

**Embargoed Until Delivery  
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Remarks of Debbie Matz  
Board Chairman  
National Credit Union Administration

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Credit Union National Association's  
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## Remarks

Thank you for the introduction, Paul. It's great to be here.

Before I begin, I'd like to thank CUNA's new President and CEO, Jim Nussle, for starting his new job by meeting with me and opening a dialogue. Since my first day as NCUA Chairman in 2009, one of my goals has been to exchange ideas with the credit union community. And, in fact, credit union representatives have suggested some of the most innovative ideas for regulatory relief. So, Jim, I wish you the very best. I look forward to getting to know you better, and to working with you in the future.

But before we look to the future, let's take a quick look back. In January, when President Obama stood before Congress to deliver his State of the Union Address, he said, "The shadow of crisis has passed." I'm here today to affirm that message and to congratulate each of you for contributing to this success.

Let's compare today to the dark days of 2009:

- Return on average assets is now four times higher;
- Loan growth is nine times higher;
- Delinquencies are less than half; and
- Membership is at an all-time high.

But, as the shadow of crisis fades, none of us can allow its lessons to fade.

Yesterday, many of you heard from General Stanley McChrystal about turning around a crisis in Afghanistan. A few moments ago, we heard from Ari Fleischer who navigated crisis communications for the Bush Administration. On Wednesday, you'll hear from Tom Ridge about the challenges of reorganizing the federal government to respond to threats during times of crisis. While each speaker has extraordinary stories to share, and learned hard lessons worth heeding—sometimes, we forget the most important lesson of all: The best way to deal with a crisis is to avoid it in the first place.

Today, I want to talk about how—together—we can avoid the kinds of crises that may be receding in our rearview mirror, but we cannot allow them to recede from our memory. I want to talk about how—together—we can keep the credit union system strong. And, perhaps most important to you, I want to talk about how NCUA can remove unnecessary regulatory burdens.

### Cybersecurity

So, let's pick up our conversation where we left off: Last year, I spoke to you about cybersecurity as a growing threat to our nation. I warned against the prospect of a cyber-terrorist using a credit union to gain access to every payment system and every vendor with which you

have a digital relationship. That kind of attack could potentially disrupt the entire U.S. financial system. I advised you to take risk-mitigating measures against cyber-attacks. I encouraged you to strengthen your due diligence on vendors, your password policies, patch management, employee training, and network monitoring.

Earlier this year, in his State of the Union Address, President Obama unveiled plans for a national notification standard for businesses affected by breaches. More recently, the President announced the creation of a Cyber Threat Intelligence Integration Center. This new federal agency will develop ways to analyze and combat cyber threats against our nation. This is an extraordinarily important initiative. Preventing and detecting cyber threats, and mitigating the damage, will help your credit union maintain its resilience and vitality.

### **Risk-Based Capital**

While threats to cybersecurity come from outside the system, during the past year I also warned about a potential threat from inside the system. I was referring to a few aggressive credit unions taking excessive risks without holding sufficient capital to cover those risks. If those high risks ultimately cause losses, then all credit unions—including yours—will have to pay.

To address this problem, NCUA proposed a revised risk-based capital rule earlier this year, after listening carefully to your comments. I want to thank everyone who took the time to share their thoughts on the first proposed rule. This includes many of you in this room.

Your comments are reflected in our changes. Seventy-seven percent of all credit unions would be exempt. That's the vast majority of you. The proposed rule covers only 23 percent of credit unions. Those credit unions hold 90 percent of all assets in the system.

However, among the nearly 1,500 covered credit unions, the proposal carefully targets just 27 outliers where the 7-percent net worth ratio is not enough to cover the actual risks on their balance sheets. Our changes mean 98 percent of the covered credit unions would remain well-capitalized.

In fact, the majority of covered credit unions should see their capital buffers increase. The average risk-based capital ratio would be more than 19 percent. That's nearly double the proposed requirement of 10 percent to be well-capitalized. And that's most of you covered by the proposal.

We'd like to know how the revised proposal works for your credit union. Please send us your thoughts. The comment period is open until April 27.

Now, I know you will be happy to hear this: My intent is for the risk-based capital rule to be the last significant safety and soundness rule change for the foreseeable future. You might ask, "If that's the case, what does that mean for interest rate risk?"

