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Johnson Testifies Credit Unions Are Strong and Well Positioned

June 5, 2008, Alexandria, Va. -- National Credit Union Administration (NCUA) Chairman JoAnn Johnson testified today on the state of the credit unions industry before the Senate Banking Committee.

“Federally insured credit unions are financially strong. They have implemented NCUA guidance related to real estate and other lending and as a result are positioned to weather the current economic turbulence. While data show that the industry is not entirely insulated from the adverse impact of the mortgage situation, it also supports the conclusion that strong risk management and prudent standards, closely supervised by an engaged regulator, serve to ensure continued success,” Chairman JoAnn Johnson said.

Key data supports this conclusion and underscores NCUA’s belief that the industry has implemented regulatory guidance regarding the need for increased vigilance and more careful management of credit union balance sheets. Federally insured credit unions are well-capitalized, total assets are $792 billion, and aggregate net worth is $87.7 billion, the highest dollar amount in history. Member loans represent over 67% of credit union assets and real estate loans comprise nearly 52.5% of total loans.

Senator Wayne Allard (R-CO) addressed a two-part question to Chairman Johnson during the hearing on lessons learned from the current mortgage/credit crisis and what NCUA's views are on the Treasury Blueprint.

"Credit unions are limited by statute and regulation as to what they can invest in, and as such have avoided the riskier parts of the market that have caused other institutions problems. Regarding the Treasury Blueprint, separate and independent regulation for credit unions as distinct, cooperative financial institutions is necessary and justified, demonstrated by the current health of the credit union system," Chairman Johnson said.

Credit union mortgage lending is primarily traditional loans; nearly 60% of credit union mortgage loans are fixed rate. Only 2.4% are interest only or optional payment loans. Total loan delinquencies decreased slightly in the first quarter of 2008, from .93% to .91%, and real estate delinquencies now stand at .70%. Aggregate net charge offs for all loans increased from .50 percent to .67 percent, with real estate net charge offs currently at .19%.

“These relatively low numbers indicate that credit unions have positioned themselves to withstand the current economic uncertainty and related mortgage problems,” Chairman Johnson said. “To make certain that continues, NCUA has played a proactive, aggressive role in issuing supervisory guidance regarding lending.”

Since 1995, NCUA has issued guidance on risk-based lending and specific mortgage lending guidance that has identified potential problem areas, particularly regarding Subprime lending, credit risk management, due diligence and stringent evaluation of third party relationships. Home Equity Lines of Credit (HELOCs) and so-called exotic mortgage products, such as “interest-only” and “payment optional,” were also covered by this guidance. In concert with my fellow regulators, joint guidance regarding workout arrangements, Subprime lending and loss mitigation was issued.

"These were aimed at increasing credit union awareness of the potential pitfalls inherent in a rapidly-changing and complex lending landscape. It is also a constant reminder to the industry of NCUA’s vigilant posture when it comes to identifying and managing risk. While NCUA appreciates the desire of credit unions to serve their members as fully as possible, we recognize that there is no substitute for strong supervision that enhances safe and sound operations,” Johnson said.

Chairman Johnson’s testimony is available online at: click here.

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