National Credit Union Administration

Chairman Debbie Matz

Remarks to the

National Federation of

Community Development Credit Unions

Pittsburgh, Pennsylvania

June 11, 2010

Thank you very much, Cliff. I am delighted to join you here at the Federation's 36th annual conference, as you discuss a priority that is important for our economy and vital for our society – "Serving the Underserved." It is an honor to salute the public-spirited work that community development credit unions perform, as you build stronger neighborhoods and more prosperous families.

Under your leadership, Cliff, your members continue to honor the Federation's history. As a proud outgrowth of the "War on Poverty" era – when Washington worked with what it then called "limited-income" credit unions – CDCUs have promoted vibrant communities by bringing broader <u>financial services options</u> to the underserved.

The Federation's devotion to its <u>community</u>-minded <u>mission</u> fulfills the <u>credit union movement's</u> "people helping people" philosophy. Your efforts are an inspiration to <u>all</u> who hope to <u>heal</u> our society's economic divisions.

At the National Credit Union Administration, we are eager to <u>do our part</u> to open up <u>new opportunities</u> for those who <u>need them most</u>. By ensuring that the credit union system is <u>safe and sound</u> – and by overseeing grants and assistance programs that help CDCUs improve their operations and extend their outreach – NCUA empowers credit unions to continue serving people of <u>modest means</u>.

Thanks to the hard work of CDCUs, thousands of low- and middle-income families are enjoying expanded <u>access</u> to the services they <u>need</u> and the credit they <u>deserve</u>. You inspire them to <u>climb</u>, step by step, up the rungs on the ladder of economic opportunity.

The spirit of <u>inclusion</u> that defines your work is particularly important as we move from <u>recession</u> to <u>recovery.</u> Much more <u>can</u> be done, and <u>should</u> be done, to serve people who are either “unbanked” or <u>not fully served</u> by federally insured financial institutions.

As CDCUs know, <u>simple steps</u> can <u>work wonders</u>. Providing access to basic products and services – like checking and savings accounts; credit and debit cards; car and home loans – helps working families establish a <u>credit record</u>, improve their <u>financial skills</u>, and strengthen their <u>security</u>.

By focusing on the underserved, CDCUs provide more than just hands-on <u>help</u>: You are uniquely positioned to provide renewed <u>hope</u>. You reassure lower-income families that they <u>can</u> accomplish their dreams.

Expanding opportunities for working families has always been at the center of the credit union mission – and we have always been mindful of that fact at NCUA. The best protection for credit union members – especially those whose modest incomes require them to make every dollar count – is an unwavering commitment to maintaining the system's safety and soundness.

To ensure that America's credit unions can ride out the economic storm, NCUA has had to implement strong precautionary measures, in order to protect the country's 90 million credit union members.

The challenge that is foremost on our agenda – and that is, of course, a major concern for the CDCU community – is the corporate credit union crisis. Yes, that term is fully justified: It was indeed a crisis. If we had not confronted the situation head-on, the nation's credit union system would have faced a grave systemic risk.

The issues leading up to the corporate crisis and the resolution strategy have been complex, and I know they have been deeply troubling to you. I have heard directly from you about the pain you have felt. I know that many of you blame NCUA: After all, two examiners were on-site at US Central and WesCorp. NCUA definitely shares some of the blame – but there is plenty of blame to go around, especially among the managers and boards who exercised such poor judgment.

Much of the blame, in fact, falls outside the credit union industry. Mortgage brokers made dubious loans that led to waves of foreclosures. Rating agencies handed out Triple-A ratings for mortgage-backed securities that are now merely "toxic assets." When the mortgage bubble burst in 2007 and 2008, the fallout caused an extraordinary decline in the global economy – and exposed the four giant corporates to extreme shock, because of their vast investments in residential-mortgage-backed securities. When the market for those bonds came to a halt, the corporates' losses pushed them toward insolvency – requiring swift action to prevent a systemic collapse.

After almost two years of cautious management and careful planning, I believe that we are now nearing a breakthrough in resolving the situation. I'd like to take just a few minutes to highlight some of the positive steps we have taken, and some of the bold plans that we are preparing to set in motion.

