NCUA
National Credit Union Administration

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Remarks of Debbie Matz
Chairman
National Credit Union Administration

at the

Credit Union National Association's

2013 Governmental Affairs Conference

Washington, D.C.

Remarks

Good morning! It's great to be here again.

As you all know, these past few years have been a wild ride.

Thinking back on it reminds me of the latest James Bond movie, *Skyfall*. For those of you who didn't see it, let this serve as a spoiler alert.

As James Bond is on the run, he switches cars to throw the bad guys off the trail. He gets into the classic James Bond car: a vintage 1965 Aston Martin.

Of course, in real life, Aston Martins don't come with weapons, gadgets and ejector seats.

But watching that movie, it struck me. Like the 1965 Aston Martin, most cars of its time did not have power steering, anti-lock brakes, airbags… not even seatbelts.

In other words, as beautiful, powerful, and just plain cool as those cars were, you probably wouldn't choose to buy a car without those safety features today.

Maybe you can see where I'm going. I didn't really come here to talk about James Bond. I came here to talk about you, and I came to tell you about how NCUA is changing.

We're modernizing and revitalizing NCUA—for an industry that is newly vibrant, increasingly complex, and rapidly changing.

Just as auto designers constantly review and update car designs and features, NCUA is reassessing and retooling our business model.

The rules of the road that guided credit unions in earlier decades may not meet your needs or your members' needs today.

Like highway driving, financial markets can be risky. New developments that increase speed and complexity, even when mostly beneficial, can add to the risk.

NCUA's job is to make the road safer for everyone.

Some risks are always there. Others arise with new realities. But either way, being the best of a time that's passed is not good enough.

I love the 1965 Aston Martin. I do. But I wouldn't want my kids to drive one.

Likewise, I wouldn't want the credit union industry to be safeguarded by a regulator designed for the 1960s—or 2009, for that matter.

So let's talk about the new NCUA—how we're changing and why we're changing.

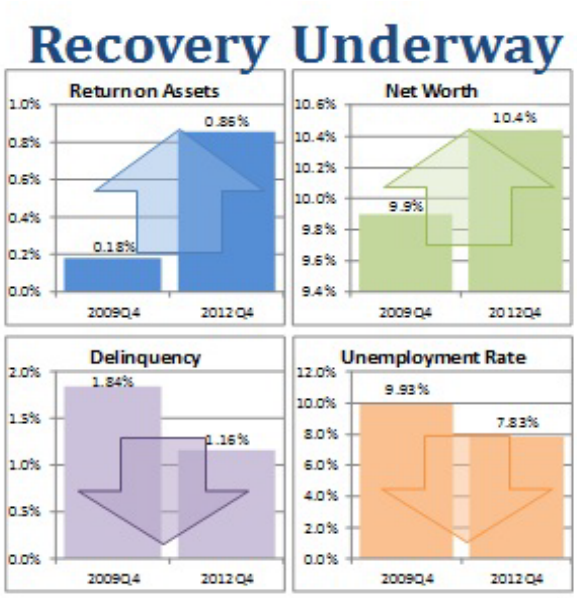
Whether it's behind-the-scenes changes in personnel, or changes in our approaches to examinations, or changes coming from regulatory modernization, our changes affect you. In fact, it's *about* you. It's driven by what you're doing and how you're innovating.

So today, I am going to share my thoughts on how we see this new landscape, how we are adapting to it, and what you can expect from us in the future.

First, I think it's important to get a sense of where we are, and how far we've come.

There's some very good news to report: It's not 2009 anymore.

Not only has the financial crisis passed, but so have the days of 10 percent unemployment, record charge-offs, rock-bottom return on assets, and plummeting net worth.



Return on assets has grown remarkably to 86 basis points, up from just 18 basis points in 2009.

Net worth is very strong at 10.4 percent, and continues to trend up.

Loans have grown for seven straight quarters, while delinquencies and charge-offs have declined for four straight quarters.

Credit union membership is growing nearly 50 percent faster than in 2009.

The collective efforts of credit unions and regulators, and the improving economy, produced these trends.

But this is not just a story of recovery. It's a story of rapidly accelerating growth—and the growing influence of credit unions in our nation's financial system.

