



**Credit Union National Association
2010 Governmental Affairs Conference**

Remarks by

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At

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Good morning. It's always a pleasure to come here to speak with you.

Since I've been on the NCUA Board, my speeches at this conference have covered a wide range of topics. The themes included a discussion of how I view my role as a regulator, to an explanation of the 2008 Outreach Task Force Report, to a review of NCUA's corporate stabilization efforts last year. Each of those speeches shared a subtle common thread – the future of credit unions.

This year, that common thread is front and center. I want to talk with you about the future of credit unions – about the end of the world as we know it.

As you may remember, 12 years ago at this very conference the credit union movement felt that it was the end of the world as we know it. We were all waiting for a Supreme Court decision on whether credit unions could serve multiple groups. The decision was not favorable for credit unions. A fairly new CEO for CUNA brought all of his advocacy skills to bear with your grassroots effort to pass HR 1151. I had the pleasure of working with Dan Mica during this time. He's a leader, keen advocate, a gentleman. I want to take a moment of personal privilege to thank him for being a good mentor

to me while I was at CUNA and teaching me so much about advocacy, leadership and statesmanship.

Fast forward to this year, by all accounts, 2010 will be a tough year. Historical data from previous recessions shows there is a lag effect on credit unions in recovering from an economic recession. For example, in the recessions of 1981-1982 and then 1990-1991, we saw the number of CAMEL 4 and 5 credit unions stay high for two and three years after each recession. After the 1990-1991 recession, we saw charges to the National Credit Union Share Insurance Fund (NCUSIF) reserves go up in 1992 and stay high through 1993.

We are experiencing that same trend now as the nation struggles to pull itself out of this severe downturn. At year-end 2009, the NCUSIF's reserve balance totaled an all time high of \$758.7 million for natural person credit unions. Credit unions in many parts of the country are struggling to cope and survive the one-two punch of high unemployment and deep housing and commercial property market corrections. The reserves in the NCUSIF reflect that reality.

On top of this unsettling information, we know the financial world is in a state of upheaval and change. Congress is undertaking an effort to legislate potentially sweeping reforms in the regulation and supervision of the nation's financial services sector. At NCUA, we proposed significant and complex changes to the regulation governing corporate credit unions and we are working on ways to try to segregate the legacy assets from corporates' balance sheets so the system can move forward. These efforts, along with work by CUNA and others to lift the member business loan cap and seek supplemental capital for credit unions, lay the groundwork for a vastly changed operating environment ahead.

If I were you, I might exclaim, "Future?! Who has time to think about the future when we have so much on our plates right now?"

My response: If not now, when? This conference is perhaps the largest gathering in the U.S.A. of people who work, volunteer and belong to something called "the credit union movement." "The credit union movement." Not "the credit union stationary bicycle." "Movement." It's the end of the world as we know it and it's time for the movement to do some moving.

Last June, I hosted a Symposium here in Washington, D.C. My main objectives for the Symposium were to celebrate credit unions' uniqueness, to honor the 75th anniversary of the Federal Credit Union Act, and, most importantly, to provide a forum for conversation about credit unions' future sustainability. Collaboration, sustainability and change were the key discussion points during the Symposium. Participants agreed that if credit unions do not collaborate, do not adapt their business model to respond to a changing market then credit unions' sustainability is unlikely.

The future comes whether we want it to or not. But you have the ability and power to develop compelling visions of what you want the future of the credit union movement to be. Credit union sustainability doesn't just happen. Credit union collaboration doesn't just happen. They take work, dedication and, most importantly, they take vision. A vision backed up with powerful actions to make your vision reality and the future your own.

Each of us has a role in creating that vision and backing it up with actions. Let me start with NCUA. My vision of NCUA's role in the future of the credit union movement is simple. It's something called "constructive conflict."

Sidney Wolfe, who is the director of health research at the consumer advocacy group Public Citizen, was quoted in a recent article where he described what the relationship between the Food and Drug Administration (FDA) and the companies it monitors should be. He said, “The FDA has to have constructive conflict with the industry – otherwise what’s the point of the FDA?”¹

The same is true of NCUA. NCUA must maintain constructive conflict with the credit unions it regulates and insures. The key word is constructive. I believe “constructive” means getting out of your way to serve your members. This must be balanced by ensuring you do so safely and soundly with appropriate due diligence. My vision for the future is a safe and sound credit union system that is dynamically focused on serving members. I believe the actions NCUA is taking to back that vision up are many. Constructive conflict is demonstrated in the supervisory letters we’ve issued recently on earnings, current risks on business lending and the supervision of low-income designated credit unions and CDCUs. We’re hiring examiners to make up for the shortfall we’ve had in the last several years. We’re moving to an annual examination, meaning examiners will be monitoring the Call

¹ Persky, Anna Stolley (February 2010). How Safe is Your Food? *Washington Lawyer*, 22-29.

