

NCUA Board Member Michael Fryzel Remarks

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Good Morning. It is always an honor and pleasure to address such a large group of individuals dedicated to promoting all the good things credit unions do for the people of this country.

Each year you come to our nation's capital city and spend your time and energy to educate our lawmakers about the financial services credit unions provide. And this year, more than ever, the efforts you make and the progress you achieve will resonate for years to come.

Credit unions, along with the entire financial service industry, continue to struggle through these very difficult economic times. We have ended a year that has seen the closing of countless car dealerships, restaurants, and all kinds of small businesses. Numerous financial institutions have failed and others will see record losses.

A good friend of mine, Ed Callahan, had a sign on his desk when he was the Director of Financial Institutions for the state of Illinois. That sign read, "If it ain't broke, don't fix it." Director Callahan carried that sign to Washington when he became Chairman of NCUA. It is good advice and worked well for him in his two high level government positions.

But times have changed and some things are broke and need to be fixed. Unemployment is in double digits and states across the country are experiencing billion-dollar deficits. Yet, during these difficult times, credit unions are there, more than ever, for their members. They continue to make available the loans other financial institutions refuse to offer. They continue to attract the savings of individuals who need a safe haven they can trust to hold their funds. And they continue to receive the praise of individuals who know the financial sector and who repeatedly advise everyone that credit unions are the best deal in town.

As we continue to move forward and work cooperatively through these difficult times, there remains much work to be done. A number of issues are in the forefront for credit unions. These are the important subjects you need to address with Congress when you go to the Hill to meet and greet. You must tell them what you believe are the tools you need to continue to serve your members and you must educate them about what they need to do to make your job easier and provide for the continued growth and success of the credit union industry.

Here are the issues I believe require the most attention:

Member Business Loans:

Credit unions continue to make funds available for small businesses but are limited by statute on how much of their assets they can use for such loans. There are numerous members of Congress who have said they support raising the cap on member business loans. The federal regulator and insurer has said they support raising the cap. In fact, I believe, as does Chairman Matz, that the cap should be totally eliminated and NCUA given the authority to set the rules that will govern how much individual credit unions can lend. These rules will be based on a credit union's safety and soundness, capital structure, and ability to be involved in that product.

Twelve month examination:

We all know that the earlier you find a problem, the sooner you can put a solution in place. NCUA is building the examination and support staff that will head off adverse situations and work with struggling credit unions to implement a plan that will allow them to continue to operate in a safe and sound manner. Having the resources in place to correct the path of a credit union heading towards failure will result in saving millions of dollars in the insurance fund.

Alternative Capital:

This is a tool many credit unions feel will help them build capital and remain competitive. It is certainly not for all credit unions and especially not for those struggling to remain viable. Congressional action is required and NCUA has communicated to Congress that they may wish to explore giving this authority to credit unions, and that if they do, we stand ready to implement the required guidelines to make acquiring alternative capital a safe and sound practice.

Corporate Credit Unions:

This is perhaps the most difficult challenge facing credit unions and NCUA. Our proposed rule has elicited numerous suggestions and changes. Dialogues at town hall meetings have expressed concern as well as a commitment to get the process of change right. Corporate losses continue to mount and we continue our efforts to both find a way to get rid of the bad investments and provide a good model that will allow credit unions, if they choose, to recapitalize or present an alternative.

Mergers:

A concern exists that well managed credit unions are not included in the merger-consideration process and are unable to grow because of that exclusion. Some believe the procedures used to consider merger candidates are not clear, resulting in a distrust of how the system works. Some feel there is an inconsistency across regions, leaving them to believe that mergers are steered to certain credit unions, while other qualified candidates are not made aware of opportunities. Although some mergers require swift action to maintain safety and soundness, others do not and should be open to interested bidders. NCUA has recently committed to review, improve, define, and implement changes where needed to make the process open and competitive.

Private Insurance:

Federal Law does not mandate federal insurance for all credit unions. Nine states allow state chartered credit unions to choose either federal or private insurance to protect their depositor's funds. Federal law allows federally insured state chartered credit unions to convert to private insurance upon following the proper rules of disclosure and member vote. Likewise, privately insured credit unions can convert to federal insurance if they meet the required standards.

Both federally and privately insured credit unions have struggled in this poor economic climate. News articles have documented the problem and highlighted the concern for those who believe all deposits in credit unions should be backed by the full faith and credit of the federal government.

I believe that proponents and opponents of private insurance all would like to see private insurance remain strong during this crisis period. Weakness of any credit union, in some way, impacts every credit union. Be it a loss to the insurance fund, or just bad publicity, negative consequences hurt us all.

I am pleased to say that there is an open line of communication between NCUA and the private insurer. Respectful of the confidentiality required by contract or law, information is exchanged on an ongoing basis and shared among the insurers and state supervising agencies.

That cooperation will continue because all parties involved have a mutual goal, the continued health and success of all credit unions.

Consumer Protection Agency:

Congress continues to struggle on what the CPA should look like, who should be covered, and what type of examination or reporting requirement there may be. NCUA, however, continues to move forward with the establishment of a consumer protection office within our own agency.

It is our hope that all credit unions would be under our jurisdiction on this most important issue. We are confident that the majority will. While we wait for Congress to act, we will put in place the procedures and mechanisms needed that will establish a model consumer office for financial regulators.

Credit Unions have always been consumer friendly. Our efforts will keep that in place and keep our credit unions a step ahead of other financial service providers.

Community Charters

For years credit unions working to expand their field of membership have been required to submit binders of material to NCUA to justify the changes requested. Staff and board members have had to read through hundreds of pages of paper. Chairman Matz has said, enough is enough, there has to be a better way. And there is. Proposed rules, now out for your comments, will make it easier and faster for community charters to be approved.

State Budgets:

Never before have so many states experienced the deficits we are seeing across this country. The loss of revenue and jobs, the closing of plants and businesses and the rising cost of providing needed services for their citizens, have led states to slash their budgets, reduce agency staff and put in peril the delivering of critical needs. One group impacted severely by these cut backs has been the agencies empowered to regulate and examine our nation's state chartered, federally insured credit unions. Some staff of those agencies are operating on a bare bones budget with no money to hire additional staff and, in some cases, maintain the staff they have on board.

NCUA and state supervisors, along with NASCUS, their national association, maintain an excellent, cooperative relationship. We are working with them to provide help in those states where it is needed. NCUA has a responsibility to lend our resources and support to ensure that all federally insured credit unions are determined to be safe. Through a cooperative state and federal effort, that goal will be accomplished.

These are just some of the things that need to be fixed. They need to be fixed so that we can do things better.

As I have said to you before. We can only get better through a cooperative effort. NCUA and the industry are communicating better than ever. That communication, your involvement, your input, and your vision for the future must continue to be part of our cooperative effort to solve the problems we face.

100 years of hard work have gone into becoming the nation's premier financial service provider. That is what credit unions have achieved, that is what credit unions must strive to maintain.

You are the best because you work to be the best. I ask your continued commitment, to preserving and making the credit union system stronger than ever.

Thank you for coming to Washington to tell your story of outstanding service to 90 million Americans and to work cooperatively on the problems we all share. Together we have built a truly tremendous and beneficial system. Together we can solve our present problems and move on to an even brighter future. Thank you for listening.