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NCUA Media Advisory

Matz Renews Call for Supplemental Capital

Asks Congress to Consider Reforms Designed to Increase Flexibility and Stability

January 14, 2011, Alexandria, Va. – NCUA Chairman Debbie Matz today called for changes to the net worth provisions of the Federal Credit Union Act that would enable financially strong credit unions to continue offering a full range of financial service products to consumers without inadvertently reducing net-worth and triggering prompt corrective action (PCA).

"I am writing to call to your attention an ongoing trend reported by some credit unions that adversely affects consumers—including those of modest means, who benefit from access to reasonably priced financial services," stated Chairman Matz in a January 14, 2011 letter to the Chairmen and Ranking Members of the House Financial Services and Senate Banking Committees. "Some financially healthy, well-capitalized credit unions that offer desirable products and services are discouraged from marketing them out of concern that attracting share deposits from new and existing members will inflate the credit union's asset base, thus diluting its net worth for purposes of PCA."

Chairman Matz specifically proposes two reforms that would enable NCUA to reverse the disincentive for credit unions to accept deposits from their members:

- Allow qualifying credit unions to exclude assets that carry zero risk, such as short-term U.S. Treasury securities, from the definition of "total assets." NCUA would set a minimum net worth requirement, and would also determine that share growth is the cause of declining net-worth, not poor management or unsafe practices, before a credit union would be allowed to exercise this exclusion; and

- Authorize qualifying credit unions to issue supplemental capital. The form of supplemental capital would be subject to strict regulatory prescriptions that address safety and soundness criteria, protect investors, and preserve the cooperative credit union governance model.

“Congress already permits low-income designated credit unions to offer uninsured supplemental capital accounts to non-members,” noted Chairman Matz. “Modifying the Federal Credit Union Act to permit qualifying credit unions to offer uninsured alternative capital instruments subject to regulatory restrictions, and expanding the Act’s definition of ‘net worth’ to include those instruments, would allow well-managed credit unions to better manage net worth levels under varying economic conditions.

“It is clear that controlling accelerated, unmanageable growth of credit union assets was a principal purpose of PCA, and NCUA’s implementing regulations respect that goal,” Chairman Matz continued. “It is for that reason that in the course of implementing PCA over the last 9 years, NCUA did not propose statutory remedies in response to occasional periods of reluctance by credit unions to grow assets. That reluctance in the present period of national economic distress has become acute, however, warranting a statutory remedy. It was never the objective of PCA to discourage manageable asset growth by financially healthy credit unions in times of economic distress. To the extent PCA does so now, it does not contribute to the objective of resolving the problems of insured credit unions; it unintentionally creates a problem for them, which redounds to the detriment of consumers.”

Click here to obtain the letter.

NCUA is the independent federal agency that regulates, charters and supervises 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 over 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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