

Embargoed Until Delivery  
Thursday, June 25, 2015

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Remarks of Debbie Matz  
Chairman  
National Credit Union Administration Board

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National Association of Federal Credit Unions'  
2015 Annual Conference  
Montreal, Canada



## Remarks

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Thank you, Dan. It's so great to be here in Montreal. But I'm just wondering: What did you guys do last year in Vegas that forced NAFCU to hold this year's meeting outside the United States?

I always look forward to NAFCU's Annual Conference and being with so many credit union leaders from around the country. Because of your commitment to the credit union philosophy of people helping people, I thought I'd share with you two experiences I had last month. These experiences really reinforced for me the importance of what you do, what we do, and what is possible when we work together.

In May, I had the honor of cutting the ribbon at a new credit union in New York, chartered by NCUA. It's called The Finest Federal Credit Union. The credit union was created to meet the unique needs of law enforcement officials. Police officers often need loans to purchase uniforms or protective gear. They may need specialized home insurance, because they often bring weapons or equipment home with them. Or, because their jobs are so dangerous, they may require line-of-duty insurance.

Banks were not providing these unique services. This credit union will. And it was a joy and a truly emotional experience to make this happen, especially since the very first account, account #1, was opened by a police officer wounded in the line of duty.

One week before that, I was in Dublin, Ireland, talking to members of the Defense Credit Union Council. I'm just curious, by a show of hands, how many of you have served our country in the military? Thank you for your service.

Today's servicemen and women, just as you did, put their lives on the line each and every day. At the same time, they are victimized by predatory lenders each and every day. As anyone who has visited a military base knows, right outside the gates, there's usually a payday lender. The defense credit unions wanted to offer affordable alternatives to predatory payday loans. That's why in 2010 NCUA approved a Payday Alternative Loan regulation.

Like NCUA, the Defense Department also wants to ensure that those who protect our nation are protected from predatory lenders, so the Defense Department proposed a rule governing loans to the military. But, we found an unintended consequence: The Defense Department's proposed rule could have cut off access to your Payday Alternative Loans for military members.

After my speech to the Defense Council, the Defense Department opened a dialog with us. The good news is: They seem willing to change their rule, so that military credit unions can continue

to serve those military members who serve our nation. Once final, this would be a big win for everyone—except the predatory payday lenders.

Defense and law enforcement credit unions demonstrate the commitment shared by all credit unions to meet the unique needs of their members. Their stories illustrate why you do what you do. Credit unions are about community. Whichever community you serve, you make sure your members receive the financial services they need. Credit unions see neighbors, not numbers. You price your services to put people ahead of profit.

And those stories also illustrate why we do what we do at NCUA. We recognize that you know the communities you serve better than we do. And we recognize that as long as your credit union is safe and sound, and doesn't put your fellow credit unions at risk, you should be free to make your own decisions to best serve your members.

If you haven't heard me say it before, let me say it here: This is the Year of Regulatory Relief. During the next six months, you can look forward to seeing regulatory relief in at least six areas. Today, I'll talk through these areas one-by-one.

First, we are writing a supplemental capital rule for risk-based capital. I've already heard many comments about supplemental capital. It turns out 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.

I understand the need for supplemental capital in certain circumstances. As part of modernizing risk-based capital, I am committed to counting supplemental capital in full. The proposed rule should be released for comment this fall. The effective date would coincide with implementation of risk-based capital in 2019.

But, not everyone should have to wait until 2019 to benefit from supplemental capital. That's why I assembled a working group to focus on low-income credit unions, which can already raise and count secondary capital. One goal was to increase access to secondary capital for low-income credit unions. In April, we achieved that goal through changes to our National Supervision Policy Manual. We're letting low-income credit unions return capital to investors if it is no longer being used for net worth.

Because we streamlined the low-income designation process, the number of low-income credit unions has more than doubled. In fact, you may be surprised to learn that low-income credit unions now represent 47 percent of all federal credit unions. Low-income credit unions are exempt from the member business lending cap and restrictions on non-member deposits—that is real regulatory relief.

Another goal for this working group is to discuss potential legislative and regulatory changes that

could benefit all credit unions interested in raising supplemental capital. To make sure the discussions are inclusive and cost-effective, we've been holding a series of conference calls with stakeholders around the country. The working group will wrap up this fall and provide me with its recommendations. We'll then take action at the Board level.

