National Credit Union Administration
Chairman Debbie Matz

"Credit Unions Remain Resilient In Tough Times"

Remarks to
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Thank you for inviting me to be here with you today.

I, too, would like to congratulate Congressman Kanjorski for all of his hard work on credit union issues over the last 26 years. As a champion for the credit union movement, he worked in Congress to ensure that all Americans could continue to join credit unions – and that those credit unions would be safe and sound.

Thank you, Congressman, for a job well done.

Unquestionably, this has been a challenging year for the credit union industry – and for NCUA.

We appreciate all the hard work of credit union staff, from the tellers to the CEOs, who have gone above and beyond to serve members who were struggling to recover from the economic downturn.

And we appreciate the role of volunteers, who have become even more engaged in directing credit unions through these tough times. I continue to believe that volunteers are the heart and soul of the credit union system. Thank you for your dedication.

We’ve always known that the credit union system was strong, and this year you showed it’s resilient, as well.

It’s like what Winston Churchill said: “If you’re going through hell, keep going.” The fact that you all kept going is a real tribute to your resilience.

Edward Filene, the founder of the American Credit Union movement, once said that “Progress is the constant replacing of the best there is with something still better.”

I believe that for American families, credit unions are the best there is. And I believe the credit union system continues to make progress.

Last year, I told you it was necessary for NCUA to increase the number of administrative actions on credit unions that were taking excessive risks. I also said that these difficult economic times have required NCUA to provide tough love.

After the conference, I got a letter saying: "We're feeling the tough. But we're not feeling the love."

So today I want to share with you some of the actions we've taken – both the tough, and the love – that have strengthened the credit union system. Some of this work you may already know about. But a lot of it happened behind the scenes.

Let me start by saying that for most credit unions, there is no need to fear a tough regulator. In fact, a tough regulator can protect you.

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

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

So if you are running your credit union safely – like a responsible driver – you should feel confident that NCUA is with you on the road to recovery. We are protecting your investment in the National Credit Union Share Insurance Fund.

In 2010, despite fears that NCUA's administrative actions would hurt everyone, we only had to pull over a few reckless drivers. And that has made the responsible credit unions safer.

Our actions, taken together, saved you hundreds of millions of dollars in additional insurance premiums. Yes, you heard me correctly. NCUA's actions have saved you hundreds of millions of dollars in additional insurance premiums.

Beyond the bottom line, though, I want to talk with you about why we did what we did, and our philosophy going forward.

So let's take a step back and look at where we've been.

Eighteen months ago, NCUA simply did not have the resources to do our job effectively.

The entire American financial system was at risk; yet NCUA actually had a smaller staff in 2009 than we did in the year 2000.

I know you are all aware of the dangers we faced from corporate credit union failures. But the untold story of the last 18 months is how we prevented another crisis. Several, billion-dollar consumer credit unions were on the verge of failing.

We knew we had to keep these CAMEL 4 credit unions from collapsing; and we knew that business as usual was not going to work. We had to be creative. We had to tailor remedies to unique situations at each credit union. And we had to act quickly.

So here's what we did:

We used very prescriptive Letters of Understanding and Agreement to commit certain credit unions to specific performance targets with very close supervision. In some cases the boards of those credit unions had to be convinced to sign the LUAs or face losing their credit unions, which would have incurred significant losses to the Share Insurance Fund – and to you.

We found merger partners for credit unions that simply could not survive on their own. These mergers were not always well received by the boards of troubled credit unions; but failing to complete these mergers would have incurred significant losses to the Share Insurance Fund – and to you.

We worked with several credit union boards to select new CEOs who had the skills and experience to address the specific problems that their credit unions faced. This definitely was not well received by boards; but failing to take action would have incurred significant losses to the Share Insurance Fund – and to you.

We conserved some credit unions – in order to stabilize them so they could ultimately be returned to their members. I assure you this was not a popular course of action for NCUA. But again, failing to take action would have incurred significant losses to the Share Insurance Fund – and to you.

Are you beginning to hear a theme? This was the "tough" part of tough love; and it didn't win us any popularity contests. But in each of these cases, failing to act would have meant dozens of high-profile failures.

Because of the actions we took, worst-case scenarios remained just that – scenarios – and they did not become reality.

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

That's why we returned to a 12-month examination cycle, rather than the 18-month cycle we had been using in the years leading up to the crisis.

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 speed – 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.