When the corporate crisis hit in 2008, NCUA took action to prevent a deepening disaster – not to "bail out" the corporates, but to strengthen confidence in the entire credit union system.

If the corporates had abruptly stopped operating – ceasing to handle the processing behind everyday services like checking accounts, debit accounts and ATM transactions, for three-quarters of consumer credit unions – then the credit union system would have suffered huge and insurmountable losses. Consumer credit unions would have lost about <u>$30 billion</u> in net worth – about <u>one-third</u> of their net worth at the time. At least 800 – perhaps as many as 1200 – consumer credit unions would have collapsed.

In addition, your federal Share Insurance Fund would have had to levy <u>huge</u> assessments on the surviving credit unions, to cover the remainder of the losses. Many of those surviving credit unions might <u>not</u> have withstood the strain.

To preserve <u>capital</u> and <u>confidence</u>, NCUA had to put the two largest corporates – US Central and WesCorp – into conservatorship. And we still have to carefully monitor the operations of the <u>other</u> large corporates.

To stabilize the system, NCUA placed <u>guarantees</u> on shares at all the corporates. As a result, <u>your credit union's investment</u> in the corporates is backed by <u>the full faith and credit</u> of the <u>United States government</u>.

NCUA did what we had to do, to save the system by preserving public confidence.

As we transition toward a new, more stable system, the NCUA Board has proposed a new rule on corporates. That proposal has four main themes, aimed at changing critical areas in the current rule.

First: On capital standards: The new rule will strengthen capital requirements by, among other things, subjecting corporates to a leverage capital requirement to help reduce risk; and imposing Prompt Corrective Action standards on corporates that match those that apply to all other federally insured financial institutions.

Second: On asset-liability management: It proposes specific ALM requirements to ensure that the gap between the average life of assets and liabilities does not present excessive risk. It also prohibits a corporate from accepting funds from a single source that exceeds 10 percent of the corporate's assets. This will avoid excessive reliance on a single lender or depositor.

Third: On risk concentration: It will limit risk by forbidding corporates from excessive concentration in a single type of asset. Promoting a diverse portfolio of investments will help avoid the kind of risk concentration that was permitted under the flawed corporate rule that was approved in 2002. Back then, I voted against that rule, for this very reason.

Fourth and finally: On governance standards: It will raise eligibility criteria for corporate board members, aiming to elevate the boards' level of experience and expertise.

Strengthening these four areas will go a long way toward preventing another corporate crisis from ever occurring.

We will be making further improvements to the rule, taking into account many of the comments that we have received.

But first, we need to dispose of the toxic assets that caused the crisis. Isolating the so-called "legacy assets" is a necessary first step in avoiding further damage.

So, I'd like to share with you our plans to date – even though they are still a work in progress.

Resolving this problem is an enormous undertaking. There is no easy way to unbundle more than $50 billion worth of assets, repackage them into marketable bonds, and move them from corporates' balance sheets without realizing losses. In recent months, our team has been brainstorming to resolve the corporate crisis at the lowest possible cost to credit unions.

Today, we feel that we are approaching a turning point. Our team is diligently working on a plan that would remove the riskiest legacy assets from ongoing corporates, while carrying forward the most valuable pieces of the corporate system. The plan would empower natural-person credit unions to choose which corporates they will support. And it would ensure that those corporates begin with clean balance sheets.

If the plan proceeds as we envision, it could even allow credit unions to recover future earnings from legacy assets that out-perform current loss projections.

Our team is still working to answer a host of questions – about underwriting, funding, and much more. But we are cautiously optimistic that this process will generate the best possible solution. In fact, our team hopes to bring a comprehensive corporate resolution plan to the NCUA Board by this summer.

We are acutely aware that corporates are important to CDCUs and your operations. No one needs the corporates more than small credit unions do. We are seeking to create a system in which corporates can <u>thrive</u> in the future, even though the landscape is <u>certain</u> to be very different.

We will move forward with a final corporate rule – most likely in September – <u>after</u> the plan for legacy assets has been announced. That plan will ensure that corporates <u>begin</u> with clean balance sheets – and the final rule will ensure that corporates <u>maintain</u> those clean balance sheets.

