

I felt that sense of mission when I first served as a member of the NCUA Board, from 2002 to 2005. I lived it when I served as an executive of a federal credit union from 2006 to 2008. And I have been even more deeply moved by it since President Obama asked if I would come back to NCUA as Chairman in 2009.

When the White House called, I did not hesitate for a moment. I recognized the potential for credit unions to lend hope to consumers who were in despair, and bring change to those who needed a fresh start.

We are constantly seeking ways to help you achieve your goals. NCUA aims to further empower credit unions and the people you serve. We are exploring ways to create a more supportive environment for credit unions that promote economic empowerment through broader social outreach.

In my remarks today, I will explore three major areas where NCUA's agenda directly affects your efforts.

First, I will outline some of the financial and structural challenges that now confront the credit union community.

Next, I will describe programs and policies that NCUA has been pursuing to help credit unions sustain their important community development work.

And, finally, I will discuss new initiatives from the Obama Administration and Congress that will provide new opportunities for credit unions and promote the broader goal of diversity.

The most significant financial and structural challenge to credit unions continues to be the corporate credit union crisis. By now, the tangle of issues that triggered and deepened the corporate crisis is probably all too familiar to you. I have heard directly from many of you about the pain it is causing.

Almost two years have passed since several large corporates were pushed toward the brink of insolvency. They faltered because they were over-concentrated in mortgage-backed securities that fell as fast as the housing market. Sorting out the aftermath of the market's collapse, NCUA has been diligent in our planning for a new beginning.

Because we are acutely aware that corporates are particularly important to smaller credit unions and to so many of your operations, we are building a framework in which corporates can thrive in the future, even though the operating environment is certain to be very different. I anticipate that a new corporate rule will be finalized shortly, along with a plan to deal with the billions of dollars of severely impaired securities that have been weighing down corporates' finances. Our plan will ensure that corporates will begin with clean balance sheets. And our rule will ensure that corporates maintain those clean balance sheets.

We know that the corporate situation is very complex. To help your staff and boards better understand it, NCUA has produced a DVD with a series of presentations that explain the origin, the impact and the coming resolution of the corporate crisis. The DVD will be sent free of charge to each credit union. For your convenience, these presentations are also posted on NCUA's website. I encourage all credit union executives and board members to watch them. They will help you make informed decisions about the future of corporate credit unions.

Related to the corporate crisis are the assessments that we have had to levy on consumer credit unions to keep the system stable. Believe me, I know the assessments are burdensome. But they are the minimum needed to protect the integrity of the two funds that safeguard the system: the Share Insurance Fund, which covers losses at consumer credit unions, and the Corporate Stabilization Fund, which covers losses at corporate credit unions.

NCUA worked with Congress to create the Stabilization Fund in 2009 to allow credit unions to repay the costs of corporate losses over seven years rather than in one lump sum. As you know, the NCUA Board voted in June to levy an assessment of 13.4 basis points to cover this year's costs of the Stabilization Fund. This assessment, invoiced last month and due this month, is a necessary part of the corporate stabilization process.

In addition to the Stabilization Fund, we must also continue to maintain the strength of the Share Insurance Fund, which protects the shares in your members' accounts and covers losses at consumer credit unions. As the economy struggles to recover, we anticipate sizeable losses by credit unions during the remainder of 2010. Unfortunately, this means an assessment for the Share Insurance Fund is unavoidable later this year.

Each of you is probably trying to predict how much your credit union will be assessed for 2010. Before this year began, we estimated that the range of this year's assessments for the two funds combined would be between 15 and 40 basis points. We believe this projection is still accurate.

Many of you have asked me whether we can ease the assessment burden on smaller credit unions. Unfortunately, we are limited by the law on that point. Our statute requires assessments to be levied equally on each credit union. And the dollar amount of each credit union's assessment is based on its total insured shares. So much as we might like to cushion the blow to smaller credit unions, the law simply gives us no flexibility to do that.

