National Credit Union Administration
Chairman Debbie Matz
Remarks to
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Thank you very much. It really is a pleasure to join all of you on this special day of celebrating the enormous accomplishments of NAFCU award winners.
And did you know: Today is also a special day in San Francisco history. It was on this day that San Francisco Giants first baseman Willie McCovey hit his five hundredth home run.

But it was something McCovey said – rather than something he did – that offers insight on our situation today. After a tough season, he said, "The professional athlete knows there's always another game or another year coming up. If he loses, he swallows the bitter pill and comes back."

In a way, that describes the credit union industry. It's been a tough season. But you are coming back. And you're here at this meeting today to honor credit union leaders who hit home runs.

It's always an honor to speak to NAFCU members, especially following all of these deserving award winners, who have provided great performance, great service, and -- importantly in these uncertain times -- great inspiration.

The creativity and passion which today's award winners bring to their credit unions bodes well for the future of the industry. And it speaks to the strength of NAFCU. That's because credit unions cannot be like Coca Cola, which keeps its secret recipe in a vault. Thanks to NAFCU, individual credit union solutions are becoming shared solutions.

The main theme of this conference – "Bridging People, Ideas and Solutions" – pays homage to the iconic Golden Gate Bridge.

Now the theme is even more timely and appropriate than you might have realized, because the Golden Gate Bridge is undergoing a massive restoration.

For the first time since the bridge was opened in 1937, the gigantic main cables which support the bridge and roadway are being completely overhauled. The end result will be an even stronger structure… with a renewed and rejuvenated core.

In a way, that's what the credit union industry needed in 2009 when I became chair of NCUA.

The financial crisis revealed the extent to which we – and I include NCUA in that "we" – needed to change to forge stronger, more effective, more resilient credit unions for the twenty-first century.

Because of that, NCUA put in place a strategy that I summarize as "The Four Rs":

Resolution; Risk; Responsibility; and Revitalization.

Here's what I mean by this.

First – Resolution.

When I spoke at NAFCU's Annual Conference in Chicago a year ago, I told you how we planned to resolve the problems with corporates in the wake of the financial crisis.

The unparalleled dangers we faced from corporate credit union failures are well-documented:

Fifty billion dollars in toxic assets, also known as legacy assets, were on the books.

We lacked the ability to liquidate failed corporates.

There wasn't enough money to fund all the deposits.

We needed to raise almost 30 billion dollars in liquidity just to restore the corporate credit union system. So we securitized the cash flow from the legacy assets and went to the market with a series of 13 bond offerings known as NCUA Government Notes or NGNs.

It was a daunting task, with an uncertain outcome. Nobody had tested the domestic market for these assets. There was speculation that we would have to go to the Asian markets to find willing buyers.

But I'm very pleased to report that NCUA was able to repackage those failed corporate assets with a government guarantee, and as of this month, <u>we have raised over 28 billion dollars</u> – the total amount we were seeking.

In fact, there was so much demand for the NCUA Guaranteed Notes here at home that there was no need to look overseas to sell these assets. It was almost exclusively an American market.

Many credit unions got in on the deal. To the extent there was credit union demand, we made sure they were offered a pro rata share of each deal.

This unprecedented initiative on the part of NCUA has been a resounding success for us, but more importantly, for you.

It may not be lemonade, but it's better than the lemons we were handed. Because we can now begin to wind down the bridge corporates, and you can move your money where it makes the most sense for you. You can freely charter new corporate credit unions or join other existing corporates. No longer shackled to a failed corporate, you can finally move past the corporate crisis.

NCUA didn't just help stave off catastrophe for corporate credit unions, but for <u>consumer</u> credit unions as well.

This was the untold story of the last two years. When I became Chairman, I learned that several billion-dollar consumer credit unions were rated CAMEL 4 and were on the verge of failing.

I was horrified. I was nervous. And I was adamant. Failure was not an option. I made it clear to staff: We had to do everything we could to prevent these credit unions from failing. We had to be creative. We had to tailor specific remedies to each credit union. And <u>we had to act quickly.</u>

Starting in the fall of 2009, we wrote prescriptive <u>Letters of Understanding and Agreement</u> to commit certain credit unions to specific performance targets with very close supervision. Failing to document issues at those credit unions would have meant significant losses to the Share Insurance Fund – <u>and to you.</u>

We found merger partners for credit unions that could not survive on their own. Failing to complete these mergers would have meant significant losses to the Share Insurance Fund – and to you.