Beyond our discussion here today, you and your board members will soon have an <u>added resource</u> to help you better understand the corporate situation. NCUA has just produced, and will send free of charge to each credit union, a DVD with a series of presentations that explain, in detail, the origin and impact – and the coming resolution – of the corporate crisis. These presentations are also being posted on the NCUA website. I encourage all credit union managers and board members to watch the DVD, so that you can make informed decisions about the future of the corporate credit unions.

Related to the corporate crisis, of course, are the assessments that we have had to levy on consumer credit unions. It has regrettably been necessary to impose assessments to keep the system safe and sound. These assessments –

while daunting – are the minimum necessary to protect the integrity of the Share Insurance Fund, and of the credit union system overall.

Many of you have asked me whether we can find a way to ease the burden on smaller credit unions and CDCUs. Unfortunately, we are limited by the law on that point. By statute, assessments must fall equally on all credit unions, based on the total volume of their shares in the Share Insurance Fund. The law simply gives us no flexibility on that, much as we might like to cushion the blow to CDCUs and others.

At the NCUA Board meeting on June 17, we will announce the Corporate Stabilization Fund assessment for 2010. You can be sure, that NCUA is working hard to keep the assessments as low as realistically possible.

(pause)

NCUA is committed to helping CDCUs strengthen your community-focused work, and we recognize that your challenge has grown even more intense during these difficult economic times. My fellow Board members and I are well aware of the important role that CDCUs play in your communities.

To help you fulfill your goals, NCUA has expanded the range of grants available to

CDCUs and low-income credit unions each year through the Community Development Revolving Loan Fund.

You are probably familiar with the grant programs that we have offered for several years now: for internal capacity- and technology-building; the Voluntary Income Tax Assistance program; training for staff, board members and credit union officials; and for urgent needs.

This year, I am pleased that we have four <u>new</u> or <u>expanded</u> grant programs, as well.

- For assistance in developing plans to apply for secondary capital, a total of $50,000 is available, with a maximum individual award of $2,500.
- For financial education, a total of $300,000 is available, with a maximum award of $15,000.
- For partnerships and outreach – an expanded version of our program to help you deliver new products and services, or to expand existing services – a total of $300,000 is available, also with a maximum award of $15,000.
- And for student internships and job creation – an expanded version of our program to help open up career pathways at credit unions – a

total of $100,000 is available, with a maximum award of $5,000.

I encourage you to find out more about these grant programs – and to apply for them.

Moreover, the Obama Administration has proposed a very significant increase in funding for community development grants and loan programs in the next fiscal year. I am hopeful that Congress will approve this substantial proposed increase.

Another initiative of this Administration is the "Community Development Capital Initiative," or CDCI. As you know, this program seeks to channel investment into economically disadvantaged areas.

To ensure the fullest possible CDCU participation, NCUA acted quickly – in <u>record</u> time, in fact – to modify our rules. Last winter, as soon as we learned about CDCI – even though the <u>entire federal government</u> in Washington was closed that week because of a ferocious <u>blizzard</u> – the NCUA Board and staff were at work. To expedite matters, we voted electronically to adjust our rules so that Low-Income Credit Unions could accept Treasury funds as secondary capital. The blizzard may have paralyzed <u>much</u> of Washington – but we could not be slowed down in our commitment to give CDCUs the greatest possible opportunity to take part in this program.

Then, with Cliff's assistance, NCUA adopted a new formula so that a larger number of Low-Income Credit Unions can receive funds from the Treasury Department – without having to seek matching funds from the private sector.

NCUA also issued an opinion letter on March 31, recommending that CDCUs that require a one-to-one match for CDCI funds be allowed to apply for terms of either 8 or 13 years – easing what might have been a barrier to some CDCUs' participation.

Because NCUA has been eager to see strong support for this initiative, I joined Cliff on March 4 for a conference call to alert Low-Income Credit Unions about this extraordinary opportunity. NCUA also joined with Federation officials in a webinar on May 3 to explain, in detail, the process of preparing and submitting the necessary secondary capital plans for participation in CDCI.

