

REMARKS OF MICHAEL E. FRYZEL

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DEFENSE CREDIT UNION COUNCIL 47TH ANNUAL CONFERENCE AND SHOWCASE

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Thank you Arty.

It is an honor and pleasure to address the Defense Credit Union Councils 47th Annual Conference.

The credit unions that compose the membership of the council provide the much needed outstanding financial services to the men and women who serve in our armed forces. The job they do on our Nation's Military Bases across the world, in providing financial counsel to our service personnel from the week they report to basic training and throughout their lives, is not only commendable but goes above and beyond the call of duty.

From your efforts to shield our military from predatory lending to providing instruction and education, as well as being in the forefront in protecting members' rights while they are on activity duty, you place your membership at the top of the rank of all financial institutions.

You continue to take the lead with your energetic and caring approach and for that, I highly commend your efforts, the council's board, and the outstanding leadership of Arty.

As we enter the last five months of this year, there is still much work to be done. Credit Unions must continue to do the best job they can in meeting their members' needs while making sure their operations remain safe and sound, well capitalized, and in a position to meet the challenges that appear at every corner.

Similarly, NCUA must continue to work to put in place the programs, regulations, and practices and procedures that will help solve the corporate crisis, engage natural person problems sooner and keep the confidence in our system.

It will take a combination of both the regulator and the regulated to insure the survival and growth of the credit union system. Each entity must do its part and assume its share of the responsibility that will allow us to not only recover from the casualties of this economic crisis, but also march forward with a greater sense of determination and strength while we move the entire system progressively ahead.

As you all know, Credit unions across this country continue to face numerous challenges as we work through these very difficult economic times. Facing challenges on all fronts is nothing new to this nation. We have suffered through wars, depressions and natural disasters only to rebuild ourselves bigger and better than ever before. It has never been an easy task, but people have done remarkable things in our history and they will do remarkable things again.

I compare the challenges we face to those of this great country because credit unions are much like what the United States means. It is a country of broad shoulders --broad as the plains you see around you here in Minnesota-- and a spirit that never quits. Credit unions, especially these last two years, have shown their own broad shoulders and never give-up spirit in meeting the problems of their members and their industry and by proudly stating, "We will get this job done."

The task we have been given and the solutions we need to put in place have consumed immeasurable hours and stretched our resources to the limit. Hardly a day goes by that does not have some event which impacts our road to recovery and tests our endurance. We are all aware that at times it takes a herculean effort to keep

something exceptional in place. Credit unions are exceptional and every conceivable effort must be made to keep them strong. They must retain the status they have achieved as the result of 100 years of hard work.

I have been at NCUA for 24 months. Each time I speak before a group I hope that the remarks I make will put a smile on everyone's face; that I can tell those listening that things could not be any better and use words like dividend instead of assessment. Although I cannot do that today, I can tell you, As I always have, where I believe we are, what must still be done, and when I feel our goals can be met.

Let me now talk about the issues I believe are in the forefront of credit union concerns and will require the most attention and the greatest effort throughout the rest of this year.

Perhaps the most difficult challenge facing credit unions and NCUA is solving the corporate credit union crisis. Our proposed rule has elicited over 800 comment letters. At town hall meetings we have heard the concern, as well as the commitment to get the process of change right. Corporate losses continue to grow 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. The proposed rule involves changes in four very important areas: capital standards, asset liability management, risk concentration, and governance standards. We anticipate, that barring any unforeseen circumstances, The NCUA Board will present the Final Rule early this fall.

The task of dealing with the corporate legacy assets has been an enormous undertaking which has been ongoing for months. There is no easy way to un-buddle more than \$50 billion worth of assets, repackage them into marketable bonds, and move them from corporates' balance sheets without realizing losses.

The effort is so huge- and so important- that we have dedicated 30 of our top staff to work on it. For months, our team has been brainstorming every idea for safely resolving the corporate crisis at the lowest possible cost to credit unions. With nearly every possible solution, more questions-and more legal and accounting issues-are raised.

One Plan would remove the riskiest legacy assets from ongoing corporates, while carrying forward the most valuable pieces of the corporate system. This plan would empower natural-person credit unions to choose which corporate they will support. And it would ensure that those corporates begin with clean balance sheets.

That approach and other ideas continue to be vented with the hope of putting forward a workable solution as quickly as possible.

Assembled here today are some of the strongest and best run credit unions in the country. But there are also a few that are troubled and may be wondering if next year at this time, they may be merged with another credit union.

