NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL CREDIT UNION SHARE INSURANCE FUND

LETTER TO CREDIT UNIONS

LETTER NO. 135

DATE: April 28, 1992

DEAR BOARD OF DIRECTORS:

In February I wrote to you (Letter 130) about the challenges all of us face in the year ahead. That letter generated more response than any in recent memory, which leads me to follow up with another letter. in this and perhaps a series of letters, I want to put NCUA's mission into perspective for you. I do this because NCUA and credit unions will need to work together more closely than ever in the years ahead, and I want that working relationship to be based on total understanding of why we do the things we do.

This is NCUA's mission: to ensure the safety and soundness of credit unions through appropriate regulation and supervision, while effectively managing the agency's resources and the Share Insurance Fund.

We achieve this mission through a set of goals written out in a 5-year plan. We recently updated our plan and were able to say that most if not all of our goals from five years ago had been met. I would like to share that record of accomplishment with you because it affects the entire credit

1) Recruiting, training, and motivating staff. When I first arrived at NCUA, one of my first challenges was to stem the exodus of examiners and other staff. Turnover was running at 15.8 percent in 1985. Today we are fully staffed and turnover is under 6 percent. We have accomplished this through a recruiting program that identifies the best available candidates, and we then provide them with substantive training.

In 1985, training of any sort at the agency was virtually nonexistent. Today, new examiners complete a full year of classroom and on-the-job training, and all examiners attend continuing-education seminars. We have also developed special teams of examiners with particular expertise to deal with problems anywhere they occur. We now have a level of "seasoning" in our examiner corps that the agency has never seen before. Our support staff is better trained, too, leading to higher performance throughout the agency.

In addition to training, we motivate staff through a variety of awards, both cash and non-cash. Our awards program is crucial to morale because we are not able to offer benefits comparable to the other financial agencies.

2) Revamping our compensation system. In 1989 Congress directed the five financial regulatory agencies to "seek to maintain comparability regarding compensation and benefits," in order to stop the "raiding" that was occurring among agencies. NCUA and other, agencies hired a professional compensation consultant to work with us in achieving this mandate. The plan we arrived at is pay-or- performance and labor-market based. For now this is a departure from traditional government pay systems, but the federal government is moving in this direction. We are now able to evaluate and reward (or not reward) staff performance more accurately than before. The system is fair and it has been working well for us in all regards except one, and that is the executive bonus feature of union community. the plan. We are not satisfied that the goals of the

plan caused enough executive "stretching," so in December 1991 the NCUA Board directed that the program be revised. The executive bonuses have been canceled for 1992.

Of the five financial agencies, NCUA's pay and benefits program is the lowest, but we have achieved enough comparability to stop the flow of staff seeking higher pay and benefits elsewhere.

3) Bringing NCUA's technology up to date. We have provided computers and computer training to staff and developed a high-tech system that accomplishes several things: a better examination program, improved productivity, and better data collection. In addition, we are now able to share data with state regulators, enabling us to spot trends or catch potential problems before they become costly.

4) Increasing the safety and soundness of credit unions. This is an on-going goal but one that has seen much progress. In 1988 the number of Code 4 and 5 credit unions stood at 1,022. Today that number is 685. We have accomplished this through our LUA program and other mechanisms such as the CURE index, developed by our late chief economist, which predicts with great accuracy the likelihood of credit union failure.

It's remarkable to note that even though the nation struggled through a recession last year, credit unions actually increased their capital and earnings. This attests to prudent credit union management and, in some part, to the strength of NCUA's annual examination program. We are now witnessing the tangible results of improvements we've made to our program, occurring in concert with credit unions' improved managerial and technical skills. It's a good story that deserves to be told.

The underpinning of safety and soundness in today's modern financial world, at least from the public's point of view, is the strength of an industry's deposit insurance fund. Federally insured credit unions know that their fund is the strongest in existence. In 1991, despite massive losses caused by insider abuses in three large credit unions, the fund easily regained its normal operating strength when credit unions paid a single premium. That is something the bank and thrift funds can't even imagine, and something credit unions can justly celebrate.

The goals I've discussed here have provided plenty of work for us during the past few years, but we have been busy with other projects as well. Chief among them has been setting up the Asset Liquidation Management Center (ALMC) in Austin, Texas. From scattered offices that once handled this important function, we now have a smoothly running consolidated asset disposition center. In the last 18 months the ALMC managed 153 liquidations and recovered $90 million. Average turnaround time for paying out member accounts has gone from two weeks under our old system to 48 hours through the ALMC. Currently the ALMC manages some 800 properties with a book value of $94 million. It has excellent computer capabilities, enabling the office in Austin to communicate efficiently with a temporary office in New England, where asset management needs are greatest at this time.

During the past several years we have also improved service to credit unions through our regional offices. All offices except Region 11 have moved to better locations and more economical space. Sometime in the fall of 1993, NCUA headquarters and Region II will move out of the District of Columbia, where our rent is scheduled to triple, into a suburban site where we are building to suit. Our new building will save credit unions $35 million over 15 years in otherwise- paid rental costs.

Other initiatives of the past several years include an improved corporate examination program and more productive relations with state regulators. We now have specialized examiners to work with corporates, helping to keep this important segment of the credit union community safe and sound. We also work closely with state regulators, offering free examiner training and subsidized computers to the states. Most states now use the NCUA-NASCUS CORE exam, allowing valuable information to be readily exchanged. Through cooperation and joint planning, state regulators and NCUA are staying ahead of problems.

Also keeping us busy last year was the conversion of 600 privately insured credit unions to federal insurance, with 186 still in process. Through team effort and a great deal of overtime, the regions involved with conversions were able to get that work done without sacrificing their regular annual examination of other credit unions.

Smaller but still important programs include NCUA's management of the CDCU Revolving Loan Fund and our involvement in international credit union training. The loan fund is functioning well now after an orphaned history at other agencies. International training efforts are also well underway, thanks in large part to two dedicated NCUA staffers, Charles Bradford and Cynthia Mandizha. It was credit unions' great loss when both of these exceptionally talented people passed away several months ago.

As you can see, then, NCUA has had its shoulder to the wheel for several years now. We have made great strides in positioning the agency for the future, although there is no question that attaining these goals has cost money. When I arrived at NCUA the budget was running a deficit and the agency's reserves were dwindling. This was no way to prepare for the complexities of the deregulated age, and we rectified that. I am pleased to report today that the agency's reserves have been rebuilt and that, from all indications, the agency's budget will level off in 1993 now that our needed improvements are largely complete.

Are we satisfied? Not yet. For one thing, I would like to see improved relations between NCUA and trade associations. Although a certain amount of "constructive tension" will always exist, I believe all of us could do a better job of exchanging information and finding peaceful, reasonable solutions to controversies. The last year has seen a great deal of acrimony in the credit union community, which, in light of the achievements I've outlined here, and in light of credit unions' performance in the marketplace, should not have to exist.

Credit unions and NCUA are coming of age, and it's an age all of us are helping to build. I thank you for your ongoing cooperation as we head into a safe and sound 21st century.

For the National Credit Union Administration Board,

Roger W. Jepsen
Chairman