I am pleased to report that CDCI has, in fact, drawn <u>strong</u> interest, with 111 applications for funding. I assure you that NCUA staff will work closely with Treasury staff to obtain <u>as many approvals as possible</u> for credit unions.

When I met with the Federation Board in February, I made a commitment that no credit union's application for CDCI will be denied by NCUA staff without my concurrence. And I intend to fulfill that commitment.

In addition to encouraging CDCUs to take part in such opportunities: The success of small credit unions is a priority that, as you know, I feel very strongly about. During my first term at NCUA, I established the agency's Office of Small Credit Union Initiatives – what we call "OSCUI" – to help small credit unions survive and grow, so they can continue to provide service to their members. Much of the value in small credit unions, after all, is that they remain very close to the communities they serve, offering member services with a personal touch that many larger institutions cannot simulate.

I know the issue of survival is critical to small credit unions, given the pressures that continue to lead to the disappearance of many smaller institutions. An example of how that trend has been intensifying can be found right here in Pennsylvania. Almost 1-in-4 credit unions have disappeared since 2002 – and most of those credit unions were very small. Even today, nearly half of Pennsylvania credit unions have less than $10 million in assets.

The ability to achieve economies of scale is certainly driving the trend toward larger credit unions. For smaller credit unions to survive in the future, their self-defense must begin with the basics: Any credit union that does not have a long-term strategic plan, business plan, and succession plan undoubtedly has less of a chance of survival.

Beyond those basics, developing and delivering innovative services – which can attract diverse groups of new members – will be critical.

I've long believed that one of the most important indicators of the strength of the credit union industry is not necessarily the total number of credit unions that exist but the total number of members they serve. Member service is your very reason for being in business – and the best way to serve those members is, simply, to be there for them, offering guidance and counsel. That means, above all, ensuring that your credit union remains viable in the marketplace: first by maintaining safety and soundness, and then by developing new ways to serve your members' needs.

Small institutions have historically been the heart and soul of the credit union industry, and NCUA remains committed to helping small credit unions maintain their appropriate niche in the evolving marketplace. That's why, in

January, I issued an instructional letter to our examiners, spelling out how I expect them to evaluate small credit unions.

The letter emphasizes that CDCUs and Low-Income Credit Unions have characteristics and challenges that are different from those of most larger credit unions. The letter reminds examiners that they should take that fact into account when they evaluate such factors as loan portfolios, funding sources and operating costs. The letter also reminds examiners that they should work with CDCUs and Low-Income Credit Unions to help them compete in their market, and should give them a measure of time and flexibility that they may need to succeed.

Moreover, the letter underscores that examiners and their supervisors should actively encourage larger credit unions to partner with CDCUs and Low-Income Credit Unions, by providing them with professional mentoring or practical assistance.

Some of you have told me that there are examiners who are <u>not following</u> this letter. In <u>some</u> cases, that may be true. When we are given <u>specific</u> situations of where that is occurring, we can correct them.

Yet I also believe that <u>most</u> examiners <u>get it</u>. Examiners have heard from me many times, in person. And I have heard from a number of credit union managers that their examiners have taken the time to understand their business plan, to assist them in refining it, and to help them expand and grow. I assure you: I am committed to both the <u>spirit</u> and the <u>substance</u> of the supervisory letter, and I will take <u>every</u> opportunity to make sure that examiners <u>comply</u> with it.

Now, of course, the letter does <u>not</u> mean that we are easing regulatory scrutiny or providing any special exceptions to the rules. <u>Every</u> credit union must live up to <u>all</u> the fundamental criteria that ensure the <u>safety and soundness</u> of its operations. I have made sure that our examiners are aware of their responsibility to help you, and that they are ready to fulfill their role as constructive partners.

But first and foremost, I trust that you will all do your part. I urge you to redouble your efforts to ensure that you have a strong strategic plan, a detailed business plan, a sound set of internal controls, and an educated board of directors.

(pause)

In addition to these NCUA programs and initiatives, I would also like to highlight a recent NCUA regulatory proposal that may be of particular relevance to your communities and members.

