

Open Board Meeting

November 19, 2015

**Prepared Remarks of NCUA Vice Chairman Rick Metsger
on the Proposed Field of Membership Rule**

I want to thank everyone who has made it possible for us to develop and publish this proposed reform of our field-of-membership rules.

First and foremost, my fellow Board members for their support, especially Chairman Matz for creating an internal Field of Membership Working Group to develop this proposed rule.

The Office of Consumer Protection, especially Director Gail Laster and Deputy Director Matt Biliouris, who led the Field of Membership Working Group; Rob Leonard and Rita Woods, our Directors of Consumer Access and their staffs; and members of our Office of General Counsel, Mike McKenna, Lara Rodriguez, Steve Widerman and Marvin Shaw.

I also want to thank the credit unions from across the country, who attended the special session I held on field of membership at CUNA's Government Affairs Conference last March, and who gave us their detailed suggestions, both there, through the Working Group's web site and at the many sessions I held on this topic across the country. Your input has been invaluable.

Our regulatory partners across the nation, the state supervisors, who have been so innovative in developing and refining state charters. As our friends at NASCUS have pointed out, this is an area where competition between the charters produces innovation that improves both charters and creates opportunities for consumers across the nation.

I'll admit when I first proposed field-of-membership reform, I wasn't sure when this day would come, but I knew it had to be my top regulatory priority because:

- It impacts almost all credit unions;
- It facilitates the growth that many small- and medium-sized credit unions need to survive in today's competitive marketplace; and
- It is regulatory relief that gives credit union boards and management more flexibility to define their mission and market, rather than having those decisions determined by the Congress or the agency.

Recognizing that Congress is deadlocked on most financial issues, the agency has an obligation to the system to modernize rules, which haven't been updated in almost two decades, especially when federal rules have not kept up with changes in state charters,

and there is a noticeable lack of balance in the dual chartering system. State charters are increasingly more flexible than federal charters and give many state-chartered credit unions opportunities to serve their members and their communities in ways that federal credit unions both lack and need.

I announced at the Government Affairs Conference that I had three goals for the agency before the end of 2015:

- Enact process reforms that do not require changes in either law or regulation;
- Propose reforms that require rulemaking by the agency; and
- Recommend statutory changes to the Congress for reforms that are beyond our current authority.

Today we are addressing the first two of these action items, and I hope we will address the third in the near future.

Under Matt Biliouris' able leadership, our internal Field of Membership Working Group has spent more than a half a year:

- Creating a web site for people to submit ideas,
- Meeting with a wide range of stakeholders around the country (as I did, too),
- Preparing lists of options,
- Reviewing them for compliance with the statute,
- Vetting and refining them with focus groups, and
- Making recommendations on which are good policy.

There is no one "silver bullet" that solves everyone's strategic issue. Instead, there will be a menu of options, each of which will solve some credit unions' strategic issues, and which as a group, will provide everyone with enhanced membership tools.

Some recommendations, like allowing a credit union to mix select employee groups with a community charter, are prohibited by law, and thus even though they pose no safety and soundness problems, and are legal for state-chartered credit unions in many states, they are not recommendations we can include in our proposed rule. Congress will have to change the statute in a number of areas for there to be full parity between state and federal charters.

I'm not going to detail all the changes we are proposing in this rule, because staff has already done a good job of summarizing them. But I do want to give credit where credit is due, to some of the people who have made recommendations to us that are incorporated or addressed in this proposed rule.

This is risky because time and my memory don't permit me to name everyone who made a good suggestion, but it will give you a flavor of the range of issues we are addressing:

Marsha King, CEO of the Library of Congress Federal Credit Union, who first brought to my attention the fact that there were independent contractors who had worked for the Library of Congress for decades and yet were not eligible for membership in the Library's multi-select employee group credit union. The proposed rule will allow multi-SEG credit unions to serve independent contractors.

Dennis Flannigan, CEO of Great Basin Federal Credit Union in Nevada, who first brought to my attention the problems that federal community charters can have competing with broader state charters, nationwide multi-SEG credit unions, and credit unions that have hybrid-select employee group and community charters as a result of emergency mergers. The proposed rule will enable the addition of contiguous political jurisdictions to existing community charters.

Gary Grinnell, CEO of Corning Credit Union in upstate New York who pointed out how existing limits on our reasonable proximity rules restrict credit unions from serving underserved consumers in rural areas. The proposed rule will update both the definition of "reasonable proximity" and "service facility."

