

San Diego & Imperial Chapter of the
California Credit Union League
May 23, 2013

Thank you for the opportunity to speak this afternoon before the San Diego & Imperial Chapter of the California Credit Union League. It gives me great pleasure to be with you today.

Credit unions are vitally important to the recovery and stability of California. I am often reminded of the beauty and simplicity of the credit union model. As non-profit public benefit organizations, credit unions are democratically controlled, mutual entities created for the purpose of encouraging the wise management of resources and providing a source of credit for your members. Ordinarily, I would be discussing what I call the Good, the Bad and the Ugly. First let's discuss the Good News! The financial outlook for California's credit union community is cautiously optimistic.

Net worth continues to improve. While the number of credit unions continues to decline, total assets reached \$76.7B at the end of 2012. In 2011, we had 158 state chartered credit unions. As of today, we have 151 credit unions, primarily due to mergers.

ROA was 1% at 4Q12, up from 0.7% a year ago. Net income increased 49% from a year ago, compared to a net loss in 2008 and 2009.

Overall, asset quality improved in 2012. No material changes to reportable real estate delinquency in the last three quarters. Foreclosed and repossessed assets totaled \$101M, down 38% from the prior year. And if you are engaged in mortgage lending, and are subject to all of the new regulations, including the Home Owners Bill of Rights, the results of the DFI's Mortgage Survey confirms that no DFI credit union had more than 175 foreclosures last year.

On the enforcement side, DFI's revised and more focused enforcement actions helped examiners better manage and direct credit unions with capital and operational deficiencies. The result was that only one financial institution was closed in 2012, compared to four in 2011, 10 in 2010 and more than 30 over the past five years. In 2012, DFI issued seven enforcement actions to credit unions. However, DFI lifted 17 enforcement actions. The percentage of satisfactory credit unions is increasing. The trend is positive and improving.

These improvements are most meaningful when viewed in the context of how California credit unions are serving your members and your community.

Credit unions in California have a unique program now administered by the Department of Financial Institutions, called Bank On California.

Bank On California is a voluntary collaborative initiative that gives unbanked and underbanked households access to mainstream financial products and services, including no- and low-cost checking and savings accounts with participating credit unions, as well as access to financial education.

More than one in four households in the United States is either unbanked or underbanked. The unbanked include households where there is no person in the household who currently has a checking or savings account. The under-banked households may have a checking and/or savings account, but they also have used money orders, check cashing services, payday loans, rent-to-own services or pawn shops in the last 12 months.

8.2% of US households are unbanked, representing nearly 10 million households or approximately 17 million adults.

20.1% of US households are under-banked, representing 24 million households with 51 million adults.

The good news is that Bank On California has made significant progress expanding financial education opportunities, by conducting over 2,000 financial education workshops, while reaching out to several thousand unbanked low- and moderate-income families and individuals throughout the state.

Bank On California has survived and thrived, because we are collaborating hand in hand with our community partners, including non-profit organizations, local, state and federal government agencies, credit unions and banks.

There are now 9 Bank On California programs throughout the State, including:

Bank On American Canyon – Launched in 2011, Bank on American Canyon was organized by the United Way Bay Area and their SparkPoint Center program.

Bank On Central Coast – This is the newest Bank On and includes the cities of Monterey, Santa Cruz, Salinas and Watsonville.

Bank On Fresno – Thanks to a grant from the Wells Fargo Foundation, Bank On Fresno has evolved into SparkPoint Fresno, a family-friendly financial services center that helps low-to-moderate wage workers where the average Bank On balance is \$7,500.

Bank On Napa Valley - Launched just this January 2013, Bank On Napa Valley partners with Family Resource Centers and local banks and credit unions.

Bank On Oakland – Since inception, Operation HOPE, a community-benefit organization has served as the coordinator of Bank On Oakland. The City of Oakland has recently agreed to now serve as coordinator and integrate Bank On Oakland with several city initiatives and best practices to find innovative approaches to meet the needs of Oakland’s unbanked.

Bank On Los Angeles – Bank On Los Angeles is coordinated by the City of Los Angeles and has a long list of community partners that are working together to promote the initiative, open starter accounts and provide financial education classes in English and Spanish.

