NCUA
National Credit Union Administration

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Remarks of Rick Metsger
Chairman
National Credit Union Administration Board

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NATIONAL CREDIT UNION ADMINISTRATION

Remarks

Welcome to Nashville, the heart and soul of country music.

It is an honor and privilege to serve as the ninth Chairman of the National Credit Union Administration.

This is the culmination of three decades of work in the credit union movement as a:

- Credit union member,
- Credit union director,
- State legislator with responsibility over state chartered credit unions,
- Consultant to credit unions, and
- Member, and then as Vice Chairman of the NCUA Board.

At the beginning of this year, I noted that NCUA and the credit union community were at a turning point. Credit unions have largely recovered from the 2008 recession and the demise of several large corporate credit unions.

We are still paying off the loan to the Treasury and the NGN noteholders, but the end is in sight. Treasury will probably be paid-off earlier than anticipated and when the NGN notes are paid off in 2021, we predict that there will be funds to return.

I am obliged to note here that while we predict that there will be funds to return, the agency will not be able to make any payments until 2021 at the earliest, because it can't make payments until the Treasury is fully paid-off, and until all NGN obligations mature in 2021.

When the agency began this journey in 2008, some doubted whether the NGN plan would work, others doubted whether the assets would ever recover, and few thought we would recover significant funds from the entities that created the toxic assets. Fortunately, the assets have recovered some of their previous value and legal recoveries have exceeded expectations and now total more than $3.1 billion, with several additional lawsuits pending.

My predecessors on the Board took several other steps to ensure the safety of the system and the health of the Share Insurance Fund. Under Chairman Michael Fryzel's leadership, new controls were placed on corporate credit unions and the frequency of exams was increased. Under Chairman Debbie Matz, the examination force was strengthened by adding both additional examiners and subject matter experts.

After I joined the Board, new liquidity rules were put in place, primarily for larger credit unions, and a new capital planning and stress-testing system was established for credit unions that are so large that their failure could pose a systemic risk to the Share Insurance

Fund. Finally, we adopted a new Risk-based Capital system that will take effect in 2019, for credit unions with more than $100 million in assets. It replaces an antiquated system that suggested that there were only two credit unions in the entire nation with risky assets on their books.

In response to concerns expressed by the credit union community, we extended the comment period on risk-based capital, put it out for a second comment period and made numerous revisions—including eliminating risk weightings for interest rate risk, which will be handled through examination and supervision.

We also passed new rules giving boards of directors' greater authority to determine the appropriate level of spending on fixed assets, and to set policies and procedures for member business lending. The agency will continue to supervise credit union activities in these areas, but we will be looking for outliers, and we'll do so through the examination process and not by trying to micro-manage your operations through rules.

At my request, the Board also began a major review and overhaul of our field-of-membership rules. We began with a relatively simple rule identifying 12 associational groups that are almost always approved and which are now pre-approved, including: alumni associations, faith-based groups, electrical coops, homeowners' associations, labor unions, scouting groups, PTAs, chambers of commerce and various types of fraternal groups.

We then issued a more comprehensive proposal to reform field-of-membership rules for both community charters and select employee group-based credit unions. That rule received a record 11,000-plus comments. I'm pleased to report that staff has read and summarized all 11,000 comments and has begun work on a final rule. While we still don't know exactly when the Board will be able to act on a final rule, I expect we will do so before the end of the year, which was my goal when we began this project.

With the Board's major safety and soundness work completed, I also announced earlier this year, that it was time for the agency to turn its attention to becoming a better regulator—or what is often called "continual quality improvement" in the private sector. Continual quality improvement is about making the process of examination and supervision better, faster and more efficient.

During my first month as Chairman, I initiated two projects to get continual quality improvement off to a fast start. The first is our Enterprise Solutions Modernization program, a comprehensive, multi-year project to overhaul both our technology and how we use data. We will be updating systems like AIRES and Credit Union Online that are several decades old and are in serious need of an update.

But these systems need more than an update. We also need our systems to do a better job of talking to each other, talking to your systems and talking to state supervisors' systems. They need to share information smartly and efficiently.

An initial step in the Enterprise Solutions Modernization program is the request for information we put out asking for comments on ways to improve data collection for our Call Reports and Credit Union Profiles.

We asked seven specific questions that ask stakeholders to identify the parts of these forms that are challenging to complete, unnecessary or in need of clarification. We also asked whether the data collection should be streamlined or reorganized, and if it is consistent with your internal accounting.

The request for information is on NCUA's website, and we are accepting comments for 60 days, ending August 1.

I also announced that we are extending the Call Report deadline for the next two quarters by three-calendar days, in order to give credit unions a little more time to file their reports during time periods that include a holiday.

The vast majority of credit unions, more than 98 percent are now filing their Call Reports on time, but this will provide a little more breathing room until we find a permanent solution to the Call Report deadline issue.

In a period of about two years, we've made tremendous progress on filing Call Reports, as the number of late filers has dropped from more than 1,700 to 30, almost all of whom are small credit unions.

The second major initiative I announced last month was our Exam Flexibility Initiative, which is an effort to improve our examination system, both for credit unions and for the NCUA.

I appointed an internal working group—headed-up by Keith Morton, our well-respected Regional Director for Region IV based in Austin, Texas—with representation from all of our regions, Office of Examination and Insurance and other key offices.