Report data and expeditiously following-up with supervisory contacts, if warranted. We've enhanced our transparency and outreach efforts as evidenced by the webinars and town hall meetings we've held to engage in dialogue with credit unions and other interested parties. Constructive conflict is a balance between affording you the opportunity to be nimble in today's fast-paced financial services marketplace, tempered by due diligence, appropriate risk management and safety and soundness.

There are three current issues which can have a powerful effect on the future. The first issue is the elimination of the member business lending cap. I join Chairman Matz in supporting removal of the statutory cap. But as you know I'm a regulator and a lawyer and there is a "but" that goes with that statement. NCUA must have the regulatory authority to control the growth of member business loans. As you may recall, I have often said that credit unions must crawl before they walk, walk before they run with any new program. That is certainly true with member business lending. Credit unions must exercise appropriate due diligence and risk management practices.

You may remember a couple of years ago the NCUA board adopted a white paper urging the reform of prompt corrective action (PCA) in

implementation of risk based capital. It's been 12 years since PCA was put in place and it's time to modernize it.

In addition, there has been a great deal of conversation on supplemental capital. As you may know, credit unions are the only financial institutions in the U.S. that don't have access to any form of supplemental capital. In December 2008, I launched an initiative to explore within NCUA the safety and soundness and the regulatory consideration about supplemental capital. My working group has consulted with our colleague regulators in the states and internationally. We want to make sure that the white paper is complete and balanced before it is released. It is coming soon.

How about the future from the credit union CEO's perspective? To the credit union CEOs in the audience – your job is tougher than ever. Balancing the numbers with the mission of the credit union is harder today than ever. My vision of your role in the credit union movement's future is one of collaboration. Collaborate with your staff at all levels to enhance the products and services your credit union provides to members. Tap into the diversity of your membership by hiring staff that reflects that diversity. Collaborate with your fellow CEOs locally and nationally to create a vision

for credit unions' future sustainability. Pool resources cooperatively and work together for the benefit of the members you serve.

Your job is to serve your members. They can't be served properly if they do not understand your products and services. Empower them by educating them. Educate, educate, educate. If members can't learn the basics of a checking account, a credit card account, etc., from your credit unions, it's pretty likely they won't be empowered financially anywhere else.

How about the future from the volunteers' perspective? To the volunteers in the audience – you set the strategic direction of the credit union. You are not a rubber stamp. You represent the members. You must strive to bring greater diversity to the leadership of your organizations. Credit unions' management, board and staff should be as diverse as their membership. Being an elected director is a privilege, not a right. You need to find ways and make opportunities, and room, for other members to volunteer, so the board is as diverse as the credit union's members in skin color, gender and/or age. And you need to be sure that you understand how the products and services your credit union offers your members interplay with all the

tools you utilize for marketing, investing, and complying with the myriad of regulations that may at times seem overwhelming.

Do we have any “GAC Crashers” in the audience? Stand up. Credit union CEOs and volunteers, take a look around you at these under-30 credit union professionals. They are your future. The cornerstone of credit union sustainability is having someone to inherit the business model. If my generation or the ones behind me don’t know or care about credit unions, the lifespan of this system will be markedly shorter.

And talk about vision! Because of tight travel budgets and registration fees these under-30 credit union professionals have limited-to-no access to the amazing networking and growth opportunities offered by a conference like this. So they decided to hold a conference outside, but alongside the GAC. CUNA’s Center for Professional Development collaborated with the group and opened up the opportunity for these young professionals to attend the full conference through a scholarship program.

Change, in monumental form, is upon us. It is the end of the world as we know it and the future is at hand.

Building on a century of success and shaping credit unions' future is largely up to you. Identify mutual interests with your colleagues and expand the dialogue, collaboration and cooperation. Create a compelling vision for credit unions' future and back it up with strong actions. You are a movement. You need to keep progressing and moving forward.

Thank you for listening.