We've invited stakeholders to comment on alternative approaches to reasonably account for interest rate risk. One option we are considering is to examine for interest rate risk through the supervisory process, rather than proposing another rule.

Please let us know how you think NCUA should deal with those credit unions exposed to excessive interest rate risk. We really do want to hear your views.

### **2015: The Year of Regulatory Relief**

Now let's turn to what you really want to hear today: how NCUA can better let you do your jobs. In other words, what else, consistent with safety and soundness, can NCUA do to ease regulatory burdens on credit unions?

Since 2011, we've streamlined and improved eight regulations that will provide lasting relief to credit unions, but we're not done yet. I'm committed to making 2015 the year of regulatory relief.

To begin, last month, we proposed a rule to raise the asset threshold for defining "small" credit unions. Under our proposal, three out of four credit unions would be eligible for regulatory relief from certain NCUA rules. You could have up to \$100 million in assets and still be considered small enough for regulatory relief in future rulemakings. That's 10-times more than the asset threshold of \$10 million, which was in place when I became Chairman.

But even more relief is on the way. Today, I want to highlight five new areas of regulatory relief to help credit unions compete in the rapidly evolving marketplace.

### **Counting Supplemental Capital**

The first area is supplemental capital. I have already heard many comments about supplemental capital. Stakeholders suggest that under current law, NCUA could count certain forms of debt as supplemental capital for the risk-based capital ratio. For example, subordinated debt could be issued to members and non-members, but it would be uninsured. This would require three changes beyond risk-based capital.

First, we would need to provide consumer protections. Second, we would need to change the order of Share Insurance Fund payout priorities to recognize that supplemental capital accounts are not insured. And third, we would need to set prudent standards for credit unions to offer subordinated debt to supplement their risk-based capital. This includes setting minimum redemption periods to ensure the capital is available to cover losses during times of stress.

I understand the need for supplemental capital in certain circumstances. I assure you, as part of modernizing risk-based capital, I am committed to allowing supplemental capital to be counted in full. I am open to proposing rules to accommodate these forms of supplemental capital

through regulatory changes. The effective dates would coincide with implementation of risk-based capital in 2019.

But not everyone should have to wait until 2019 to benefit from regulatory changes on supplemental capital. That's why I've assembled an internal working group to focus on low-income credit unions that can already raise and count secondary capital.

One goal of this working group is to explore ways to increase access to secondary capital for low-income credit unions this year. This could include regulatory relief to make secondary capital more attractive to potential investors in low-income credit unions, whether federally or state-chartered. Another goal is to discuss potential legislative and regulatory changes that could benefit all credit unions interested in raising supplemental capital.

Not surprisingly, there's been a lot of interest in this working group. To make sure the discussions are inclusive and cost-effective, the group plans to hold a series of conference calls with stakeholders around the country, starting this month.

Now, let me be clear: NCUA can allow certain forms of supplemental capital for both risk-based capital and low-income credit unions. But please understand, for credit unions without a low-income designation, legislation is required to allow supplemental capital to count toward the 7-percent net worth leverage ratio.

Representatives King from New York and Sherman from California re-introduced legislation to do just that. I supported their bi-partisan supplemental capital bill in the last Congress, and I continue to support their bill in the new Congress.

### **Expanding Fields of Membership**

The second area of regulatory relief is expanding fields of membership. Last year, we proposed a rule designating seven categories of associations that federal credit unions could automatically add to their fields of membership. This year, we would like to add even more automatic qualifiers.

I feel strongly that you should not be required to get approval from NCUA each and every time you want to add another group. Our goal is to make it easier for federal credit unions to expand their fields of membership. To do this, I've created a working group to recommend options for more inclusive fields of membership. The Field of Membership Working Group will identify obstacles facing credit unions looking to expand. The group will recommend rule changes to provide more flexibility to federal credit unions.

And we're not waiting for Congress to act. By the end of this year, we're going to move forward with sensible rule changes within NCUA's legal authority.

Of course, easing some other field of membership restrictions would require congressional action. Last month, NCUA testified in support of several legislative changes aimed at regulatory relief. One that I want to highlight is our effort to allow community-chartered credit unions to add underserved areas. This legislative change would be a win-win. It would help you increase your membership, while providing the underserved access to affordable financial services.