Second, we are providing regulatory relief by expanding fields of membership. In the past, we had to approve every association you wanted to add to your fields of membership. This was a burdensome process for everyone, and it undermined your ability to serve members.

I felt strongly that you should not have to get approval from NCUA each and every time you want to add a well-established group. That's why in April, we finalized a rule designating 12 categories of associations that federal credit unions can automatically add to their fields of membership. The final rule will take effect on July 6. I encourage you to consider which associations fit your field of membership and to take advantage of this opportunity.

To explore other ways for federal credit unions to expand, I've created a second working group to recommend options for more inclusive fields of membership. We've received NAFCU's field of membership suggestions, and we're taking a close look at all of your ideas. Thank you for your comments.

While many field of membership restrictions are statutory, we're not waiting for Congress to act. Later this year, we're going to propose sensible rule changes within NCUA's legal authority. The rule changes will be designed to broaden community charters, improve occupational charters, and streamline processes for federal credit unions to add new members.

Next, we are eliminating the 5-percent fixed-asset cap. I know that's been on NAFCU's list. We all know that an over-concentration in fixed assets is dangerous. But when you run a business, there are certain expenses you can't avoid. Maybe you need new computers, renovations to improve your facilities or video tellers.

You should be able to run your business without needless red tape. I don't believe that spending hours putting together waiver applications for routine business is a good use of your time. Decisions about fixed assets should be your decisions to make—and yours alone. Your credit union's board of directors should have the freedom to set sensible fixed-asset limits that are appropriate for your operations. The good news is, this final rule will provide relief to 3,800 federal credit unions.

Fourth, we plan to finalize an asset securitization rule. 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. Remember, to be able to successfully conduct securitization, scale matters. Our final rule would permit the largest credit

unions to tap new sources of liquidity and reduce interest rate risk by converting fixed-rate assets into cash.

Fifth, last week the NCUA Board proposed a rule to ease restrictions on member business lending. This is real regulatory relief which I've been hearing about from NAFCU members for some time. We are moving away from a prescriptive approach to MBL rule limits, toward a principle-based approach that gives credit unions more flexibility to serve business owners. Rather than NCUA establishing business loan limits, you will have the freedom to set your own limits as you write your own policies.

I've also heard loud and clear from credit unions that make business loans: Requiring a personal guarantee on every business loan can cost you business.

We're proposing to get NCUA out of the business loan approval process altogether. You won't need to ask for business loan waivers any more. 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 also understand that prescriptive loan-to-value limits are sometimes an obstacle to serving members, so we're proposing to remove LTV limits as well. And in response to credit union leaders who gave me very thoughtful and compelling feedback, we proposed to lift unnecessary limits on construction and development loans.

Taken together, all these changes require retraining our examiners. This will take some time and resources to implement. But it will be well worth the effort. We will, of course, continue to provide business loan guidance and supervise effectively for sound commercial lending practices. The bottom line is: Our modernized business lending rule will reflect the fact that you know your members better than we do. We look forward to your comments.

Finally, we are redefining what it means to be a "small credit union." Our analysis shows that credit unions with assets of less than \$100 million generally offer just a few basic services and pose less risk to the Share Insurance Fund. That's why we are reworking the definition of "small." As a result, credit unions with assets up to \$100 million will be considered for regulatory relief in future rulemakings. That's 10 times more than the small-asset threshold of \$10 million that was in place when I became Chairman.

The results are clear: We've substantially grown the ranks of smaller credit unions eligible for regulatory relief. Under our proposal, three out of four credit unions would be eligible for relief from certain NCUA rules.

These six initiatives are my priorities for NCUA—and for you—in this Year of Regulatory Relief.

It wasn't too long ago that I was sitting where you are— working in a federal credit union. Yes, I dealt with many of the challenges you're dealing with today. And yes, I was sometimes frustrated by the red tape that sometimes frustrates you. That's why as NCUA Chairman, I've listened with an open mind and offered you an open door. And I will continue listening.

I encourage all of you to participate in my 12<sup>th</sup> webinar for the credit union system on July 28. This webinar is another opportunity for us to discuss regulations, examinations, and even the NCUA budget. And I will provide a further update on our regulatory relief initiatives.

Let me leave you with this parting thought: The new regulatory relief and freedoms I've outlined today will strengthen and secure federal credit unions for generations to come. Because, as each of your credit unions grows stronger, the entire credit union system grows stronger.

This is our shared goal, and I am confident it will be our shared success.

Thank you.

