

Open Board Meeting

November 19, 2015

**NCUA Chairman Debbie Matz  
Statement on the  
2016–2017 Operating and Capital Budgets**

Thank you, Rendell, Peggy, John, and all the NCUA staff who worked so diligently to build these budgets from the ground up.

As we do every year, rather than using the previous year's budgets as a benchmark, each office starts from zero. Again, the mandate to each Office Director was to review each line item carefully to improve efficiencies and reduce costs wherever possible—of course, without sacrificing NCUA's statutory mission to protect the National Credit Union Share Insurance Fund.

As a result of this all-inclusive, zero-based budgeting process, the proposed Operating Budget growth of 4.1 percent will be the lowest in nine years. If approved, we will be proposing to hold the line on this low growth rate into 2017.

To put both in perspective, the entire Operating Budget and Capital Budget combined still represent less than three one-hundredths of a percent of all credit union assets.

**Cost Savings of Nearly \$7 Million**

We've achieved cost savings of nearly \$7 million in the 2016 Operating Budget alone—and many of those savings will carry forward into future years. We'll itemize all of the 2016 cost savings in a Fact Sheet that will be posted online later today, but here are the five most significant savings:

- The reduction of 26 field staff positions will save \$4.3 million in pay, benefits and travel;
- Another \$1.4 million will be saved in pay and benefits during the first full year of the new five-year Collective Bargaining Agreement;
- We're planning to refocus national training on the exam program, which will save \$245,000;
- We'll save another \$200,000 by using more webinars to deliver training; and
- Thanks to our Asset Management and Assistance Center, which conducts our building negotiations, we'll realize a savings of \$171,000 from renegotiations of Regional Office leases.

## Keeping Pace with a Growing Industry

I know there will always be those who argue that NCUA should cut the budget each year as the number of credit unions declines. However, that argument has a fatal flaw. Most of the insured shares and troubled assets from those credit unions do not disappear—they are acquired by other credit unions. As a result, the remaining credit unions are growing larger and more complex, posing a greater concentration risk to the Insurance Fund.

Larger, more complex institutions require examiners with specialized expertise in commercial lending, sophisticated investments, cutting-edge technology and cybersecurity. These specialists often require higher compensation than generalist examiners. However, these specialists are essential so that NCUA can keep up with the growing complexity of the credit unions we supervise.

As I have often said, NCUA should not be holding credit unions back. Beyond effective supervision, NCUA remains committed to providing the flexibility and tools that credit unions need to stay competitive in the complex financial services industry.

In addition to proposing new options to expand fields of membership, we're providing greater autonomy for credit unions to determine their own levels of fixed assets and establish member business lending policies without prescriptive regulatory limits.

As we provide regulatory relief and enhance credit union powers, NCUA must have the qualified staff and resources to supervise effectively. This Operating Budget will ensure NCUA continues to move forward as we supervise a rapidly growing system that now exceeds \$1.1 trillion in assets.

## Capital Budget Benefits Credit Unions

When we consider the Capital Budget, it's important to point out that the beneficiaries of the proposed increases will be credit unions, which will benefit from technology improvements that will be funded through our Capital Budget investments.

Here are three examples:

- To support the regulatory relief we proposed earlier in this meeting, new field-of-membership software will automate much of the field-of-membership application process. It will allow credit unions to track, online, exactly where their application stands at any point in time, and ultimately will expedite the approval process.
- The CU Online Call Report system will be modernized so credit unions will only have to fill out sections of the Call Report that pertain to their operations.

- Perhaps most importantly, after the AIREX exam platform is modernized, examiners will be able to conduct more off-site monitoring. This will not only reduce examiners' travel, it will also reduce examiners' time spent on-site in credit unions. The new exam platform could even pave the way for a return to an 18-month exam cycle in the future.