We worked with several credit union boards to select new CEOs who had the expertise to address their credit unions' unique problems. Failing to take action would have meant significant losses to the Share Insurance Fund – and to you.

We conserved some credit unions – so they could be stabilized and ultimately returned to their members. Again, failing to take action would have meant significant losses to the Share Insurance Fund – and to you.

I am pleased to report that as of today, none of these credit unions have failed. All are stabilized. And for those in conservatorship, we are making great strides toward returning control of the credit unions to their members.

Our actions, taken together, saved you hundreds of millions of dollars in additional insurance premiums. That's not an exaggeration, NCUA's actions have saved you hundreds of millions of dollars in additional insurance premiums.

By taking action, NCUA resolved some of the most pressing problems that resulted from huge risks – risks that not only threatened select credit unions, but the industry itself.

These actions beg the question: To what extent does risk still jeopardize credit unions?

Thanks to the regulatory changes we have put in place, much of the corporate risk has been mitigated. That's a big step forward. And our goal is to see that the seventy-two-hundred consumer credit unions throughout the country move in the same direction.

That is why in March, the NCUA Board put out for comment, a proposed rule on interest rate risk, and we are considering proposing a rule on investment risk.

Both rules would implement lessons learned from the corporate crisis. One rampant problem in corporates was an over-concentration of high-risk securities in their portfolios, like mortgage-backed securities. When those securities collapsed, it brought several corporates crashing down with them.

A fundamental principle in investment is that diversification minimizes risk. So we began strictly regulating the concentration of high-risk securities corporates could have in their portfolios.

We realize that excessive investment risk in consumer credit unions represents a point of vulnerability as well. That's why we are considering a significant regulatory proposal aimed at limiting the riskiest investments in a credit union's portfolio.

When I say riskiest investments, I'm talking about private-label mortgage-backed securities and collateralized debt obligations – assets directly responsible for the financial meltdown. Other, less risky investments would, in all likelihood not be subject to the same rules and could be held in greater concentrations.

As I indicated, in March, we proposed a very important regulation which will require that certain federally-insured credit unions develop interest rate risk policies. These policies would require high-risk credit unions over 10 million dollars in assets as well as all credit unions over 50 million dollars in assets to identify, measure, monitor, and control interest rate risk. We believe these policies will help credit unions better prepare for market fluctuations and, in particular, the higher interest rates that are sure to follow.

Another significant risk to the credit union system comes from CUSOs. As you know, credit unions rely on CUSOs to provide many important services to their members. But many of the processes that go through CUSOs – originating speculative business loans, steering sub-prime indirect auto loans, and selling risky loans to other credit unions – expose credit unions to undue risk. So in the near future, you can expect a proposed rule aimed at mitigating CUSO risk.

However, unlike other federal regulators, and unlike several state regulators, NCUA has limited examination authority and no enforcement power over CUSOs and other third party vendors.

That means we rely on you. Management and boards of credit unions must conduct due diligence even when doing business with well known vendors. By that I mean, you have to question their decisions and closely monitor their actions on your credit union's behalf. You need to look as closely at risk as we do. In the past, we’ve seen risky actions taken by CUSOs quickly compound into crises. With your cooperation, we can minimize these situations in the future.

So let me tell you what I see as our responsibilities as regulators and your responsibilities as credit union officials.

I’ve talked a lot today about NCUA’s regulations and why we think they are crucial for long-term success. I understand directors and CEOs – and NAFCU -- tend to look at regulation with a skeptical eye.

In fact, NAFCU’s website makes it quite clear. One of NAFCU’s primary goals is, and I quote, “lessened regulatory burden on credit unions.”

But following directly on NAFCU’s list of goals is “the preservation of federal credit unions.”

And that’s why <u>effective</u> regulation – <u>not excessive</u> regulation – is so important.

If the events of the last two years have taught us anything, it should be that effective regulation has great value. Regulation that is too lax can be very costly. Throughout the financial services sector, we saw time and again how lack of oversight and unchecked risky behavior led to devastating losses.

So for most credit unions, there is no need to fear a tough regulator. In fact, a tough regulator can <u>protect</u> you.

Think about the role of the regulator the next time you’re <u>driving</u> and you see a <u>police</u> car. If you’re driving safely, you don’t have to worry about getting a ticket. But if a <u>reckless</u> driver speeds past you and threatens to cause an accident, wouldn’t you want the police to pull that reckless driver off the road?

