Remarks by

The Honorable Debbie Matz
Chairman
National Credit Union Administration

at the

National Association of Federal Credit Unions
Congressional Caucus

in
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Thank you, Brad, for the kind remarks. It's great to be back with you today in my new capacity as Chair of the NCUA Board.

During my first stint on the NCUA Board, I always appreciated NAFCU's active interest in all of the issues that came before us. The staff was always prepared, engaged, and never shy about letting the agency know where NAFCU stood.

As many of you know, I served on the NCUA board from 2002-2005. So it brings things full circle that my last major speech in that role was before NAFCU and here I am giving the first speech of my new term to you as well.

In 2005, I told you that credit union people are special, and that getting to know you was incredibly fulfilling, and that this is a great job. So, when I received a call from the White House personnel office, and the caller told me that the President wanted to know if I'd be interested in going back to NCUA as Chair, I didn't hesitate before saying yes.

It is a bit odd, to come back, four years later, to an office just steps from the one I had before – although the new one is a bit bigger. More than ever I believe in that old saying – it's not the distance you travel, but what you learn along the way.

And in those intervening years, I've had the opportunity to see things from your perspective as well – serving as an officer at a Maryland credit union. Between 2005 and today, the economic landscape in which we operate – and the challenges we face -- have changed considerably. So I know that I can't simply pick up where I left off.

You know all too well the ravaging effect the downswing in the national economy has had on the financial well-being of your members and on many of your institutions.

Back in 2005, no one could have predicted the worst case economic scenario that would confront credit unions in the coming years. Who could have imagined the disappearance of even one of the financial giants – Bear Stearns, Merrill Lynch, Lehman Brothers, Countrywide, Wachovia – much less all of them?

Closer to home, I would venture a guess that not one person in this room could have foreseen the need for NCUA to conserve the two largest corporate credit unions.

As a member of President Obama's NCUA transition team, I learned last fall that such action might be necessary. It was shocking, sad and frankly, scary. My immediate concern was for the effect this would have on natural person credit unions and the members you serve.

But I think the credit union community has done a remarkable job of demonstrating the cooperative spirit which defines this industry. When put to the test, credit unions have taken a deep collective breath, rolled up their sleeves and, working together, looked for and found solutions.

Take the example of your work to help raise the borrowing limit for the Central Liquidity Facility. The CLF was previously little-known and seldom-used. It was designed to be a source of contingent liquidity for credit unions in cases where the corporates were unable to provide it.

As the credit markets began to sag under the weight of what is now universally regarded as the worst financial meltdown since the Great Depression, credit unions needed liquidity, and they needed it fast. NCUA saw that the borrowing cap needed to be increased up to its legal limit of about $41 billion.

I am told by Agency staff, as well as key players on Capitol Hill, that last fall, when real and significant liquidity strains began to show up throughout the credit union system, NAFCU stood shoulder to shoulder with NCUA in its effort to raise the borrowing limit for the CLF.

I know this wasn't an easy thing to do; that by asking Congress for the removal of the cap, you were effectively alerting them to the unpleasant reality that one of the safer parts of the financial services sector was not immune to the financial meltdown. But, this message had to be delivered, because without an increase in the cap, some credit unions could have succumbed to the extraordinary downturn last fall.

NCUA needed industry help to get the job done, and NAFCU rose to the occasion in impressive fashion. When lawmakers needed to be “educated”, NAFCU was there. When letters of support were needed, NAFCU was there. And when the serious business of drafting legislation was being done at the 11th hour of a very pressure-packed Congressional session last September, NAFCU was there every step of the way.

This arguably averted a liquidity catastrophe in the credit union system. You similarly rose to the occasion this spring during the Stabilization debate. When action is needed, NAFCU is there, and that’s a testament to your organization’s far-ranging commitment to your members, and to the industry as a whole.

So here’s where we stand today. As you know, credit unions are hurting. Although capital stands at just over 10%, many credit unions are faced with negative earnings. And while 10% capital is quite healthy, this is a dramatic drop from a year ago.