I assure you, we are aiming to keep the assessments as low as realistically possible. Yet the regulator can only do so much. Ultimately, the size of the assessments really is a function of the credit union industry's overall performance. This is a direct result of decisions that you make, along with the decisions of your colleagues at other credit unions. Each year, the collective losses of the credit union industry determine the extent of the necessary assessments. This is the very nature of the cooperative system.

Simply put: If credit union losses are lower, credit union assessments will be lower. So you can help keep assessments as low as possible by making your credit unions as successful as possible. You can best accomplish that goal by managing risks and restraining costs.

These difficult economic times have required NCUA to intensify our diligent oversight and rigorous inspection programs. Our central mission is more crucial than ever: maintaining the credit union system's overall safety and soundness.

At the same time, we aim to help credit unions strengthen their community development work, especially in underserved and low-income areas. We recognize that the challenges faced by credit unions have grown even more intense. That is why we are determined to make sure that our approach to regulation gives you appropriate flexibility.

NCUA has been taking action on several regulatory, interagency and legislative fronts. I will take the next few minutes to describe several of our recent initiatives to improve regulations and promote opportunities for credit unions.

In June, the NCUA Board approved significant changes to our process of approving "community charters" for federal credit unions. The new "Field of Membership" rule eliminates all guesswork about what constitutes a "community."

Since Congress passed the Credit Union Membership Access Act in 1998, NCUA had struggled to define the precise criteria for community charters. We had to balance the Congressional intent of permitting new members against the statutory language requiring a "well-defined local community." Our old rule contained no clear population limits, no distinctions between urban and rural communities, and no clear guidelines for measuring community interaction. That lack of clarity led applicants to pursue a costly and wasteful process that often involved hundreds of pages of needless documentation.

Our new rule streamlines the process by setting objective standards for approving any new community charters. It defines clear criteria for recognizing fields of membership in single political jurisdictions, across multiple jurisdictions, and in rural districts.

However, the new rule does not mean that community charter approvals will be granted automatically. Credit unions applying for a community charter will still have to demonstrate their ability to serve the new community by submitting detailed business and marketing plans. Going forward, NCUA will monitor the performance of those credit unions annually for three years, to make sure that they live up to the promises in those plans.

I believe that everyone benefits from this streamlined regulation: credit unions, which will find it easier to convert to a community charter; their prospective members, who need financial services; and their local communities, which will be economically enriched.

We have also been active in designing alternatives to “payday loans.” During the economic downturn, more and more Americans have been driven to use the services of high-fee lenders. The unscrupulous practices of some lenders have inflicted a terrible toll on the most vulnerable members of our society: workers in low-wage jobs, who often struggle to make it from paycheck to paycheck. The astronomical interest rates charged by many payday lenders – and their readiness to roll over loans – can deplete the take-home pay on which working families depend.

There is a justifiable role for short-term lending in our economy. Many people desperately need ready access to cash to pay their rent or feed their children as they await their next paycheck. But short-term loans must be made responsibly.

That is why the NCUA Board proposed a new rule that would encourage federal credit unions to make affordable short-term loans. Our rule would protect credit union borrowers from the abuses they would suffer at the hands of predatory payday lenders. Under this proposed rule, federal credit unions could make short-term loans in amounts from $200 to $1,000, for up to 6 months. This would enable borrowers to consolidate high-cost payday loans while keeping their payments manageable. To protect borrowers from accruing larger and larger balances, our rule would prohibit rollovers.

However, we do recognize that there are high costs and elevated risks in providing payday loan alternatives. To protect against potential losses, our proposed rule would allow federal credit unions to charge a reasonable application fee up to $20 and an annual interest rate up to 28 percent.

To ensure that credit unions do not take on too much new volume and too much new risk, NCUA’s final rule will likely include a cap on short-term small loans. Given the experience of many credit unions that already provide payday loan alternatives, we will carefully weigh the ideas that were submitted during the public comment period. We plan to move forward with final changes to the new rule later this year.