And you’d want that driver pulled over no matter who they are or what type of car they are driving – because toughness has to be matched with <u>fairness</u>.

It’s the same with NCUA. If a credit union is taking chances that threaten to cause <u>serious losses</u>, we are going to do everything in our power to <u>prevent</u> those losses before they impact <u>all</u> federally insured credit unions.

That’s how we protect your investment in the National Credit Union Share Insurance Fund.

Although we were able to prevent many recent crises from becoming catastrophes, we also know that the best thing we can do is to prevent crises before they occur.

Earlier, I mentioned how important it is to mitigate risk. That's why we switched from an 18-month examination cycle back to a 12-month cycle.

To understand why we had to do this, imagine again that you are driving – only this time there's a sign by the road that says "No police cars for the next one hundred miles." Again, for most of us, that's not a big deal. But some people would take that as a license to put their foot on the gas – and endanger everyone.

Unfortunately, that's what happened under the 18-month cycle: Some credit unions that seemed to be operating safely after one exam were a total wreck by the next exam.

How quickly can a credit union crash?

Cal State 9 Credit Union was rated a CAMEL 2 after its exam in March 2004. The credit union was placed on an extended exam cycle, with no follow-up for another 21 months.

In the middle of that extended cycle, the credit union ramped up a Home Equity Line of Credit program with no internal controls and no concentration limits.

In the next exam, examiners found the home equity program had grown nearly five hundred percent. Examiners ordered the credit union to gain control of their program. However, it was too far down the road. Management was unable to undo the damage.

So by the next exam, the credit union's financial condition had declined past the point of no return. The impaired portfolio had to be sold for only 16 cents on the dollar. The credit union failed; and the Share Insurance Fund lost two hundred five million dollars.

I could tell you similar stories about several other failed credit unions that NCUA might have been able to save if we had examined them every year.

Here's another key number to remember from the past two years: one-point five billion dollars.

You see, if those CAMEL 4 credit unions which I discussed had failed – that is, if NCUA had not prevented them from failing – we estimate they would have cost the credit union industry one-point five billion dollars.

Instead, in 2010, we had just 28 consumer credit union failures – five times fewer than the banking industry – and actual losses of only two hundred twenty-one million dollars. Halfway through this year, we are on pace for even fewer losses.

I'm not telling you this just because I'm proud of the work we are doing – although I am proud.

I'm telling you this because as regulators, our success stories rarely become public. What you hear about are the failures.

On my watch, I don't want to see stories about failure, just as I know you don't. In this industry – as you know – someone else's disaster affects your bottom line.

So, at NCUA, we take pride in our role as tough, fair-minded regulators. Because I would much rather be tough today, than fail to prevent disaster tomorrow.

Most credit unions already do things the right way and play by the rules. Clearly NAFCU's award-winners have embraced their responsibilities and are driving their credit unions forward with integrity and professionalism.

If you seek ways to minimize risk, if you make smart choices, if you don't take shortcuts, odds are you won't have to worry about the next visit from the examiner.

But just as our responsibility is regulation, your responsibility is due diligence. In other words, you are responsible for:

Choosing or chartering a new corporate partner;

Investigating and monitoring CUSOs and third-party vendors;

Making sure volunteer board members have the requisite financial knowledge to make sound fiscal decisions.

But perhaps the biggest challenge ahead is the final R – Revitalization. Ultimately the responsibility for revitalizing credit unions falls to you.

And it will require some new approaches to doing business.

The most successful credit unions in the days ahead will be the ones that not only effectively manage their risks, but also effectively market to new members.

Right now, a huge potential market is being underserved by credit unions: younger consumers.

The average age of credit union members is 47, up from 40 just a few years ago.

Why is this important? Because the key to a successful credit union is robust lending. And the peak borrowing age is between 25 and 44. This means that the average credit union member is already past his or her prime borrowing years.

To survive in the future, credit unions must begin attracting more members who are younger than your current peak borrowers.

In 2006, credit union members between ages 18 and 24 made up just six percent of credit union membership. More recently, this young demographic in credit unions has shrunk to only four percent.

And as Fred Becker pointed out to me recently, just 11percent of Generation Y say they have a primary financial relationship with a credit union. Yet nearly 33 percent of the U.S. population is under age 20.

This raises a number of questions: Does the younger generation understand what credit unions are? Do they know how credit unions can help secure their future? Once they join a credit union, is there greater dissatisfaction among younger members?

