

NCUA'S NOT READY FOR PRIME TIME

Is enforcement optional—and private—for credit unions?

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By Keith Leggett, ABA senior economist. For more about Leggett, see the end of this article.

If there is a regulatory agency that needs to be taken to the woodshed, it is the National Credit Union Administration.

Transparency for banks, not for credit unions

First, NCUA is blatantly abusing its discretionary authority to withhold information about material problems at credit unions.

The Federal Credit Union Act requires that the NCUA Board publish and make available to the public “any written agreement or other written statement for which a violation may be enforced by the Board unless the Board, in its discretion, determines that publication would be contrary to public interest.”

According to the agency’s 2010 Annual Report, it issued 333 letters of understanding and agreement and 28 cease and desist orders to natural person credit unions in 2010.

However, only 3 letters of understanding and agreement and only 1 cease and desist order were published in 2010.

I have a hard time believing that in 99% of these supervisory actions that it was contrary to the public interest to publish these actions.

Must be a secret from credit unions too

Second, NCUA's Office of the Inspector General released a critical audit report saying that the agency "missed opportunities to mitigate losses" to the credit union share insurance fund because it failed to effectively monitor or follow up on unresolved Document of Resolution (DOR) items.

A DOR is issued by NCUA examination staff outlining "plans and agreements reached with credit union officials to reduce identified areas of unacceptable risk." The DOR will identify persons responsible and timeframes for correction.

The Inspector General reviewed ten credit union failures and found that in five credit unions the same DOR issues were repeated over several examinations at the same credit union and these unaddressed DOR issues contributed to the failure of these credit unions.

Also, the audit noted that 4,653 federally insured credit unions had over 26,000 unresolved DOR items at the end of 2010. Twenty-three percent of these credit unions had unresolved DOR items related to management issues, where 88% of the management-related DOR issues were associated with "Management Understanding/Response" and "Management Practices"; risk factors.

Moreover, a number of these unresolved DOR issues have lingered for a long time.

Fifty-seven were over 10 years old; 776 were 5-10 years old; 2,305 were 3-5 years old; 3,098 were 2-3 years old, 9,055 were 1-2 years old, and 10,870 were less than one year old.

The Inspector General stated that examiners failed to take timely corrective actions with regard to unresolved DORs, including CAMEL ratings downgrade or a stronger supervisory action.

Given the lack of transparency and deficiencies in resolving exam issues, why would Congress want to grant credit unions that are regulated by this agency even more powers, such as increased business lending authority?

It is obvious that NCUA is not ready for prime time.

About Keith Leggett

Dr. Keith Leggett is a vice-president and senior economist at the American Bankers Association. Prior to joining the ABA, Dr. Leggett was an Associate Professor of Economics at Davis & Elkins College. Dr. Leggett's responsibilities include analyzing the structure and performance of the financial services industry and monitoring conditions in the macro-economy and credit markets. He regularly blogs on credit unions at Keith Leggett's Credit Union Watch.