Bank On Sacramento – The Office of the City Treasurer serves as the coordinator for Bank On Sacramento and the United Way Capital Corridor coordinates the program for Sacramento County as well as Amador, El Dorado, Placer, and Yolo. They also are seeking to continue their best practices and find innovative approaches to meet the needs of Greater Sacramento’s unbanked population.

Bank On San Francisco – Bank On San Francisco was the first Bank On city in the United States. The program is coordinated by the City of San Francisco Treasurer’s Office and continues to operate through community partnerships and innovative programs such as the Kindergarten to College savings program offered by the City of San Francisco Office of Financial Empowerment.

Bank On San Jose – Thanks to a grant from the Silicon Valley Community Foundation, Bank On San Jose, coordinated by United Way Silicon Valley, launched a Credit Coaching program, an extension of Bank On San Jose’s financial education efforts, that matches trained volunteers with low-to-moderate-income people and families in Santa Clara County who are interested in improving their financial management skills.

That is the growing list of Bank On programs in California. Unfortunately, there is no Bank On San Diego or Bank On Imperial on that list. I hope that after today’s luncheon,

credit unions in both cities will consider forming a Bank On Imperial/San Diego and start to serve the unbanked and underbanked in your communities. You would be joining your fellow credit unions, including First California FCU, Mission Area FCU, Golden 1 Credit Union, Kinecta Federal Credit Union, Northeast Community FCU, NuVision Federal Credit Union, Orange County's Credit Union, Patelco Credit Union, Redwood Credit Union, SAFE Credit Union, San Francisco FCU, Santa Clara County Federal Credit Union, San Mateo Credit Union, School's Financial Credit Union, Self Help Federal Credit Union, Spectrum FCU and Travis Credit Union. It's a great list. I know you wish you were on it.

Last year, California enacted legislation that allows state-chartered credit unions to offer “lifeline services” to nonmembers for a fee. This legislation was intended to bring parity between federal and state chartered credit unions. When I think of lifeline services, I can't help but think of the “unbanked” and the “underbanked” who are often desperately in need of financial services at no cost. I hope and trust that the California credit unions will continue to be supportive of Bank On California and bring the unbanked within your field of membership into your credit union.

One aspect of the Department of Financial Institution that I have come to admire and respect is the examiners perspective of the credit unions they examine. Credit unions provide a business model that the examiners at DFI truly believe in. You offer a financial alternative that your members also hold dear. Your members treasure your common bond and the culture of your credit union. This might sound corny or cliché, but it is true and significant to your credit union's success!

The culture of your membership guides your credit unions' unique strategies and how you choose to address the challenges you face in an ever changing financial environment.

It was refreshing and encouraging for me to be able to discuss this afternoon the positive financial trends demonstrated by the California credit unions.

Too often we generalize industry-wide problems like poor loan demand and high delinquency.

But you are each unique. You are unique to your members, including the very definition of your field of membership.

Employment opportunities for members vary across the different regions.

One of DFI's examiners likens the running of a credit union to being the captain of a ship. The sea must be kind before you can go very far. On the other hand, you must know where you are going and how you will get there to complete your journey. Credit unions throughout the state are selecting different routes to their destinations.

Some pick a profession and service the members of that profession. Others serve the residents of a county. In the recent downturn, some have chosen to become investors, while others have developed new loan products. Each credit union evolves in its own way.

And for the DFI examiner, it is often about understanding that evolution and developing trust, and more importantly, mutual trust.

A respectful and cooperative discussion between credit unions and DFI of the issues and the means for achieving positive and productive results are the most meaningful way to a healthy credit union community in California. DFI is keen on helping credit unions solve your unique problems, and creating opportunities, ultimately for the benefit of your members and your community.

However, it is not a one-way street. DFI also learns from each of you, from your areas of strength and your understanding of your credit union's culture and community. Together we seek opportunities for improvement. Together we stay focus on the wise management of resources, providing a source of credit for members. Let's continue to give the people of California a real choice among financial institutions. Let's continue to

steer our ship in the right direction towards a stronger and healthier credit union community for the people of California. Let's add San Diego and Imperial to the list of Bank On California Cities. I look forward to our successful journey together. Today, it is all good.

Thank you and good afternoon.