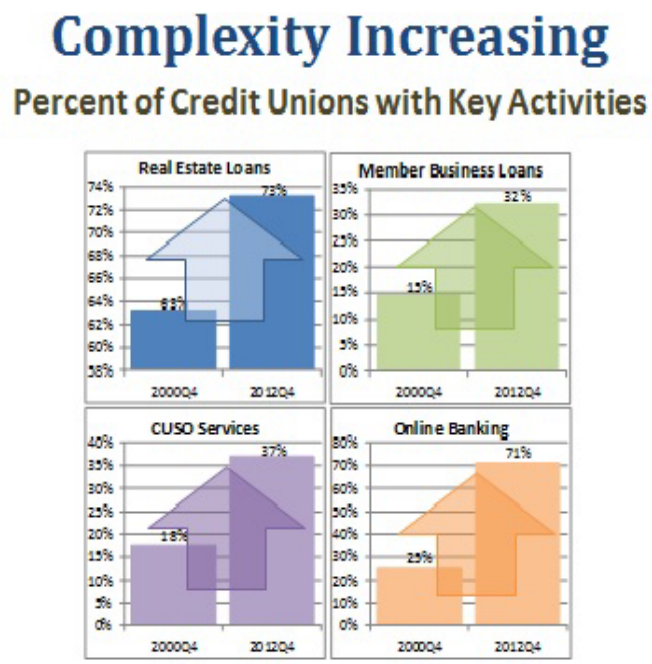
Consider this: The first credit union in America opened in 1909. It took until 2001—nearly 100 years—for the credit union industry to reach $500 billion in assets. But it took only one decade for the credit union industry to reach a full $1 trillion in assets today.

It's like going from a one-horse buggy to the brand new 500-horsepower Aston Martin.

Now just imagine how credit union growth will accelerate in the future.

There's another trend that's just as rapid as the industry's growth: and that's complexity.

As many credit unions evolve, they are also becoming more complex. Credit unions are offering more and different kinds of products, diversifying their holdings, and growing their real estate and member business loan portfolios.



This is all good news—because you have members who want these services. That's a trend we expect will continue.

Meanwhile, new types of complexity have introduced new types of risk. And prudently managing those risks is a new challenge.

For example, credit unions are keenly aware of interest-rate risk from long-term, fixed-rate loans. But now they are also challenged by interest-sensitive deposits.

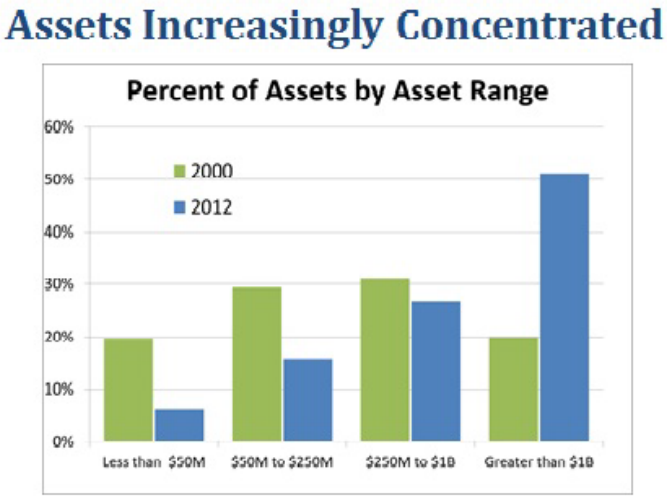
Or consider: New technologies like online banking are also rapidly evolving. The percentage of credit unions offering mobile banking has nearly tripled since the year 2000.

While we welcome these new complexities, we also have to acknowledge the risks they present.

In fact, CUNA reported that on an annual list of top 10 IT security risks, the number one threat is mobile banking apps that bypass personal computers.

Another risk is concentration.

More and more assets are concentrated in the largest credit unions. Today more than half of all assets are in credit unions over $1 billion.



As we all learned the hard way during the financial crisis, increasingly-concentrated assets mean increasingly shared risk.

And with a Share Insurance Fund of less than $12 billion, we have to pay extra attention to any credit union where a failure could overwhelm the Share Insurance Fund overnight.

As the industry grows and becomes more complex, NCUA has a choice: We can either try to slow it down, or we can do everything in our power to move forward ourselves.

Sometimes U.S. regulatory policies put the brakes on change until regulators can catch up. But that's not the choice NCUA is making—not on my watch.

Instead, we must stay ahead of the curve.

To show you how we're doing that, and how we plan to continue doing that, allow me to introduce you to the *new* NCUA.

The new NCUA has two parts: new people and new policies.

I'll start with the new people. As more and more of our senior employees retire, we are replacing them with both new blood from outside NCUA, and talented staff who are being promoted from within.

