Open Board Meeting April 30, 2015

NCUA Chairman Debbie Matz
Statement on the Corporate Credit Unions Final Rule

This final rule includes several provisions of regulatory relief.

The most important form of relief, from a safety and soundness perspective, is the provision that will allow surviving corporates to count retained earnings acquired in mergers going forward. Removing this significant accounting hurdle for corporates that choose to consolidate will reduce future risks to their members and to the Share Insurance Fund. As corporates retain more earnings, they will pose less risk to member credit unions that contributed capital to those corporates.

However, based on comments to our proposed rule, some may criticize this final rule—not for what it does, but for what it doesn't do. So for those who may criticize this rule because it doesn't give corporates everything they asked for, let me share a historical perspective.

In 2008, troubled corporates held $50 billion in non-liquid investments which they could not sell off in any market. In the difficult years that followed, NCUA had to inject $26 billion of liquidity into the system. Corporates had to extinguish $5.6 billion in capital—most of which was contributed by member credit unions. All natural-person credit unions had to pay $4.8 billion in assessments to the Corporate Stabilization Fund to prevent massive losses to the Share Insurance Fund.

Those billions of dollars in corporate losses would have immediately cascaded throughout the entire system and negatively affected every credit union's bottom line.

So credit union officials urged us to "never again" allow corporates to make such non-liquid investments and operate with such thin retained earnings.

In 2010, the NCUA Board unanimously finalized substantive changes to the corporate rule to limit investment authorities and strengthen capital requirements.

Now, as a result of the strong corporate rule:

- Corporates have reduced reliance on investment yields, by generating more earnings through transaction services and payment systems; and

- Corporates are strengthening their capital base, by building retained earnings rather than relying on capital contributions from member credit unions.

So today, we cannot simply turn back the clock to 2008. While critics may say the crisis is behind us, we cannot forget the painful lessons. Those who have forgotten or were unaware of how we avoided a credit union system meltdown because of the corporate crisis may not appreciate the importance of ensuring that corporates maintain liquid investments and quality capital. We cannot revert to policies which failed to prevent the last crisis—policies which I voted against during my first term on this Board.

I could not in good conscience vote to relax corporates' capital requirements or extend their investment authorities beyond seasonal liquidity needs. I couldn't do it in 2002, and I won't do it today. That's why I support this final rule as written.