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Media Advisory

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Johnson Stresses Change to CUNA Conference Participants

February 26, 2007, Alexandria, Va. -- NCUA Chairman JoAnn Johnson told over 3,000 assembled today at CUNA's Governmental Affairs Conference (GAC) in Washington, D.C., using the words of inventor Charles Kettering, "If you have always done it that way, it is probably wrong." Not advocating a disregard for established practices, precedents and traditions, NCUA is rather evaluating current procedures and considering potential changes in three areas -- Bylaw enforcement, the CAMEL matrix, and Prompt Corrective Action.

"Change can be intimidating, frightening, challenging, exciting, or all of the above. I choose to look at it as an opportunity to continue to produce effective legislation and regulation which make for a stronger industry with a bright future," Chairman Johnson said.

"I believe it is likely NCUA will issue a proposal in the near future, for public comment, to incorporate the FCU Bylaws into NCUA's regulations. Of course this will require NCUA Board deliberation and a Board vote, so it is possible that we will decide on a different approach," Chairman Johnson said.

For decades the bylaws were incorporated into NCUA regulations. NCUA deregulated the bylaws in the early 1980's and began the policy the agency would not intervene in bylaw disputes unless a matter presents a violation of the Act, NCUA regulations, or a safety and soundness concern.

"We have never said NCUA lacks authority to enforce bylaws based on the FCU Act, but rather opted to leave much bylaw enforcement to members and FCUs," Chairman Johnson said.

"The position adopted in the 1980's has resulted in little to no enforcement of some of the members' most critical rights the bylaws seek to protect, and State courts are understandably reluctant to become involved in bylaw disputes," the Chairman said.

"This represents a change with a very real implication for the Nation's credit union members, and it is something that anyone with any interest in protecting consumers

cannot let stand without considering remedies,” Johnson said.

“After weighing the pros and cons, it appears to me that incorporating the bylaws into the regulations is the most direct and straightforward way to clarify our authority to enforce bylaw violations in appropriate cases,” Johnson said. “I believe now is the right time for NCUA to step forward and once again make itself available to protect the rights of both members and the credit unions that they own.”

Changing the Matrix used to compile CAMEL ratings --

Staff has been reviewing the relevance of the Matrix, which is not risk-focused. The Matrix relies on ranges of numbers without taking into account the complexity of the institution. It's not dynamic or forward looking.

NCUA took an initial big step last year by issuing guidance concerning the evaluation of earnings. The agency encourages examiners and credit unions to continue to engage in an open dialog about ROA goals and make sure it is consistent with business plans and provides for maintenance of adequate capital.

“The time has come to address the Matrix itself. NCUA was the only agency to adopt a Matrix in 1987 when all FFIEC agencies adopted the CAMEL rating system to assess risk to the institution and on a system-wide basis. NCUA is in the final phase of evaluating CAMEL updates necessary to eliminate the CAMEL Matrix.” Johnson said.

Updates will focus on individual credit union's risk profile rather than looking at isolated benchmark measures. NCUA will communicate to the industry prior to implementing any change.

PCA recommendation --

The legislative change to Prompt Corrective Action already recommended to Treasury and Congress advocates a risk-based system that preserves the leverage system and provides comparability with standards for FDIC-insured institutions. It would allow credit unions to better manage safe, sound growth and provides for improved identification and measurement of risk in each institution. The current system penalizes low-risk institutions, resulting in inefficient use of capital, and Chairman Johnson asked GAC participants to encourage their legislators to support this proposal.

The National Credit Union Administration is the independent federal agency that regulates, charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, also operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of over 85 million account holders in all federal credit unions and the majority of state-chartered credit unions.