In fact, comparing 2013 to 2009, 75 percent of our offices have a new director in charge.

Forty percent of our examiners have been with us fewer than five years.

Meanwhile, we're hiring with an eye for diverse skills and backgrounds. We're not just hiring accounting majors anymore. We're hiring folks with economics degrees, or specialized expertise in business loans, investments, capital markets, and complex information technology.

The tools of the trade are changing – and so is our workforce.

Of course, we're not going to stop hiring accountants. But the new NCUA must employ a workforce equipped with the expertise that fits credit union needs.

Just the way you staff your credit union, we want to make sure we have the right people in place, with the right tools they need to do their jobs.

NCUA's changes are already paying off in many different ways.

To illustrate that point, let me give you two behind-the-scenes examples.

In the first, one of our new, young examiners was on-site for an insurance review at a small credit union. He noticed a sudden increase in loans to a single borrower. They were share-secured loans, with the funds held at a local bank. But the loans were in excess of the regulatory limit.

The examiner saw the red flag and began to review the loan documentation. The borrower had produced a CD document from the bank, and the statement showed he had $14 million on deposit.

This was a little curious, not only because of the sheer size—but because the borrower didn't have any deposits at the credit union.

The examiner also noticed that the CD documentation was printed on black-and-white forms. That struck him as odd, too.

Perplexed, he did what a lot of us might do: He went out for lunch at a local diner.

Because the bank where the CD was held had a branch near that diner, he asked the waitress if, by chance, she had a CD there.

It turned out she did! And she told him that the CD forms were not black and white—they were blue and white.

The examiner, suspecting fraud, went to the bank. Sure enough, he was right.

We quickly conserved the credit union and ultimately saved the Share Insurance Fund nearly $3.5 million.

Let me be clear about the moral of that story: It's not that our examiners are hunting for fraud. But we want to make sure they have the skills, training, and resources to deal appropriately with red flags.

Because the cost of any loss falls on all of you, every dollar in fraud we prevent is a saving you all share.

The second example involves an examination of a business loan CUSO.

So many credit unions were doing business with this CUSO that it had a total exposure of literally billions of dollars.

But there were several areas in which this CUSO was underperforming, potentially threatening all of its credit union owners.

The NCUA examiner found lapses in due diligence. In particular, the CUSO had not re-evaluated the risk in its portfolio, even though many of its loans had been issued before the housing crisis.

The examiner, of course, knew that NCUA does not have direct oversight authority over CUSOs. But he presented important recommendations in a thorough manner to the CUSO's management.

Thankfully, the concerned CUSO officials adopted every recommendation.

Today that CUSO is providing reliable, innovative services to credit unions across the country.

Of course, stories about Share Insurance Fund losses are covered regularly in the press. But there are many more *untold* stories of how NCUA examiners saved you billions of dollars.

I'm very proud of what our examiners accomplished in each of these cases. But I'm even prouder of how they accomplished it.

They were objective and professional. They brought their expertise to bear on each case. And best of all, they relied on open communication with credit union officials. That's the way we are training them today.

Those are the kinds of examiners, and examinations, that you deserve—and the kind we all need to keep the credit union industry growing safely and productively.

That's our focus at the new NCUA.

And of course, it's not just about new people. We're also putting in place new policies.

As I announced last year, we are reallocating examination resources to keep up with the changing credit union industry. As credit unions grow and become more complex, they require more attention.

So we're streamlining exams for the smallest credit unions, and putting our examiners where their work will be most effective in protecting the Share Insurance Fund.

Our new Office of National Examinations and Supervision will ensure that all of the largest credit unions receive specialized oversight to remain safe and sound.

Meanwhile, through my Regulatory Modernization Initiative, we are streamlining and updating existing regulations. Many of these changes are geared toward removing burdens and providing responsible regulatory relief.

Consider our major regulatory changes in the past year:

- We fixed Troubled Debt Restructuring to keep more members in their homes, and to ease the reporting burdens on credit unions.

- We facilitated new Low-Income Designations to remove red tape—which also encouraged more small business lending.

- And we started 2013 by raising the threshold for small credit unions from $10 million to $50 million—exempting more than two-thirds of all credit unions from certain rules.

Inside NCUA, we're changing the way we do business. We're working to provide consistency in exams across the country, so that examiners from different regions use the same approach.

We even made public portions of our National Supervision Policy Manual. The manual describes what to expect when an examiner arrives.

