National Credit Union Administration
1775 Duke Street
Alexandria, Va. 22314
www.ncua.gov

Office of Public &
Congressional Affairs
(703) 518-6330
jzimmerman@ncua.gov

NCUA Media Release

NCUA Already Implementing GAO Recommendations on Credit Unions

Study on Credit Union Failures in Recent Financial Crisis Required by 2011 Law

ALEXANDRIA, Va. (Jan. 4, 2012) – The National Credit Union Administration (NCUA) supports the two recommendations contained in the Government Accountability Office (GAO) report on credit unions released today. Required by the National Credit Union Authority Clarification Act of 2011, the study examines corporate and consumer credit union failures since 2008, along with NCUA's responses, and looks at the effectiveness of NCUA's use of Prompt Corrective Action (PCA) to identify failing credit unions.

"We welcomed the GAO review, and NCUA fully agrees with the recommendations contained in the GAO report," said NCUA Board Chairman Debbie Matz. "In fact, we were already working to implement these recommendations. With completion of the 2010 Corporate Stabilization Fund audit last week, NCUA has complied with the first GAO recommendation and will continue to regularly update cost estimates in the future. To fulfill GAO's second recommendation, we will continue to implement strategies to improve NCUA's early detection methods and strengthen enforcement actions where necessary."

Specifically, the GAO report—numbered GAO-12-247 and available at www.gao.gov—has two recommendations for NCUA:

- NCUA should provide the agency's Inspector General the necessary documentation to verify loss estimates for the Corporate Stabilization Fund; and
- NCUA should consider additional triggers for PCA that would require early and forceful regulatory action and offer proposals to Congress on how to modify PCA, as appropriate.

GAO finalized the report before KPMG LLP completed the 2010 audit of the Temporary Corporate Credit Union Stabilization Fund. NCUA released the Stabilization Fund audit last week, and the unqualified, or clean audit, opinion is available at www.ncua.gov. The audit satisfies concerns expressed in the GAO report that NCUA must document and verify loss estimates. GAO noted their receipt of the clean audit in today's report.

GAO's second recommendation is an ongoing initiative at NCUA. "Since the beginning of the financial crisis, NCUA has prudently stepped up our supervisory and enforcement actions wherever necessary," added Chairman Matz. "As a result, the number of failing credit unions has now fallen significantly. Importantly, a number of large CAMEL 4 rated credit unions—that appeared to be on the verge of failing—have not failed because of the critical enforcement

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actions imposed by NCUA. Preventing the failures of these credit unions saved all credit unions from footing the bill for Share Insurance Fund losses that could have totaled $1.5 billion."

The GAO report's Executive Summary also finds that:

- Poor investment and business strategies contributed to the five corporate failures;
- Poor management was the primary reason 85 consumer credit unions failed over the past four years;
- Credit unions that did not fail were more likely subject to earlier PCA action; and
- Enforcement actions were initiated either too late or not at all for many failed credit unions.

"NCUA is committed to proactively addressing safety and soundness problems at credit unions," concluded Chairman Matz. "NCUA will continue to build on its current enforcement efforts in requiring credit unions to promptly correct problems at the earliest possible time. Consistent with GAO's findings, NCUA will also continue to take steps to strengthen the effectiveness of our enforcement program, striving to develop new predictive PCA measures that identify emerging problems earlier and better protect the Share Insurance Fund from losses."

NCUA is the independent federal agency created by the U.S. Congress to regulate, charter and supervise federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of more than 91 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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