Morton's Exam Flexibility Initiative internal workgroup will consult with and do outreach to a broad cross-section of credit unions, state supervisors, and other stakeholders on a wide range of exam-related issues. He'll have a series of conference calls with focus groups of stakeholders to discuss specific issues. He's also set up a special webpage on NCUA's website for the Exam Flexibility Initiative and a special e-mail address to receive input. That e-mail address is ExamFlexibiity@ncua.gov.

Some people are under the mistaken impression the Exam Flexibility Initiative is just about the length of the exam cycle. That's just not true. The length of the exam cycle is only one dimension of what the Exam Flexibility Initiative will be looking at. As I travel about the country listening to credit unions, I hear about more than just the length of the cycle. In fact, the length of the cycle isn't even the most frequent concern.

What I hear about can best be summed-up as a series of questions that relate to reducing our onsite presence so that you and your colleagues have more time to devote to your members' needs. In addition to questions about the length of the cycle, I hear questions about the need to do a better job of:

- Coordinating exams with state supervisors so that we both show up at the same time;
- Minimizing the number of examiners a credit union has to accommodate;
- Coordinating the timing of visits by subject matter experts with the other examiners; and
- Analyzing data offsite so that onsite time is minimized.

If we do a better job with all of these dimensions of the exam process, we can make it less painful for the credit unions we examine, while simultaneously improving quality of life for our examiners by reducing the amount of time they spend on the road away from their families.

Another constant refrain I hear from both credit unions and our staff, is that our rules are too rigid and require us to spend too much time on credit unions they know are healthy, leaving us with insufficient time to spend on credit unions where they know there are issues.

This problem is most apparent at the end of each calendar year because, under our current procedures, we overlay a requirement that credit unions be examined on a calendar-year basis on top of a separate requirement that federal credit unions and state-chartered credit unions with greater than $250 million in assets be examined every 8 to 23 months. This can result in a flurry of exams being scheduled at the end of the year to meet the calendar-year requirement.

That's not a good use of our manpower or yours, especially at a time when many people want to take time off to be with their families.

As a result, last month I also announced my intention to propose eliminating the calendar-year requirement when we finalize our new strategic plan. These changes could come as early as next month.

We will still await a recommendation from the Exam Flexibility Initiative on what the length of the exam cycle should be and who should qualify for an extended exam. But if approved by the Board, we can at least get rid of the arbitrary and unproductive calendar-year requirement.

Incidentally, I also want to mention that I've asked the Exam Flexibility Initiative to make recommendations to the Board this September, so we can fold implementation into the budget for 2017–2018 and implement the recommendations as we schedule exams for next year.

Several other continual quality improvement changes I've implemented over the last month are designed to improve our internal Board processes and to provide greater transparency to external stakeholders of our decision-making process.

First, we've added a key step to our internal process for bringing things to the Board. Before staff begins drafting a proposed rule and preamble, it will present the Board members with a summary of an issue and one or more options. The Board members will then make an informal go or no-go decision, or choose among alternative approaches so that staff will not waste time preparing a rule or preamble, which does not have the support of the Board.

Second, when time permits at board meetings I've begun a series of public Board briefings by staff on key policy issues. These both inform Board members and the public, and they provide a window into the deliberative process before final decisions are made. They even give the Board members an opportunity to deliberate on issues in a public forum, something they can't do behind closed doors.

Our first board briefing was on Call Report modernization. Tomorrow we will have one on interest rate risk and adding an "S" to CAMEL, and future briefings will be on issues like supplemental capital, cybersecurity and accounting rules. We invite you to tell us what topics you want to hear about.

Today, I'm announcing the next step in our effort to improve agency processes and procedures. As part of my commitment to implement continual quality improvement across all aspects of NCUA's operations, this October, the agency will return to the process of holding a briefing on its draft budget.

This budget briefing will be more comprehensive than the briefings previously held by the agency. For example, we will release details on the proposed budget before the briefing, so stakeholders can review and analyze the information before they participate. This briefing will provide best-in-class transparency on NCUA's proposed budget. In addition to providing both more and better information than the agency has ever released before, it will also provide more and better information than other similar agencies release.

A two-year rolling budget, like the one the Board adopted last November for 2016–2017, has major advantages for both the agency and the credit unions it supervises and insures. It provides all interested parties detailed projections on expenditures and income for two years, not just one. You can go to our webpage right now and see the current 2017 budget. That information has been online for nearly a full year. Under our system, shareholders will continue to be protected, and stakeholders will have a clear view two years into the future.

Holding a briefing does not mean that everyone who participates will get what they want, but they will get an opportunity to be heard. This is not a referendum. The Board still has a responsibility to make the final decision to ensure that the agency fulfills its mandate under the Federal Credit Union Act to protect the safety and soundness of the credit union system and ensure compliance with the agency's regulations. The Board also has a fiduciary duty to protect the Share Insurance Fund and the nearly $1 trillion dollars it insures for more than 103 million members.

Finally, I want to emphasize that people don't have to wait for a budget briefing if they have concerns or questions about the agency's budget. I meet with groups year-round, and I know Board Member McWatters does too. We are always open to suggestions on how we can improve operations. That's why I call it, continual quality improvement. It is never too late or too early to share a good idea. We may not always agree with you, but we do want to hear from you.

It is often said that the greatest gift any generation can leave for its successors is to make the world a better place to live.

I am determined to leave the credit union system, the Share Insurance Fund and NCUA stronger than they were the day I arrived. I will do that by finishing projects like field-of-membership reform and by applying continual quality improvement to all aspects of our operations.

I welcome the opportunity to work with you towards this shared goal, and I look forward to talking with many of you during the meet and greet from 11 a.m. to noon today in the Exhibition Hall.