As credit union management and board members, it is your collective job to make sure your credit union educates consumers and dispels dissatisfaction through effective outreach to a younger market.

A recent survey found a 30-point difference in satisfaction between members over age 65 versus those under age 30. Simply put, younger consumers just are not satisfied with the credit union experience. This corresponds with research that shows Generation Y to be primarily concerned with convenience. They don't want a personal touch – they want independence and high-tech tools so they can personalize their own experience.

It's your responsibility to adapt to meet changing demands in order to attract the consumers of tomorrow.

So how can you tailor unique and creative strategies to build a more dynamic membership base?

Look no further than what one of today's award winners – Tinker Federal Credit Union – is doing.

Their "Buck the Norm" initiative – with its dedicated website, video scholarship contest, no-surcharge ATMs at music festivals and other events – helped Tinker grow their membership between the ages of 16 and 25 by more than seven percent.

For Tinker – and for all of you – it really comes down to two words: Technology and Accessibility.

Today's younger market expects services like mobile banking, ATM fee rebates, and online bill-paying. They expect to be able to open accounts and be approved for loans online. They expect immediate customer service 24/7 in real time. And they want to be able to make deposits using their iPhones.

If you don't offer what they expect, they're going to take their business elsewhere. That's why it is absolutely essential that you use all of the tools at your disposal to win over this generation.

Ask yourselves: How user-friendly is my credit union's website? Does its design reflect a modern, forward-looking institution?

And what about your external marketing? Is your credit union still placing most of its ads in newspapers?

Tech-savvy generations get their information delivered to them in new ways. Instead of reading their local paper or watching evening news coverage of what the networks choose to deliver, younger generations tend to select who they want to get their news from and what organizations to follow in their own personalized ways. Or they read stories posted by their friends.

If your credit union is not connecting to these potential members on their own turf, if you aren't speaking to them in their own language, and you don't exist in their fast-paced spheres of influence, how can you expect to turn them into members? Honestly, you can't.

So today I'm going to give you a homework assignment. When you get back to your credit union, ask your staff to tell you how many of your credit union's members are over age <u>60</u>. Then ask yourselves: Ten years from now, how will you make the <u>loans</u> your credit union will need to <u>survive</u>?

If your credit union is going to have a tomorrow, you need to reach young people where they are with the products that they want and need. If you're <u>not</u> doing these things, you're <u>foreclosing</u> on the <u>future</u> of your credit union.

Creating and fostering a sense of <u>community</u> is the traditional purview of credit unions. Social media, the Internet and technology are the tools that are redefining "community" for a new generation. So again – it is your responsibility to <u>make use of those tools</u>.

If you take your traditional member service and marry it with today's cutting-edge technology, then you'll have <u>unlimited potential</u> for a more prosperous tomorrow.

That's ultimately what revitalization is all about – <u>growing</u> and <u>thriving</u> in the future.

Looking forward, these four R's can provide a useful roadmap.

When you're faced with seemingly overwhelming challenges, remember the first R – <u>Resolution</u> – and think about how much all of you have already accomplished.

When exploring which course to chart for your credit union, think about <u>Risk</u>, and how you can manage it.

When choosing potential partners, think about your <u>Responsibility</u>, to your members and your communities.

Finally, when envisioning your future, think of Revitalization, and the new and exciting ways to leverage technology to create modern, vibrant credit unions.

When I contemplate the revitalization of the Golden Gate Bridge, I marvel at the sheer effort required. It's a multi-year project that will include an enormous amount of prep work, extensive cleaning, and major repairs. Not easy.

But in the interest of reducing costs, the Golden Gate crew will be doing the work themselves rather than farming it out. This entails constructing huge scaffolding and then going section by section, until the cleaning and repairs are completed. Only then can the repainting begin.

At NCUA, we're doing the prep work. We're putting the scaffolding in place. And we're fixing the structural issues that threatened the safety of the credit union industry.

The rest of the revitalization – to put on a new coat of paint, to make it attractive to a new generation of consumers – will be largely up to you.

Many of you here today are already starting to do that. I hope many more of you begin that work in the days ahead.

Because when I see all of the award winners… and all of you… I really am excited about the possibilities.

By working together, by overcoming this industry's challenges, you can enhance a credit union system that is sound, secure, and serving more Americans than ever before. I look forward to working with you to that end.

Thank you.