NCUA Chairman Debbie Matz
2012 CUNA Governmental Affairs Conference
"The Long View"
March 19, 2012

Good morning. I appreciate this opportunity to speak with you today.

In my first address to the GAC as NCUA Chairman two years ago, the credit union system teetered on the brink of collapse. We had only begun to sort out our options for overcoming the crisis facing the corporate system. At the same time, we were confronting hundreds of CAMEL code 4 and 5 credit unions, 14 of which were over one billion dollars. I was told several of these might not survive.

Flash forward to today. What a difference! Assets, shares, and return on assets have all increased. Delinquencies and charge-offs have declined. And the corporate resolution is moving forward as planned, with no interruption of service to members.

These successes resulted from an improving economy and the efforts of credit union officials and NCUA – individually and together.

Now that the credit union system is stabilized, we need to look forward, together, and capitalize on the strengths of the system.

However, when you open any newspaper these days, you see an array of attention-getting headlines, good and bad.

For example:

- Dow Tops 13,000 Again

- Workers in Greece Protest Pay Freeze

- GM and Ford Report Strong Profits

- Spain Under Pressure to Cut Workers' Benefits

- US Adds Over 600,000 Private-Sector Jobs in Three Months

These headlines point to a world that is, in a word, volatile.

Yes, the American economy is recovering. And yes, the worst appears to be behind us. But the world is still unsettled. In times like these, people flock to institutions they trust – institutions that will be there for them through changing times.

This is one of the reasons that credit union membership has grown by 1.3 million in the last year. People trust credit unions. The challenge before us is to ensure that credit unions will be there for them through the long term.

We live in a short-term society. Corporations live from quarter to quarter. Politicians live from election to election. And consumers' technology preferences change in the blink of an eye.

We need to look beyond these short-term timeframes. I see my role as taking the long view – working with you to put in place the protections that can keep credit unions strong and secure, no matter what the future brings.

So I ask you to picture your successors, in the year 2034 – the centennial of the first federally chartered credit unions.

What will this industry look like?

As I see it, it can be one of two pictures.

The first picture is a credit union industry struggling to hold on to a shrinking share in a growing marketplace.

Remember the Beta VCR? Sure, the Beta may have been the best alternative to the VHS cassette, but it never became dominant in the market. After a few years, however, no one watched Beta or VHS. Both became obsolete.

Unless you prevent it, this scenario can play out for credit unions. It's actually easy to imagine:

Coming out of the Great Recession, credit unions keep on their books too many mortgages at historically low rates. When interest rates rise, credit unions earn less on their long-term assets than they pay for short-term deposits.

At the same time, as members age out of their prime borrowing years, the next generation of consumers find other alternatives. Tied to their mobile phones and internet, young people begin to direct deposit their paychecks to PayPal and Wal-Mart Money Centers – rather than traditional depository institutions. Millions of young borrowers never see, or hear about, a credit union. They shop for loans through online portals, and they use their digital wallets. The credit union market share erodes, as does the number of credit unions.

So by 2034, an industry that once looked forward to huge potential would be looking back at what went wrong.

Not a pretty picture.

But not the only picture.

The second picture is one of growth and strength. In this picture, as the economic recovery that began in 2010 gains momentum, Americans realize that credit unions are far preferable to for-profit banks and other financial providers. Consumers overwhelmingly agree that credit unions offer better products, better pricing, and traditional qualities such as:

customized service, a sense of community, and confidence that their financial provider is putting the members' needs first.

Also, younger members find that credit unions more efficiently provide the technology and convenience of online banking, mobile banking, and the latest apps.

In this future scenario, the credit union industry embraces safe and sound business practices, and smart, sensible, up-to-date regulations. Losses to the Share Insurance Fund remain low and manageable. Spurred on by increased membership, solid return on assets, and substantial net worth, credit unions embark on a continuous cycle of sound investment, prudent growth, and increasingly satisfied members.

As a result, in this second picture, membership grows well past 100 million; and assets climb far above one trillion dollars.

So, when this conference is held in 2034, what will your successors say about today's credit union leaders?

If we want to paint that better picture, all of us have roles to play – individually, and together.

So let's consider what we need to do to reach that better future.

For me, and for NCUA, the most fundamental question is: How do we ensure safety and soundness for you, your members, and the Share Insurance Fund – while imposing the lightest possible regulatory burden?