Let me point out that NCUA is the *only* financial services regulator that has ever released an internal operations document like this to an industry. That's real transparency.

And, we're providing our examiners with better equipment. We're training them to handle difficult situations. We're doing this to enhance the relationship that's possible between examiners and credit unions.

Moving forward, NCUA will work to be as flexible as possible. We know that credit unions are constantly innovating, and evolving—as you should be.

But right now, there are some products and services that credit unions don't offer—not because you don't want to, or because you're not capable, but because you're not permitted to by existing policy.

So we're exploring more changes to our regulations to permit even more innovative products and services.

We've already expanded the range of video tellers, allowed larger fleets for member business loans, and extended permissible maturities for loan modifications.

Simply put, we're going to keep improving the way we do business—because as I said before, being the best of a time that's passed is not good enough.

Just like any well-run credit union, we're always looking for ways to get the best performance possible out of our employees.

The government Office of Personnel Management recently released survey results that demonstrate our employees' dedication at the new NCUA:

- 92 percent of NCUA employees constantly look for ways to perform their jobs better;
- And 92 percent of NCUA employees feel their work is important.

Those employees are exactly right. Their work is important—because your work is important.

Last year NCUA was ranked the number one medium-sized federal agency for improvement in employee satisfaction. And even better, NCUA was ranked one of the "Best Places to Work in the Federal Government"—a tremendous honor.

You may be asking why you should care; how does that help credit unions?

Well for one thing, because our employees are so dedicated to their mission to keep credit unions safe and sound, they are willing to put in extra effort to get their jobs done.

And when NCUA employees do their jobs well, they protect all of you from paying for losses.

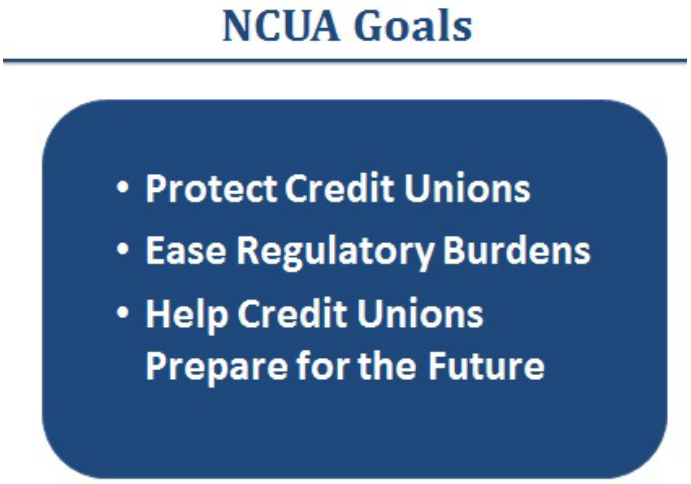
These surveys reflect changes we're making in hiring and staffing at NCUA. Many employees are happier because they're well suited to their roles, and have the necessary tools and training. Well-equipped, well-trained examiners lead to a smoother exam process.

And NCUA employees have remained dedicated despite working under a pay freeze.

That's not just a tribute to the enthusiasm at the new NCUA. It's a tribute to the enthusiasm your success is generating and the steps you're taking to drive your industry forward.

In that effort, I want to acknowledge Bill Cheney. Recently, Bill highlighted three priorities for CUNA in 2013: "Protecting credit unions, easing their regulatory burden, and helping them prepare for the future."

The new NCUA shares these priorities, as well.



Our strategic plan has similar performance goals to protect credit unions, ease their regulatory burden, and help them prepare for the future.

So Regulatory Modernization will continue.

And that brings me to one final point I'd like to make: NCUA staff shares your excitement about the growth of the credit union industry over the past decade.

But some are also apprehensive about change. Some of these new developments pose significant challenges to our existing infrastructure and personnel.

For example, some credit unions have asked to hedge their interest-rate risk with derivatives. As you know, derivatives can be extremely complex—and many can be very risky. So it would be easy for us to "just say no."

Instead, I told my staff: "NCUA cannot hold credit unions back." We cannot say no to an activity or product like derivatives simply because we have not permitted it in the past.

Credit unions must continue to grow and thrive—and to do so, NCUA must evolve, to meet your changing needs and address emerging risks.

The new NCUA is not here to hold credit unions back. We are here to guide the industry forward.

My goal is for the new NCUA to set the standard for what an effective regulator should be.

Whether NCUA reaches that goal won't just be judged by *our* success—it will ultimately be judged by *your* success.