### **Removing the Fixed-Assets Limit**

The third area of regulatory relief is removing the fixed-assets limit. We will soon provide more discretion for credit unions to manage fixed assets. We all know that an over-concentration in fixed assets is dangerous. Credit unions should prudently and deliberately make the decisions about the appropriate level of fixed assets to hold. But, you should be able to do that without needless red tape.

I don't believe that spending hours putting together waiver applications is a good use of your time. Decisions to upgrade your technology, or your facilities, or other fixed assets should be your decisions to make—and yours alone. Our upcoming rule will eliminate the 5-percent cap on fixed assets. The new proposal will authorize federal credit unions to set their own prudent limits on fixed assets such as computers and buildings.

I think you'll be pleased to learn that I have asked NCUA staff to present this new proposed rule at our open Board meeting next week.

### **Permitting Asset Securitization**

The fourth area of regulatory relief is permitting asset securitization. As the credit union system grows in size and complexity, many of you have begun adopting more sophisticated financial innovations.

We intend to allow larger, qualified credit unions to securitize their assets. Securitization would permit these credit unions to tap new sources of liquidity and reduce interest rate risk by converting fixed-rate assets into cash. We're fine-tuning our proposed rule on asset securitization and hope to finalize it later this year.

### **Easing Member Business Lending**

And now, last, but definitely not least: easing member business lending.

I have heard loud and clear from credit unions that make business loans. Requiring a personal guarantee on every business loan can be frustrating and can lose business for you. Although you can apply to your regional office for waivers from personal guarantees, we understand the waiver process sometimes prevents you from making timely and prudent business loans.

That's why we plan to eliminate the business loan waiver process altogether. Determining whether to exempt a borrower from a personal guarantee is something that your loan officers should do, based on your prudent underwriting criteria. We are going to move away from defining highly prescriptive, one-size-fits-all business loan underwriting requirements.

The bottom line is: You know your members' needs better than we do. Our business lending rules need to reflect that.

We will, of course, continue to provide business loan guidance and supervise effectively for sound commercial lending practices. And in response to credit union leaders from the Dakota States, who gave me thoughtful and compelling feedback, we intend to lift unnecessary limits on construction and development loans.

As I've said before, NCUA is not here to hold you back.

### **Closing**

Today, you've heard about five significant regulatory relief items you can look forward to NCUA addressing this year, starting next week. As you've heard me say from this stage before, I'm always open to hearing your good ideas. I'm committed to removing regulatory burdens under our control that do not compromise safety and soundness. We will listen, and where sensible, we will act. We've proven that time and again.

So now, I'll leave you with some parting thoughts.

Many of you will visit the Capitol tomorrow. You may notice the Capitol dome is covered in scaffolding. It reminds me of an old photograph of Abraham Lincoln standing in front of an unfinished Capitol dome, taking the oath of office in 1861. But long before he got to the Capitol, he had on his mind other unfinished business.

It was actually on this day in 1832 that a young Abraham Lincoln first announced his candidacy for a seat in the Illinois General Assembly. Before Lincoln outlined his plans for improving roads and waterways, he cautioned his audience with one statement, "It is folly to undertake works of this or any other kind, without first knowing that we are able to finish them—as half-finished work generally proves to be labor lost."

NCUA also has unfinished business. We need to finalize risk-based capital as the last safety and soundness regulation to be strengthened after the financial crisis. We need to ensure cybersecurity in the financial services industry is strong, to prevent a different kind of crisis. And we need to fulfill our promise to provide you with regulatory relief, to ease your compliance burdens whenever possible, as I've discussed today.

Finally, it's not enough to make it out of a crisis still standing. It's not enough to simply say the worst is behind us. It's not enough to hope we will never again experience what we've all been through. Rather, it's our duty—together—to make sure we learn from our past and build a foundation for our future.

Our number one goal is to keep the credit union system safe, sound, and sustainable. You will have greater freedom in pursuit of that goal.

If you embrace that freedom while embracing the responsibility it demands, if you're able to use the newest technologies to achieve your timeless mission of serving members, and if you're able to avoid crises, and continue to invest in your communities, then—together—we'll have succeeded in strengthening and securing America's credit unions for generations to come.

This is our shared goal. I am confident it will be our shared success. Thank you.