Let me first assure you: I know how it feels to be regulated. I was once the executive vice president and chief operating officer of a credit union. Part of my job was overseeing compliance. So I'm always mindful when NCUA develops regulations, that we do so in a way that is as manageable as possible for credit unions.

That's why I initiated a top-to-bottom review of our rules as part of my Regulatory Modernization Initiative. Our goal is to reduce burdens wherever possible. When it's necessary to address emerging risks, we propose rules that are carefully targeted and minimally invasive.

At the same time, NCUA owes it to you to operate as efficiently as possible.

Increasing our efficiency requires reallocating resources toward the highest risks. That means examiners are now spending more time in large credit unions which pose the greatest risks to the Share Insurance Fund, and less time in well-performing, smaller credit unions.

NCUA also has a responsibility to protect you from unacceptably risky actions by other credit unions which can hurt you.

That's why our examiners no longer let things slide. Left uncorrected, deficiencies can quickly turn into fatal flaws. So, as many of you have experienced, examiners are writing up Documents of Resolution and holding credit unions accountable to address them.

We've all seen the unthinkable happen. We've seen credit unions that were considered shining stars a decade ago but no longer exist today. Even today, there are more than four hundred CAMEL 4 and 5 credit unions holding twenty-six billion dollars in shares. That's why we can't afford to give any credit union a pass on adhering to policies which protect safety and soundness.

Another thing NCUA needs to do is keep up with you – and help you keep up at the same time.

Here's what I mean: Credit unions are getting increasingly sophisticated in their lending products, use of capital markets, and deployment of technology. NCUA needs to keep up with those changes. That's why we are actively hiring subject matter experts who will help navigate these increasingly complex areas.

NCUA also has a responsibility to be as transparent as possible.

That's why we improved our website, added content, and made it easy to navigate. And we posted new web pages detailing the costs of the corporate stabilization program. We are updating those semi-annually – so you can see exactly how the corporate resolution is working.

We also publish a monthly newsletter, the *NCUA Report*, that explains what we are doing and why. Credit union officials and volunteers tell me how helpful this newsletter is. You can sign up at our website to get the free *NCUA Report* each month by email.

But perhaps most important, NCUA has a responsibility to listen to our stakeholders. That's why I have been hosting webinars so the NCUA staff and I can hear directly from you and answer your questions.

Your input is essential in crafting rules that work for you, and for NCUA. When we receive comment letters on a rule, we read every one. We analyze them, discuss them, and attempt to accommodate them. Do we accept every suggestion? No. But we almost always make changes based on your comments before we finalize a rule.

What you have to say is important. And sometimes it helps to discuss issues face-to-face.

That's why, over the next three months, NCUA will hold Listening Sessions in all regions of the country. We want to hear directly from you about:

- How we can improve our exam process;

- How we can reduce or streamline our regulations; and

- Anything else that's on your mind.

We will hold the first session on May 2 in Boston. You can sign up on our website: ncua.gov. We're planning other sessions in Alexandria, St. Louis, Orlando, San Diego, and Denver.

So, what do credit unions need to do?

In addition to NCUA's efforts to achieve a strong future for credit unions, you have responsibilities as well.

One of your responsibilities is conducting basic due diligence. This is more important than ever.

Due diligence requires that when you participate in a loan, you verify that the originator's underwriting is consistent with your own. Due diligence also means validating that third parties with whom you do business, including CUSOs, are in sound financial condition and meet the highest data security standards.

Credit union boards have a responsibility to make sure all board members are well trained. Yes, board members are volunteers who often have families, jobs, and other responsibilities. But as board members, they have fiduciary duties. So the board needs to make sure they have the background, up-to-date training, and support they need to fulfill those duties.

But perhaps the most important thing you can do, each year, is to undertake serious, realistic strategic planning. This will help you assess where you want the credit union to be in five or ten years – and determine what it will take to get there.

For instance, we know that interest rates won't stay low forever. How will you prepare for the inevitable interest rate increase?

We know that lending is slow. How will you reach members in their prime borrowing years?

When you ask yourselves these questions, you'll find it essential to your credit union's future to focus on younger members and new technology.

Here are some facts that may convince you:

- The average age of credit union members is forty-seven, up from forty just a few years ago.

- Yet the peak borrowing age is between twenty-five and forty-four. This means that the average member is already past the prime borrowing years.

- Perhaps more startling, members between ages eighteen and twenty-four make up just nine percent of credit union membership.

- Yet nearly thirty-three percent of the U.S. population is under age twenty.