Here’s an example of how quickly a credit union can crash:

Cal State 9 Credit Union, which had assets of two hundred eighty-five million dollars, was rated a CAMEL 2 by the California state regulator and NCUA 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 500 percent. Examiners ordered the credit union’s management to gain control of their program. However, by that point, management was unable to undo the damage in time.

So by the final exam, the credit union’s financial condition had deteriorated 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.

Of course I understand that more frequent exams require more NCUA staff and resources. So I understand your concern that when you were cutting your budget, NCUA asked more from you.

True, your credit union may be on a straight and narrow path. But if any other credit union is not, you will pay for it.

One final time – imagine you are driving. This time imagine the roads are slick from a storm; drivers are having trouble staying on the road; and there's a huge crash on the road in front of you.

Now you hope the police will come in with reinforcements as quickly as possible. And you would have a right to ask how this wreck could have been prevented.

This is how it feels after a credit union fails.

One of the many lessons we learned from the economic downturn is that tough regulation is even more important during tough times. That's because these are the times when, if we're not careful, problems accelerate. More delinquencies quickly turn into charge-offs.

And it's worth noting that NCUA is not the only regulator that needed additional resources. Our budget went up 12 percent this year and 13 percent the year before. But by comparison, FDIC's budget went up 55 percent last year, and 81 percent the year before.

But here is the really big number from the past 18 months: one-point five billion dollars.

You see, if those CAMEL 4 credit unions which I mentioned earlier 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.

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 a regulator, our success stories rarely become public. What you hear about are the failures.

For example, here’s a quote from the official report of the Financial Crisis Inquiry Commission, which Congress established to determine the cause of the most recent recession. The report says, “regulators ‘lacked the political will’ to scrutinize and hold accountable the institutions they were supposed to oversee.”

No doubt, regulators absolutely should come under scrutiny when they fail. But on my watch, I want to make sure no one ever has to write anything like that about NCUA.

Sometimes, that means making unpopular decisions.

I’m willing to make those decisions because, at the end of the day, a regulator’s job is to protect the long-term health of the industry, and to protect the people that industry serves.

Show me a cozy relationship between the regulator and the regulated, and I'll show you the Minerals Management Service. The Minerals Management Service, as some of you may remember, was the regulator in charge of overseeing the safety of offshore oil platforms. Ultimately, that regulator's cozy relationship with the oil industry – and the disastrous oil spill that stemmed from it – will cost the industry more than stringent regulation ever could.

It's no coincidence that the most highly-regulated industries are those where failure can be contagious.

Think about the meat packing industry. I started thinking about it after the Green Bay Packers won the Super Bowl.

Let's say one plant produces some contaminated beef, and this is widely publicized. Consumers will likely stop buying all beef, even though the beef from other plants is perfectly fine.

A crisis anywhere in the industry is bad for everyone in the industry.

For credit unions, this is more than a common understanding. It's codified in your very structure. As you are all well aware, if a credit union fails, the cost is passed along to every other credit union.

So the way I see it, regulators have two options:

1) We can do our jobs effectively, which will impose a short-term cost, or

2) We can be lax, which will impose much higher costs over the long term.

I would much rather be tough today, than fail to prevent catastrophe tomorrow.

And I know some of you may be skeptical about this: But being a tough regulator is only part of my job, albeit a big part.

Then there's the "love" part of tough love – the times when NCUA has worked to help credit unions better serve their members.

For example, many of you faced high costs because of the need to repay corporate credit union assessments by 2016. NCUA thought it was important to extend that deadline – and decrease the annual cost passed on to you. But to do so required approval from the Treasury Secretary.

So we worked with the Treasury Department for almost a year… and ultimately Secretary Geithner agreed to extend the Corporate Stabilization Fund from its previous expiration date of June 2016 to June 2021. That will cut credit unions' average annual assessment in half.

In this environment, I know that for some of you, those savings represent the difference between a negative and a positive return on assets. For others, it represents the difference between enhancing services for current members, serving new members, or just holding the line.

In another effort to streamline costs, I testified before the Senate Banking Committee on the need to enact three technical amendments to the Federal Credit Union Act. We called this package of amendments the "NCUA toolbox" because it gives NCUA the tools to reduce the costs of managing the Share Insurance Fund and the Corporate Stabilization Fund.

On January 4th, President Obama signed the NCUA toolbox into law. This new law will reduce costs to all of you.

The first amendment strengthens NCUA's ability to help credit unions complete emergency mergers.

