Open Board Meeting Feb. 19, 2015

NCUA Chairman Debbie Matz
Statement on the Proposed $100 Million Small Credit Union Threshold

Small credit unions are essential to the credit union community, and to their own communities. But many small credit unions are struggling. Even credit unions that just a few years ago would be considered mid-sized are finding it difficult to compete in today's marketplace.

The preamble to this proposed rule describes in great detail the financial challenges facing credit unions with less than $100 million in assets. Lagging deposit growth and weak loan demand are by-products of stagnant membership. Perhaps most troubling, consistently high operating expenses put downward pressure on earnings.

However, having said that, while these conditions persist among small credit unions in the aggregate, this does not mean every small credit union lacks the capacity to grow. While on average 46 percent of small credit unions shrink each year, 49 percent of small credit unions grow each year. Moreover, I'm pleased that, in the 10 years since NCUA established a dedicated Office of Small Credit Union Initiatives, 600 formerly small credit unions have actually become large.

I advocated for the creation of the Office of Small Credit Union Initiatives during my first term on the NCUA Board. The office has facilitated the success of thousands of small credit unions through free training and consulting, grants, below-market loans, and partnerships. Bill Myers and his staff are doing everything in their power to help small credit unions overcome their challenges and grow toward a viable future.

Now some observers contend that regulations are responsible for the struggles of small credit unions. However, for those that are struggling, we see many other factors at work. Few economies of scale, tight interest margins, outdated technology and new competitors are among the many market forces that our Office of Small Credit Union Initiatives works to help overcome.

I understand that credit unions with only a handful of employees often find it difficult to comply with rules from multiple agencies. It's not just NCUA; credit unions have to comply with regulations from CFPB, FinCEN, and many other agencies. We can't control these other agencies' regulations, but we have to enforce them.

I believe NCUA should relieve regulatory burdens on credit unions wherever possible, without jeopardizing safety and soundness.

That's why I launched NCUA's Regulatory Modernization Initiative in 2011. That's why we've scaled our rules on interest rate risk, liquidity, and risk-based capital to target larger credit unions which pose greater risks to the National Credit Union Share Insurance Fund. That's why we're scaling the scope of our examinations and reallocating examiner resources from small credit unions to larger credit unions. That's why in 2013, the NCUA Board modernized the definition of "small" from $10 million to $50 million in assets.

And that's also why in 2013, the Board agreed to revisit this rule in two years, ahead of the customary three-year review.

I thank John Worth and Scott Borger in our Office of the Chief Economist for leading the team that reexamined all the credit union data so thoroughly.

Just as growing over $100 million in assets will serve as a proxy for "complex" credit unions, current data indicate that staying under $100 million in assets will meet the modern definition of "small." As a result, this rule would extend consideration for regulatory relief to 745 more credit unions with assets between $50 million and $100 million.

When we also include the credit unions under $50 million, a total of 4,869 credit unions would be considered for reduced compliance requirements or outright exemptions in future rulemakings. These credit unions which would be considered for regulatory relief represent 77 percent of all credit unions. Yet collectively they hold only 11 percent of credit union assets; so they pose little risk to the Share Insurance Fund.

As an added bonus, each credit union up to $100 million would be eligible for free consulting and other services from our Office of Small Credit Union Initiatives.

This proposal begins a process to provide greater regulatory relief for more than three-quarters of all credit unions—so they can focus on serving their members, not on complying with regulations designed for larger credit unions that pose greater risk to the Share Insurance Fund.