These statistics raise more questions:

- Does the younger generation understand what credit unions are?

- Do they know that credit unions can help secure their future?

When you get back to your credit union, find out how many of your members are over age sixty. Then ask yourselves: How will your credit union make the loans it will need to survive ten years from now?

If your goal is to attract new, young members, then you need to adopt new technology.

At a minimum, young people expect services like mobile banking and online bill-paying. They expect to open accounts and get approved for loans online. They expect immediate service 24/7. And they expect to make deposits using their smart phone, and to use their digital wallet to buy movie tickets.

If you don't offer what they expect, they're going to take their business elsewhere. That's why it's absolutely essential that you use all the tools at your disposal to win over the next generation.

So, there are things that credit unions need to do and things that NCUA needs to do.

But for the industry to grow and thrive, safely, there are things that we must do together.

Only together can we advance important legislation.

In testimony before key House and Senate committees and in a letter to Treasury Secretary Geithner, I urged policymakers to lift restrictions on member business lending.

Small business owners are in need of capital. Credit unions are the perfect source of small loans that small businesses require.

So we need to work together – to convince Congress to let credit unions make more small business loans.

And we need to work together to allow healthy credit unions to access supplemental capital.

Current law punishes healthy credit unions for accepting new deposits. As we all know, new deposits can lower the net worth ratio, which could become a weakness that, by law, must be remedied.

Without supplemental capital, many of you have no choice other than to discourage new deposits. It makes no sense that at a time when more consumers are discovering credit unions as a safe place to save, the law forces many of you to turn those consumers away.

With appropriate safeguards, healthy credit unions should be able to access supplemental capital to allow those new deposits. Consistent with safety and soundness, we can work together to make that happen.

To fix this pressing problem, twelve members of Congress have already signed onto the Capital Access for Small Businesses and Jobs Act. This legislation would permit credit unions meeting certain conditions to raise supplemental capital. This bipartisan bill is long overdue.

Ultimately, the most important thing we can do together is communicate. That's why we meet regularly with CUNA and other stakeholders to exchange views. Later this week, for example, I'll be meeting with CUNA's Executive Committee to discuss important issues facing credit unions. Open dialog facilitates our ability to accomplish our shared goal of a safe, sound, thriving credit union industry.

I'm proud of how NCUA, under my leadership, is listening to all of you.

You said you don't like one-size-fits-all examinations. We're overhauling our entire exam program so that small and large credit unions are treated differently, but fairly. We heard you.

You said you wanted more transparency on the corporate resolution. We put up a website that explains how we got where we are and where we're going. We heard you.

You said you wanted regulatory relief. As part of my Regulatory Modernization Initiative, we are easing our rules on troubled debt restructuring. We proposed extending RegFlex relief provisions to all federal credit unions. And we're looking to permit plain derivatives to provide flexibility in managing interest rate risks. We heard you.

You can look at all our new rules. The differences between what we proposed and what we finalized occurred for one reason – because we heard you.

As we look forward, we share our most important goal: stronger, safer credit unions with a vibrant future. If we each play our parts, that goal is within our reach.

When I talked about the two visions for our future, I mentioned the Beta VCR, the better product that never became the dominant player. It offers a lesson to us today.

In 1997, a Blockbuster customer named Reed Hastings went to return a video, six weeks overdue. When Blockbuster slapped him with a 40-dollar late fee, he said there had to be a better way.

Hastings founded Netflix. At the time, Blockbuster was worth nearly five billion dollars.

As competitors began to stream movies to video game consoles, phones and computers – Blockbuster's head of digital strategy said: "I don't have to figure out how to get movies from my Nintendo machine to the screen. I know I can do it, but I don't want to. It makes my head hurt to think about it."

Now I have to admit: I can understand how he felt. I already had enough to think about trying to program my VCR!

Some of you may be able to relate to that. But my kids don't. It doesn't make their heads hurt to stream movies to their TV, mobile phones, laptops, or iPads.

Here's an ironic twist: Blockbuster actually started a movie-streaming service. But it was too late. At the end of 2010, Blockbuster filed for bankruptcy.

The lesson for credit unions is that some things make our heads hurt to think about. But they are the very things that consumers of the future are going to embrace. So you need to embrace them, too.

If we, together, find common understanding on our distinct roles, as well as our shared goals, I believe that in 2034, credit unions celebrating their centennial will look back at all the progress we have made together, and see it for what it is: a new beginning.

Thank you.