An imaginative new interagency program is the "Community Development Capital Initiative," or CDCI. NCUA and the Treasury Department are working closely together to evaluate credit unions that have applied for secondary capital through this program.

The Obama Administration created CDCI to channel additional investment into economically disadvantaged areas and to spur job creation. Through the Troubled Assets Relief Program, or TARP, the Treasury will make funds available to designated Low-Income Credit Unions that are also certified as Community Development Financial Institutions. Those are credit unions that target more than 60 percent of their small business lending and other economic development activities to underserved communities. What is attractive about CDCI funds is that they carry an interest rate of just 2 percent for eight years.

Because NCUA has been eager to ensure that credit unions take part in this program, we streamlined our secondary capital rule for low-income credit unions. To make sure that eligible credit unions were aware of this opportunity, we have worked hard to spread the news about CDCI, holding conference calls and a webinar to explain the process of preparing and submitting the necessary secondary capital plans.

I am pleased to say that our communications efforts were successful. CDCI has drawn strong interest from credit unions. We received 111 applications for funding, and NCUA staff has been working closely with Treasury staff to obtain as many credit union approvals as possible. I have made a commitment that no credit union application will be denied by NCUA without my personal concurrence. I want to make sure that each application has every opportunity to move forward.

NCUA will also follow through on a new federal initiative that was included in the landmark financial regulatory reform legislation. In the Dodd-Frank Act, Congress took a dramatic and positive step forward on a matter that is I believe of particular interest to this coalition.

An amendment, sponsored by Congresswoman Maxine Waters of California, requires that all federal financial regulatory agencies – including NCUA – establish an Office of Minority and Women Inclusion. This office will develop policies that promote equal employment opportunities and advance racial, ethnic and gender diversity. Those policies will be used as a yardstick not just for the federal workforce within the agencies themselves, but also for the contractors and subcontractors who do business with those government agencies.

Moreover, the new law directs all federal financial regulatory agencies to examine the diversity programs and practices of all the entities they regulate. This means that NCUA now has the responsibility to monitor the diversity policies of all federal credit unions.

We are not yet sure how this initiative will be implemented. But we are considering how to make this an effective tool both for NCUA and for credit unions.

I welcome this diversity initiative. I will ensure that NCUA moves quickly to establish this new office, and to fully embrace not just the letter but the spirit of the law.

Stronger measures to promote greater diversity in the workforce – in both the public and private sectors – are long overdue.

Creating a more inclusive workplace helps every organization draw on the talents and insights of a wider range of Americans, enriching our vision of the best way to conduct business and serve society. Moreover, ensuring greater diversity will open up new pathways for leadership among those who, in the past, have been excluded from opportunity.

When I became Chairman of NCUA, one of the goals I set forth was for NCUA to be "an employer of choice . . . understanding that a diverse workforce strengthens the agency, enriches employees, and enhances output." By embracing the new federal diversity initiative, I intend for NCUA to be a leader in demonstrating the benefits of a diverse workforce to our employees and to those we regulate.

Despite all of these positive initiatives, I know this is still a challenging time for credit unions and for the communities you serve. It certainly will not be easy to overcome the financial aftermath of the past decade's legacy of mistakes and misjudgments. Yet, by staying true to the credit union philosophy – "People helping people" – the credit union community can turn this anxious time of transition into a creative period of renewal.

By reaching out further . . . by extending your scope . . . by bringing the good news about credit unions to ever-larger numbers of potential members, I believe that credit unions can make a positive difference for our economy and for our society. Your efforts will play an important role, as you help even more Americans gain access to the financial services they need from local institutions they trust.

Credit unions can be a creative instrument of social empowerment, providing resources for communities to reinvest and rebuild.

Credit unions can change lives, lift hopes, and fulfill dreams.

As we prepare for an economic revival, credit unions can build stronger communities and a stronger country.

Thanks to your commitment, credit unions will lead millions of Americans through even more promising gateways to prosperity.

I salute your ground-breaking work in your communities. I am inspired by your extraordinary service to your members. And I am honored to join you here today.

Thank you very much.