Gene Pelham, CEO of Rogue Credit Union in Oregon, which used to be a federal charter, but had to convert to a state charter in order to serve additional rural counties in a sparsely populated area of his state. The proposed rule would have enabled him to expand either through a rural district charter, or adding contiguous political jurisdictions.

Kathie Philip, CEO of Pacific Crest Federal Credit Union which serves both northern California and southern Oregon, came to my field-of-membership session at the Government Affairs Conference to highlight how the population cap on rural districts was preventing her from serving additional adjacent rural counties. The proposed rule will increase the population cap, thus enabling the credit union to serve a larger rural area.

Paul Gentile, CEO of the Cooperative Credit Union League, which serves credit unions in Massachusetts, Rhode Island, and New Hampshire, who brought to my attention several community charters who couldn't add adjacent political jurisdictions without dropping service to some of the communities they currently serve. The proposed rule would prevent them from having to make a "Hobson's Choice" by letting them add adjacent communities without dropping existing communities.

Bob Hamer, CEO of Mobil Oil Federal Credit Union in Texas, who brought to my attention the problems faced by community charters in small metropolitan statistical

areas that were not growing and needed to expand into adjacent counties. The proposed rule allows credit unions like this to expand into adjacent counties.

Gerald Dumais of Blackstone River Federal Credit Union in Rhode Island, who first brought to my attention the fact that borders of metropolitan statistical areas can be arbitrary and were prohibiting him from serving a small town in Massachusetts less than a mile from his headquarters. The proposed rule will allow credit unions like this to expand into adjacent towns or counties.

As you can see, we've addressed a wide range of field-of-membership problems and issues. Unfortunately, we can't solve all the problems that have been raised because some solutions are not permitted under the existing statute. Thus, we will have to identify for the Congress, the problems that require changes in existing law.

Individually, no one of these changes is monumental. They are all logical, incremental changes that reflect changes in how we define our local communities, as well as technological changes that permit an increasing number of credit union services to be performed online or through an ATM, computer or mobile device.

Collectively, however, they will make a big difference.

In addition, our staff has already made improvements in the processes and procedures we use to process field-of-membership requests. That will be an ongoing process and we will roll out additional changes as they are ready.

I want to highlight that we invite comment on a number of key issues in this proposed rule. I am particularly interested in comments on:

- The proposed population caps for regular community charters and rural district charters.
- The requirements of our regular and streamlined business and marketing plans. Do we need all this data, and do the benefits outweigh the costs?
- Is 5,000 potential members the right cap for a streamlined business and marketing plan for adding select employee groups and associations to a multi-SEG credit union? How many actual members does a start-up, stand-alone, single-select employee group credit union need to be viable, and how many potential members are needed to yield that many actual members?

Above all else, we need to know what works, what doesn't work, and how our processes and procedures can be improved. Neither getting nor expanding a charter should be an obstacle course that applicants are destined to fail.

Finally, I want to observe that I know some people may suggest that these reforms go too far and that we have exceeded our delegated authority. The CEO of the American Bankers' Association suggested yesterday that the agency is a "cheerleader" for the entities we regulate. Clearly, he has not been following the recent comments by credit union trade associations regarding our actions on risk-based capital, liquidity, the agency's budget and the Overhead Transfer Rate.

I am even more surprised that he called credit unions, "indistinguishable" from banks. Clearly he does not understand, or is deliberately ignoring, the myriad of differences between not-for-profit cooperative credit unions that serve their members, and for-profit banks that serve their shareholders.

As the safety and soundness regulator for credit unions, I would remind those who fundamentally do not support the goals and mission of our nation's non-for-profit cooperative credit unions, that, to the best of my knowledge, no credit union has ever failed because its field of membership was too large, but some credit unions have failed because their field of membership was too small, and they were unable to find volunteers for their supervisory committee or their board, or did not have the ability to generate loans or meet the demands of their members for new products and services. Thus, these proposed reforms strengthen the safety and soundness of the credit union system. They do not weaken it.

With this rule the agency is properly exercising the authority Congress gave it in Title I of the Credit Union Membership Access Act to prescribe by regulation the definition of terms used in the act. It is also furthering the overriding goal of the Federal Credit Union Act, which is to enhance access by American consumers to not-for-profit cooperative credit unions to, "promote thrift" and create, "a source of credit for provident or productive purposes."