Our field of membership, Call Report, and examination systems had become outdated many years ago. While we were painfully aware of the need to replace these systems, we held off as we all struggled through the financial crisis. But in the coming years, credit unions will benefit in multiple ways from these long-overdue and sorely needed capital investments.

### **2-Year Budgets Return to Business As Usual**

I hope today's return to two-year budgets will send a positive message: We are finally able to return to business as usual and budget for a two-year cycle.

NCUA began issuing two-year budgets in 1996. This practice continued for 14 years, until the economic shocks of the Great Recession made it too volatile for anyone to predict the future beyond the immediate crisis.

Now, thanks to a steady long-term economic recovery, we can return to our normal process of budget forecasting. The two-year budgets provide enhanced transparency, as we publicly present our best estimates of spending and staffing levels that will be required not only next year, but also into the following year.

Of course any future Board can further refine the budgets through mid-year reprogramming and annual adjustments. However, the budgets presented today demonstrate our intent to hold the line on budget growth and staffing into 2017, and act transparently throughout the two-year cycle.

### **Budget Transparency Leader**

During this year's House Financial Institutions Subcommittee hearing on the NCUA budget and operations, I appreciated Ranking Member Clay and Congresswoman Maloney acknowledging that NCUA is the leader among independent federal financial institution regulators on budget transparency.

In fact, we already have nearly 90 budget-related documents available to the public in a dedicated Budget Resources center [on our website](#).

Our budget priorities continue to be based on NCUA's Strategic Plan for 2014–2017. The full plan is also posted [on our website](#).

But we are not resting on our laurels. We continue to provide even more transparency on our budgets. If these new budgets are approved, we will release more than 800 line items on our website today.

### **We Will Continue to Listen**

When I travel around the country and meet here with visiting credit union delegations, and when I listen to credit union officials talk about what’s on their minds or what NCUA can do better, they almost never complain about our budgets.

Instead, the most frequent budget comment I receive from credit union officials, is, “Please, do whatever you need to do to attract, train, and retain the very best examiners you can afford—because qualified examiners make our exams more efficient and constructive.” So, I have taken those words to heart.

Of course, state-of-the-art examiner training requires resources, which need to be reflected in our budgets. Also as this Board finalizes regulatory relief in areas like fixed assets and member business lending, it will be vital to properly train all of our examiners on the regulatory changes, as well as risk mitigation strategies.

And we plan to do so during the next two years.

### **Strategic Plan Offers Comment Opportunity**

Looking even further ahead, next January NCUA will publish in the *Federal Register* our proposed Strategic Plan for 2017–2021. This document will set the agency’s strategic goals and priorities, and those in turn will drive NCUA’s budget process throughout 2017 and beyond.

I encourage any stakeholders who might have concerns about our budget or budget process to comment on our forthcoming Strategic Plan.

I know there are those who believe we should submit our pre-decisional budgets for public hearings. But once again, let me remind stakeholders that NCUA was established by Congress as an independent regulator.

The other independent federal financial institution regulators, whose operating budgets are also funded by those they regulate, do not believe it is appropriate for regulated entities to participate in the development of their budgets—and I share their sentiment.

While credit unions are not government entities, they are cooperative membership organizations. But, credit unions do not present their budgets to their members for input, even though their budgets are directly funded by the same members who fund NCUA’s budgets.

Let me be clear, however. This is not something I am advocating for credit unions, and don't believe it is a reasonable course for regulators.

### **Credit Union Members Can Rest Assured**

At NCUA we are proud of our efficient and transparent budgets, and most importantly, we are proud of our results as a regulator and insurer. These budgets are necessary to fulfill our statutory mission to uphold the safety and soundness of the credit union system and the National Credit Union Share Insurance Fund, on behalf of the 101 million members who count on NCUA to protect their hard-earned money.

Members who trust their life savings to credit unions can rest assured that NCUA will protect every penny of their federally insured deposits.

I strongly support these budgets, and again thank all the staff who put them together.