Given the high and increasing loan delinquency rates and the continued stresses in the real estate markets, there’s going to be a lot of uncertainty in the days ahead. I assure you, NCUA is monitoring these trends very closely.

There is some positive news however: More than ever before, Americans rightly see your institutions as a sound and strong place to put their money and invest in their dreams.

I hope that by the end of my term credit unions are serving <u>100</u> million members. That’s a milestone that won’t just be good for you, it will be good for America.

The journey you’ve been on this last year hasn’t been easy, and it’s not nearly over. So today, I don’t want to dwell on how we’ve come to where we are… I want to talk about where we go from here.

And, as we move forward, you also have the right to know what will change under my Chairmanship, and what won't. Let's start with what you can expect in the next several months. Our immediate agenda has really been dictated by events.

First, we're going to develop a revised corporate rule. Last year, NCUA issued an Advanced Notice of Proposed Rulemaking. This document essentially announced the agency's intention to propose a revised corporate rule and it contained language offering various options.

Clearly, this is important to you, and there are some strong opinions. We received almost 500 comment letters, and we read every one. We heard about national fields of membership, about liquidity functions, about payment systems, investment authority and governance.

We heard that NCUA acted too quickly. We also heard that NCUA did not act quickly enough.

The input we had was – shall we say – diverse. But it was helpful… and it was taken in the constructive spirit in which it was offered. I think one letter put it best: and I quote: "There are many culprits, but the status quo is unacceptable."

To make sure we get even more voices heard in this process, I've already held the first of three town hall meetings to hear directly from credit union officials about corporate and other issues.

The first meeting was in St. Louis – I know a number of you were there. The second and third will be in the DC area on September 30 and in San Diego on October 5.

I want you to know that listening will be a hallmark of my Chairmanship. We may agree or disagree, but as long as we maintain that spirit of working together, I believe we'll be able to improve this industry that we all care about so much.
I am approaching the revision to the corporate rule with an open mind.

As some of you may remember, I cast the lone vote against the corporate rule when it was revised in 2002. As a then-new member of the board, this was a difficult decision. I did not believe the crucial issue of risk concentration was adequately addressed. I also believed that the investment authority being granted was overly broad and permissive, particularly in light of the complexity of the financial instruments that were available to the corporates.

I bring this up -- not to say I told you so -- but to underscore how important it is that these issues be addressed this time around.

However, before we even get to that level of detail, we need to think about what the appropriate role is for corporate credit unions. Corporates were created, first and foremost, to provide liquidity to natural person credit unions. Is this still a viable function?

Corporates also provide investment and important payment systems to credit unions. Are there other institutions that credit unions can turn to for these essential services? Are these sufficient reasons to maintain the corporate network? If so, how should that network look? I look forward to your input in answering these questions.

Last week in St. Louis, some of the participants suggested that NCUA might have chosen other courses of action. I am not going to look back and second guess the decisions that have been made. The Board made decisions based on the best information at their disposal. They acted as quickly as they could in an effort to forestall a collapse of the system. Painful as it has been, it has worked.

The new rule will ensure that the corporate system continues to work going forward, so that we never again experience what occurred in the last year.

The second issue demanding immediate attention is the effect the economic downturn will ultimately have on natural person credit unions. Unfortunately, credit unions are still feeling the effects of the financial crisis. Many people remain unemployed and delinquencies are still on the rise. There will be a sorting out over the course of the next 12-18 months. It’s safe to assume that some credit unions will not survive.

My top priority as NCUA Chair will be to help keep credit unions strong and healthy… and to make sure that Americans know that credit unions are a safe place to save and to borrow. For NCUA, that means ramping up efforts to assist credit unions.

I will work with my colleagues to ensure that our regional offices are sufficiently staffed and that the staff is adequately trained. Our intent is to work hand-in-hand with credit unions to tackle issues before they become insurmountable problems.

The third issue requiring early attention will be redefining the community field of membership. As those of you who have submitted community charter applications know, this is not a pretty process. There is no standard definition of multi-jurisdictional applications.

