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NCUA Media Advisory

Hyland Encourages Growth and Reduced Regulatory Burden

March 2, 2011, Alexandria, Va. -- NCUA Board Member Gigi Hyland told CUNA Governmental Affairs Conference participants today that to fully achieve recovery from recent setbacks credit unions need to actively pursue new avenues for growth because the need to earn more net income has never been greater, and NCUA can assist by reducing regulatory burden through the review process and an increase in the definition of a small credit union to \$50 million.

“You need the room to pursue avenues of growth; our job is to make sure that you do so safely and soundly and appropriately manage risk,” Board Member Hyland said. “We must design and apply regulations that will prevent as much loss to the system as possible without stifling new and innovative opportunities for well-run credit unions to serve their members.”

Board Member Hyland offered two ideas to modernize the regulatory environment. She called for a fresh look at NCUA’s review of its regulations in an effort to reduce regulatory burden. In addition, Hyland endorsed capital reform, including PCA reform and the authorization of supplemental capital for credit unions.

Based on legislation being drafted by Virginia Senator Mark Warner, a “pay as you go” regulatory system would require federal agencies to identify and eliminate one existing regulation for each new regulation they add, she said.

Currently, in compliance with IRPS 87-2 and IRPS 03-2, NCUA reviews all its regulations every three years to update, clarify and simplify existing regulations and eliminate redundant or unnecessary provisions. NCUA’s policy is to ensure its regulations impose only minimum required burdens on credit unions, consumers, and the public and are appropriate for the size of the financial institution. Agency policy specifies NCUA will issue for comment an initial regulatory flexibility analysis for any regulation that will have a significant economic impact on a substantial number of small entities. Credit unions under \$10 million in assets are currently considered “small entities.”

“My belief is that it is time to update and modernize IRPS 87-2 and IRPS 03-2 given the significantly different circumstances for credit unions in 2011,” Hyland said. “We need to ensure that we are continuing to fully comply with the intent of the policy. I believe NCUA should seriously consider revising the definition of “small entity” to a larger number, perhaps from \$10 million to \$50 million.”

An increase in the threshold to \$50 million would capture a percentage of credit unions much closer to the original percentage captured by the asset standard when it was first adopted.

“There must be capital reform for credit unions, Hyland continued. This means amending prompt corrective action or „PCA“ and it means convincing Congress to authorize supplemental capital for credit unions.”

A 2010 NCUA white paper on supplemental capital for credit unions, prepared by a working group formed by Board Member Hyland, contained important observations and conclusions:

- Affording credit unions the ability to raise supplemental capital that counts towards PCA “net worth” requirements is an appropriate policy consideration;
- PCA regulatory reform, including a more robust risk-based capital system, should be a priority because it would significantly enhance the credit union systems’ ability to effectively manage capital.
- Findings indicate the PCA statutory requirements for credit unions are currently:
 - Too rigid;
 - Create inequities for credit unions with low-risk balance sheets;
 - Limit NCUA’s ability to have a more relevant risk-based requirement and;
 - Foster accumulation of capital levels in excess of what is needed for most credit unions’ safety and soundness and strategic needs.
- PCA reform combined with supplemental capital could afford credit unions the opportunity to much more effectively and precisely manage capital levels.

The White Paper concluded that any statutory change that affords credit unions the ability to count supplemental capital towards PCA “net worth” must be accompanied by robust regulatory authority to assure reasonable safeguards and risk parameters are put in place.

“These ideas are responsive to the changing environment credit unions and the agency are encountering. I believe they can help modernize the regulatory landscape so that safety and soundness is achieved without stifling new opportunities for credit unions to serve their members,” Hyland said.

“The power of the credit union system is you – the people: the CEOs, volunteers, staff, GAC Crashers who come to this event to network, learn and lobby your legislators. Your

power is in mutuality, in cooperation and collaboration, in identifying mutual interests with your colleagues and expanding the dialogue. Whether collaboration happens informally or through shared service arrangements or through CUSOs, collaboration, in all its forms, is a necessary part of the future of credit unions.” Hyland concluded.

Board Member Hyland’s speech is available online [here](#).

NCUA is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of more than 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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