



**Embargoed until Delivery  
Tuesday, February 28, 2017**

**Remarks of Acting Chairman J. Mark McWatters  
Credit Union National Association's  
2017 Governmental Affairs Conference  
Washington, D.C.**

Good morning and welcome to Washington, D.C., and the CUNA Governmental Affairs Conference.

Thank you, Paul, for the kind introduction.

Before proceeding with my remarks, please allow me to thank President Trump for appointing me Acting Chairman of the NCUA. I am honored by his confidence in me. As you are aware, the president has signed a group of executive orders on regulatory relief within the federal government. Although these executive orders do not apply to independent agencies like the NCUA, I assure you the agency will abide by their spirit and intent because the credit union community faces an array of ill-conceived and wholly unnecessary regulatory burdens.

From all indications, today's credit union community is healthy, and I commend each of you for that. However, just as regulatory relief designed for the entire credit union community may not help an individual credit union, overall performance does not mean every institution is doing well. That is why I support and wish to enhance the NCUA's regulatory and supervisory approach to focus on the problem areas and allow well-managed credit unions to get about the business of serving their members with minimal interference.

To achieve this goal in a timely manner, I am working with Board Member Metsger and the NCUA staff to analyze the following 15 issues so as to reduce the regulatory and supervisory burden on the credit union community without threatening the safety and soundness of the National Credit Union Share Insurance Fund:

- 1) The Share Insurance Fund's equity ratio ended 2016 at 1.27 percent, below the Board-approved normal operating level of 1.30 percent. There are a variety of pressures on the equity ratio. These include strong insured share growth, the low interest rate environment, and potential losses from troubled credit unions. The equity ratio may very well continue to decline over the next few years given these pressures.

It is important that the agency maintain a strong Share Insurance Fund for the mutual benefit of the credit union community and the taxpayers. It is also important for the NCUA to avoid or minimize any insurance fund premiums, whenever the agency may do so responsibly, and keep that money at work in the credit union community. We have a potential opportunity to accomplish both of these objectives by closing, in 2017, the Temporary Corporate Credit Union Stabilization Fund into the Share Insurance Fund. However, I must emphasize there are accounting, legal, and financial issues that we must thoroughly research and evaluate before the Board may vote to close the Stabilization



Fund. In addition, the post-closing Share Insurance Fund would need to hold sufficient reserves to absorb the downward trend in the equity ratio, any future losses to the Share Insurance Fund, and potential declines in value of the corporate credit union legacy assets. If our research determines the agency can properly and prudently satisfy these requirements, I will support closing the Stabilization Fund into the Share Insurance Fund in 2017.

Additionally, to the extent actual performance of the post-closing Share Insurance Fund permits, this action would begin the multi-year process of rebating surplus funds to federally insured credit unions, putting this money back to work in the community as soon as possible and, preferably, before the end of this year. This is my top priority for 2017.

- 2) The agency should revise and finalize the second proposed field-of-membership rule, and promulgate—after carefully analyzing the comments generated from the recently issued advance notice of proposed rulemaking—a proposed rule on supplemental and secondary capital, all in strict compliance with the Federal Credit Union Act and other applicable law. The final field-of-membership rule should also afford enhanced due process rights for those that wish to register public comment regarding certain proposed community-based field-of-membership applications prior to definitive action by the agency.
- 3) The NCUA should revisit the risk-based net worth regulation and other needlessly burdensome rules.
- 4) The NCUA should continue its review and analysis of the extended examination cycle for well-run credit unions and the agency’s examination processes and procedures, including the feasibility of incorporating a virtual-examination approach. The agency should also consider steps it can take to improve examiner training and the examination culture, while eliminating the reliance on “best practices,” that are without statutory or regulatory support.
- 5) The agency should re-evaluate whether the stress-testing rule for the largest credit unions is calibrated properly and whether it should move this critical function in-house and reduce its reliance on expensive third-party contractors.
- 6) Speaking of costs, the NCUA should also review how it can streamline its budget and align agency priorities with budget expenditures through greater transparency, including an analysis of the agency’s regional office structure.
- 7) The NCUA should develop an improved appeals process for examinations and other matters of controversy, which is an effort I have strongly supported since joining the Board more than two years ago.
- 8) The agency should form a Credit Union Advisory Council in order to hear—and learn—directly from the credit union community as we work collaboratively to identify needless regulatory burden and create cost effective solutions.



- 9) The NCUA should consider how it could work more closely with the Consumer Financial Protection Bureau, other agencies, and the Financial Accounting Standards Board by providing technical expertise to help ensure that the cooperative, not-for-profit spirit and other unique attributes of the credit union community are not overlooked in their rules, guidance, and enforcement actions.
- 10) The NCUA should find additional ways to work with state regulators to strengthen and enhance the dual-chartering system and examination efficiency and effectiveness.
- 11) The agency should consider whether there is more it can do to assist credit unions in serving their members, including helping more low-income credit unions qualify as community development financial institutions so they can receive grants and loans from the U.S. Department of Treasury. This process has been refined and simplified and the agency's Office of Small Credit Union Initiatives is ready, willing, and able to assist.
- 12) The agency should diligently work to preserve small credit unions, as well as minority- and women-operated credit unions. In addition, the agency should require all merger solicitation documents to provide, without limitation, a discussion of any change-in-control payments and other management compensation awards and agreements, and that such disclosures are written in plain language and delivered to voting members in a reasonable time prior to the scheduled merger vote.
- 13) The NCUA should acknowledge that it's 2017—not 2008—and that it is time to consider the thoughtful loosening of the regulatory regime appropriately placed on the corporate credit unions during the darkest days of the financial crisis.
- 14) The agency should continue its efforts to negotiate a fair and transparent modification of its corporate credit union-related legal services agreements, where outside counsel has received, to date, over \$1 billion in fees. This is the highest contingency fee ever paid by the federal government to private sector law firms.
- 15) And finally, the NCUA should work with Congress to update the Federal Credit Union Act to facilitate credit union operations and growth, and reflect the way people share common bonds today.

Before concluding, I wish to emphasize that the NCUA must faithfully execute our duties as a prudential regulator and comply with the letter and spirit of the Federal Credit Union Act, the Administrative Procedure Act, and all other applicable law, while ensuring the safety and soundness of the Share Insurance Fund and the viability of the credit union system. As with our recent member business lending and field-of-membership rules, I assure you that we have and will continue to abide by these standards fully.

Nonetheless, we must slow, if not substantially stop, the machine that grinds out a relentless flow of new regulatory burdens. We must also do much more to improve how we regulate, and to consider the costs, as well as the benefits, of each new regulation. None of us can afford to let



time slip through our fingers because we are too busy complying with or enforcing unnecessary and burdensome regulations. Instead, we must focus on today's challenges and risks while thoughtfully preparing for the future. Absent safety and soundness concerns, the NCUA must not stand in the way of your efforts to develop and execute on your business plans, meet the expectations of your members, and build a robust and dynamic credit union community for the future.

Please allow me to close by wishing each of you, as the leaders of the credit union community, the very best success in your meetings and conferences this week. And, as I have concluded my remarks for each of the past two years, may the credit union community “live long and prosper.”

Thank you.