The process is lengthy and requires reams of documentation which often varies from one application to the next. One person's perception of a well-defined local community can be vastly different from someone else's.

NCUA has determined that a well defined local community requires geographic certainty and sufficient social and economic activity. This is demonstrated by interaction and shared common interests.

I know that description doesn't offer total clarity. There's still a lot of confusion about how to demonstrate the requisite interaction and/or shared common interests and how much evidence is required in a particular case.

As a result, credit unions often feel the need to hire consultants to put together lengthy and costly applications.

My intent is to develop objective and easy to apply criteria. This will replace the current, burdensome practice of requiring an applicant to submit a narrative document with supporting material. I look forward to working with you and your trade association to develop such a methodology. This is one of my top priorities.

As we pursue those immediate goals, there are also six overriding goals I'd like to achieve.

Goal number 1 should be the objective to which every financial regulator aspires: that we will be recognized as a fair and effective regulator that sets the highest standards for safety and soundness.

This is an essential first priority. Your members, the heart and soul of the industry, the ones who place not only their funds but their trust in you, deserve nothing less. And I will be vigilant and uncompromising in pursuit of strong, assertive safety and soundness regulation.

My second goal is to make certain that NCUA is a strong advocate of initiatives to protect members from predatory and unsafe financial products.

Again, this should be a given. And yet recent events in other parts of the financial services world have shown a pattern of inadequate or indifferent regulation when it comes to even the most basic consumer protections. And while I do not view credit union regulation in this light, I do believe that NCUA should devote even more energy and attention to this priority. Under my Chairmanship, we will set the bar on protecting consumers.

Third, NCUA will help ensure that all people in your field of membership get the service they need.

As some of you may remember, during my past tenure on the NCUA Board I was a strong advocate of credit unions reaching out and serving all the people in your field of membership. That's why we created the PALS program. As important as this was then, it is even more important today. With the severity of the economic downturn, consumers need access to affordable credit more than ever. When you make an auto loan, a mortgage loan or a small business loan you are putting money back into your community. You are creating jobs. You are helping to sustain a family. This isn't just in our national interest, it's also in your self interest.

Reaching out to serve all the members in your field of membership is a win-win.

My fourth goal is for NCUA to be a regulator that listens and encourages the exchange of ideas with credit unions, while maintaining its independence.

Proper regulation requires constant balancing -- between risk and safety, between innovation and prudence, between philosophy and practicality. I don't believe those needs are mutually exclusive. I believe we can find a balance… one that works for everyone.

Goal 5, NCUA will be an employer of choice and a reliable partner with elected labor representatives, understanding that employees are our most important asset. In short, when we can work better together within our organization, we can work better together with your organizations.

Finally, Goal 6, NCUA will be a model corporate citizen that recognizes its responsibility to implement environmentally sound practices and procedures wherever and whenever feasible.

This isn't just the right thing to do, it's also the smart thing to do. It's not just about saving the environment, it's about saving you and your members money.

In all of these efforts, I welcome your input. And I know you would welcome and deserve a regulator who is credible and thoughtful; someone who is responsive without being reactive, firm without being inflexible, independent without being adversarial. That is the type of regulator I intend to be.

I've chosen these goals because if NCUA is able to achieve these goals, you will be able to achieve your goals. And when you're able to achieve your goals… your members should be able to achieve their financial goals… And when your members can achieve their goals, our nation can achieve many of our shared goals.

After all, the credit union movement is in service of a noble goal. Putting money drawn from your members in the form of deposits back into the community in the form of loans – with service, not profit as a motive – builds communities and supports dreams. It strengthens our country.

You work and volunteer at a credit union because you want to make a difference, because you want to help the people traditional financial intuitions too often ignore: decent people of modest means.

The technology may have changed, the products you offer may have changed, the communities you serve may have changed. But from the day in 1934 when FDR signed the Federal Credit Union Act into law -- right up to today, that simple old-fashioned notion of service to members remains a hallmark.

That is why I am honored to be a partner in those efforts… and excited to get to work.

Thank you.

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