Before this amendment became law, a change in merger accounting diluted the net worth of recipient credit unions – which discouraged mergers. Some troubled credit unions had to be liquidated because potential merger partners could not absorb the capital hit.

Under the new law, NCUA assistance to failing credit unions, in certain cases, can be counted as capital by surviving credit unions. This will reduce losses to the Share Insurance Fund, keep costs lower to you – and continue credit union service to members.

The second amendment prevents credit unions from being assessed artificially inflated insurance premiums.

The new law clarifies that the equity ratio of the Share Insurance Fund is based solely on its own *un*consolidated financial statements. This prevents conserved credit unions' losses from being charged against the equity ratio of the Share Insurance Fund. This ensures that credit unions will not have to pay hundreds of millions of dollars in additional insurance premiums as a result of conservatorships.

The third amendment allows NCUA to repay the Corporate Stabilization Fund without having to borrow from the Treasury. This will save credit unions at least sixty million dollars over the next ten years.

Beyond these changes which have become law, NCUA also continues to support two important legislative initiatives.

In testimony before the Senate Banking Committee and in a letter to Secretary Geithner, I urged policymakers to lift restrictions on member business lending. Small business owners are in need of capital. So I believe, as many of you do, that Congress should make it easier for credit unions to make small business loans.

In addition, I recommend permitting supplemental capital under some circumstances. As I said last year, healthy credit unions should not be punished for taking new deposits. But with interest rates still low, new deposits lower the capital ratio, which could become a weakness that by law must be remedied. Without supplemental capital, many of you have no choice other than to discourage new deposits.

It makes no sense that at a time when more consumers are discovering credit unions as a safe place to save, the law requires many of you to turn those consumers away!

I wholeheartedly believe you should be able to access supplemental capital to relieve the pressure that new deposits put on your capital ratio.

I should add that there's another benefit to regulation that's harder to quantify: maintaining trust between the industry and consumers.

Consumers have so many choices when it comes to personal finance. Some choose credit unions because they get better interest on their deposits, or a better rate on their loans.

But for many, the attraction of credit unions cannot be measured in basis points. It's that sense of community – a sense that people care about them, not just their money.

In many ways, trust is a credit union's most valuable asset.

This was really brought home to me in the fall of 2009 when I got a call from Suze Orman.

She said she wanted to learn more about credit unions – and she invited me to lunch.

Suze asked about how credit unions work, and about the advantages they offer consumers.

And she became one of the most important friends credit unions could hope for.

Since then, Suze Orman – financial advisor to millions – has been telling consumers to get out their scissors, cut up their bank credit cards and get a credit union credit card!

Suze has lent her image – and her reputation – to NCUA's public education campaign. Our campaign educates people about the safety and soundness of federally insured credit unions. The campaign has been viewed by 56 million people online, 15 million on TV, and 12 million in print; and another 3 million have heard it on radio.

Suze's confidence in credit unions speaks volumes. It means she trusts credit unions with her personal brand.

Any time a credit union fails, that kind of trust is threatened. Preserving that trust is part of the regulator's job.

In 2009, David Taylor and Richard Vogt, two small business owners in upstate New York came together with one dream: to convert an old mill into a nine-room inn and a small conference center.

They had already borrowed against a personal residence. Then they needed more financing. Several large commercial banks turned them down. So did more than a dozen local banks. When one bank backed out in the middle of construction, the two entrepreneurs had to borrow money from friends just to make ends meet.

Then, in July 2010, they approached GPO Federal Credit Union. GPO saw the potential in the local business. And thanks to the credit union, the innkeepers were able to secure a line of credit to consolidate construction costs and refinance their mortgage.

Today, their life's dream is worth much more than their outstanding note. The inn's occupancy continues to rise. And the innkeepers are hoping to hire their first employees by spring.

To me, that's what credit unions are all about: serving the dreams of individuals, and strengthening communities – and our nation's economy – in the process.

Winning the future depends on security and stability in the financial sector. And that means credit unions have a vital role to play.

Some people think a success story like David and Richard's is one in a million.

But it happens over and over again for 92 million credit union members.

At the end of the day, it’s those members – 92 million and growing – that NCUA and CUNA both serve.

We owe it to those members to continue to work together when we agree, and to talk openly and honestly when we don’t.

As we move along the road to recovery, we must continue to answer Edward Filene’s call: to take the best there is and make it even better.

I hope that’s exactly what we do in 2011.