As this economy continues to struggle, so do our credit unions. And many, especially in our sand states, are fighting to survive.

I have repeatedly said my goal at NCUA is the protection of the insured deposits of the nearly 92 million credit union members, a strong share insurance fund, and a safe and sound credit union system.

To meet that goal, hard decisions must be made. Some of the actions taken by NCUA are not popular and at times questioned by individuals who are well intentioned, but who, in my opinion, do not see the entire picture.

I fully respect the right of everyone to voice their option and suggest alternatives. I only ask that they do so with all the facts in hand and a full knowledge of what has occurred.

These are unprecedented times that require decisions and actions the industry has not seen taken before.

I am often asked if I can see the light at the end of the tunnel. Yes, it is there but it flickers. It goes on-again-off-again indicating we have a ways to go before we see it as a strong and steady beacon.

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. The administration has joined numerous members of Congress who have said they support raising the cap on member business loans. I believe 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.

There are thousands of credit-worthy small businesses that could benefit themselves, our economy and our workforce if they were able to secure a credit union business loan. The industry must continue to lobby and pressure congress to approve this needed legislation.

Since last year, credit unions have engaged with two different funds. The Share Insurance Fund, which has long insured deposits at natural-person credit unions, and the Corporate Stabilization Fund, which NCUA created, with the approval of Congress in early 2009 as part of our efforts to solve the problems facing corporate credit unions.

At the open Board Meeting in June, the NCUA Board assessed federally insured credit unions 13.4 basis points for costs associated with the continuing losses in the corporate credit union system. Still pending is a separate assessment for the share insurance fund to cover losses at natural person credit unions.

A few months ago, at the request of the credit union industry, NCUA projected the total assessment to be between 15 and 40 basis points. In speaking to credit union audiences across the country, I have repeatedly advised them that I believe it would be prudent to budget on the high end So that there would be no surprises and sufficient funds would have been set aside. The entire NCUA Board has asked our staff to sharpen their pencils and arrive at a number that will safely maintain the fund and not overburden our credit unions. The assessment for the share insurance fund will be announced at our September meeting and indications are it will be in a range comfortable for the great majority of credit unions.

In order to make sure we at NCUA do our best, our agency has an Inspector General. By conducting independent audits, investigations and other activities, the Inspector General promotes the economy, efficiency and effectiveness of NCUA programs and operations.

The Inspector General is required to conduct a material loss review if the loss to a credit union exceeds 25 million dollars. This review, performed either by the Inspector General or an outside auditor, determines the cause of the failures and resulting loss to the share insurance fund. In addition, it assesses the adequacy of NCUA's supervision of the institution with the ultimate purpose OF translating the results into recommendations FOR improving NCUA's examination process and training.

This fall, the NCUA Inspector General will release to the public four material loss review reports including those performed on U.S. Central and Wes Corp corporate credit unions.

Another concern that exists is 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.

Chairman Matz recently sent a detailed letter to all federally insured credit unions providing information on mergers and purchase and assumptions. I urge you to read the information it contains because it provides significant insight on NCUA procedures as we go forward on this important issue.

In addition, in October of this year, NCUA will make available to all credit unions, an online program where a credit union can express an interest in being considered for a consolidation. Credit Union Online will provide a secure system for credit unions to submit pertinent information to assist NCUA in identifying potential partners.

Congress has now passed a law that details what the Consumer Protection Agency will look like who will be covered and what type of examination or reporting requirement there will be. Implementation of the new agency will take at least a year. NCUA however continues to move forward with the establishment of a consumer protection office within our own agency.

All but the three largest credit unions would be under our jurisdiction on this most important issue. We are putting 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.

The struggles we face in this difficult economic crisis ARE not limited to our federal government. 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 delivery 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.

Those are some of the areas in which NCUA and credit unions have been, and will continue to be, involved as we work together to solve the problems confronting the credit union industry.

I have consistently told credit union audiences that we can only get better through a cooperative effort. The continued communication between NCUA and the industry along with 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 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.

You must continue to tell the credit union story of outstanding service to 92 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.

We must keep our heads high and our shoulders broad as we carry the industry forward through this difficult period, a period that will pass and lead to better financial times for our nation. We will get there; we will survive and we will see this country and its credit union industry reach new heights of greatness. The United States built itself into this magnificent nation. Credit unions will build a magnificent future for themselves better than their extraordinary past.

Thank you for listening.