During the economic downturn, more and more Americans – especially in low-income communities – were driven to use the services of "payday lenders." The unscrupulous practices of <u>some</u> lenders have inflicted a <u>terrible</u> toll on the most <u>vulnerable</u> members of our society: workers in low-wage jobs, who often struggle to make it from paycheck to paycheck. The astronomical interest rates charged by many payday lenders – and their readiness to promote the rolling-over of loans, thus prolonging borrowers' dependence – can <u>deplete</u> the take-home pay that working families depend on.

There is a justifiable role for short-term lending in our economy. Many people desperately need ready access to cash, to pay their rent or feed their children as they await their next paycheck. But short-term loans must be made responsibly.

That is why the NCUA Board, at our April meeting, proposed a new rule that would encourage credit unions to make short-term loans – following criteria that avoid the kind of abuses that symbolize so many aspects of payday lending. Under this proposed rule, loans could be made in amounts from $200 to $1,000, for up to 6 months. This would enable borrowers to consolidate high-cost payday loans while keeping their payments manageable. To protect borrowers from accruing higher and higher balances, our rule would <u>prohibit rollovers</u>.

Because the cost and risk of providing these loans is high, our proposed rule would allow federal credit unions to charge an <u>application fee</u> of up to <u>$20</u> and an <u>interest rate</u> of up to <u>28 percent</u> APR. Or, if federal credit unions choose to include all fees in the APR, they could charge up to <u>36 percent</u>.

However, to ensure that federal credit unions do not take on too much new <u>volume</u> and too much new <u>risk</u>, NCUA's final rule will likely include a <u>cap</u> on <u>short-term small loans</u>. Given <u>your</u>

experience providing payday loan alternatives, we would certainly appreciate your input during the public comment period, which is open through July 6.

By encouraging more alternatives to payday lending, NCUA hopes to shield borrowers from the worst excesses of the predators in that industry, while allowing more options for hard-working families who face cash-flow concerns.

(pause)

As we look ahead: We know that credit unions as well as consumers will confront many difficult choices as we emerge from the ravages of the financial crisis and the economic downturn.

But, for CDCUs, this worrisome time of transition can also be a creative period of renewal. We can discard the flawed old approaches that have failed us, and we can embrace the ideas that have served us well and that promise continued success.

I believe that the credit union system – based on the "people helping people" philosophy of cooperative action – can make a positive difference as we realign our financial system. CDCUs are destined to be an important part of that renewal.

Thanks to CDCUs and small credit unions, thousands of communities have gained a new measure of empowerment.

Thousands of people – who would otherwise be "unbanked" – now have accounts they can trust, at institutions that are close to home.

Thousands of families have gained access to loans that have made a material difference in their lives. Fathers and mothers have cars so they can get to work; students can pay college tuition so they can gain a better education; entrepreneurs with a dream of making a better life have access to capital – helping mothers open a day-care center in their neighborhood, or helping a mechanic open a shop of his own.

In communities all over the country, lives have been changed – family incomes have been lifted – dreams have been fulfilled, thanks to the capital and the confidence that you have extended to your members.

You are on the front lines of building stronger communities – and you are on a mission that embodies the very best in America's cooperative spirit.

You're staying true to the lesson of Dr. Martin Luther King Jr., who taught us that the spirit of inclusion can ennoble our vision. Dr. King said, "Human progress is neither automatic nor inevitable. Every step toward the goal of justice requires . . . the tireless exertions and passionate concern of dedicated individuals."

Thanks to your dedication and your tireless exertions, CDCUs and small credit unions are making a genuine difference in people's lives. Your work is crucial to building stronger communities and a stronger country. Your efforts are proving, every day, that we all do better when we all work together.

That kind of faith is the foundation of the credit union spirit. Your initiative is one of the reasons we know that we are ready to rebound, now that these tough economic times are finally easing. By fulfilling the theme of your conference – by "serving the underserved" – our society will grow together with a renewed commitment to our communities.

I am delighted to be with you today to applaud your work, and I am eager to come back again next year to celebrate your continuing success.

Thank you very much.

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