Credit Union National Association
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Remarks by

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Good morning.

If you've watched television in recent months, you may have noted a new trend to present shows based on classic fairy tales. In the spirit of this trend, I'd like to begin my remarks with a brief tale.

Once upon a time, in a land just outside of this convention center, lived a woman who believed passionately in credit unions. In her youth, she worked as an attorney, helping credit unions and their members understand federal laws, disclosure requirements and residential real estate transactions. After several years, she joined CUNA to represent corporate credit unions and to provide legal advice to CUNA's political action committee, CULAC. Then, she traveled north to work as general counsel for Empire Corporate FCU. At this very gathering seven years ago, many people urged her to submit her name to be appointed to the Board of NCUA. In November 2005, after she was nominated and the confirmation process completed, she transformed, changing shape, into – cue scary music! – a regulator.

Many of you may believe that the transformation of a strong credit union advocate into a strong regulator is a tale of true horror, as grim and grisly as any fairy tale. I can assure you it is not.

Six years ago, at this very conference, I promised you I would do two things in my role as a regulator. I promised that I would always put the safety and soundness of credit unions first and urged you to do the same. I also promised you that I would listen. I would get outside the Beltway and talk with you and with NCUA field staff to see what issues, challenges and opportunities you face in your interactions with the agency.

I have kept both of those promises. Through the most severe financial crisis since the Great Depression, I made policy decisions by asking tough questions and looking at the issues from a three hundred and sixty degree perspective. Of utmost importance to me in my decision-making has been maintaining and enhancing consumer confidence in credit unions by ensuring credit unions are safe and sound. Adhering to this principle resulted in many tough decisions: conserving several natural person credit unions that failed to appropriately manage risk, crafting and executing the corporate stabilization programs, and switching to an annual exam program, to name a few. Through it all, consumer confidence in credit unions has been preserved and even surged forward as evidenced by the 1.3 million new credit union members who joined last year.

I also listened to you. In an effort to keep the regulatory pendulum from swinging too far to one side or the other, I always assessed my decisions in the context of the compelling need to not restrain credit unions' ability to serve their members, to innovate and to compete. I persistently fostered communication between regulator and regulated and urged NCUA staff and credit unions to have an on-going dialogue. During my tenure on the Board, I traveled to 39 states, many more than once, and visited NCUA's five regional offices each year. The sole purpose of this extensive travel was to assure I understood credit unions' perspective so I could make reasoned and well-balanced policy decisions.

Over the past months, the NCUA Board has proposed a variety of regulations that proactively address the risks we see facing credit unions. We proposed changes in the areas of loan participations, CUSOs and maintaining access to emergency liquidity. In January, we finalized a rule requiring credit unions to address interest rate risk. Many of your comments focused on the increasing and difficult regulatory burden that these NCUA proposals and other regulators' rulemakings are having on your business.

I get it. I understand how difficult it is for credit unions to comply with the varied and complex regulatory requirements. Remember, I've been helping credit unions to comply with regulations my entire career. However, I want to share a perspective on these recent final and proposed regulations that you may not have considered.

In the aftermath of the corporate credit union crisis and some significant natural person credit union losses, NCUA was called to task by its Inspector General for not acting in a timely enough fashion to stop activity that ultimately cost the share insurance fund and the stabilization fund sizeable amounts. NCUA was criticized by credit unions for not acting swiftly enough to stem the crisis and for the large price tag to resolve troubled institutions. NCUA, like other regulators, was blamed for not being proactive enough in its regulatory oversight. Most recently, the GAO urged NCUA to craft additional triggers for prompt corrective action that provide an earlier warning system to supplement the current, rigid net worth measurements.

If you think about the recent past in that context, it should not be a surprise that I and my colleagues on the Board are trying to get ahead of issues and to proactively set guardrails along the regulatory road credit unions travel. We are trying to evaluate the areas of risk that can be a source of trouble to credit unions in the future, <u>before</u> another crisis happens, not after.

Let me use the recently finalized interest rate risk rule as an example. The new rule requires federally insured credit unions to develop and adopt a written policy on interest rate risk management and a program to effectively implement that policy, as part of their asset liability management responsibilities.

The combination of an unusual interest rate environment and the changing nature of credit union balance sheets make a heightened risk management regime around interest rate risk imperative. Over the past decades credit unions have become much more real estate lending focused and driven. This is a good thing – real estate has provided an opportunity for credit unions to grow and serve their members with affordable responsible products on the largest purchase and most important investment many of these members will ever undertake. For example, in 1990, 65% of credit unions had no first mortgage real estate exposure. Today, 60% have real estate exposure. This is a big change and risk management practices need to keep pace.

Over the past few years this issue has become even more critical. As rates have fallen, credit unions have added mortgage exposure. The fixed rate real estate share of loans has grown from 28% at the end of 2005 to 35% today. During that time, 30 year fixed mortgage interest rates have fallen from over 6% to today's lows near 4%.

At the same time, credit union deposits have grown. However, the majority of the growth in deposits between the end of 2005 and today – over $238 billion – has been in interest sensitive categories. Money market accounts are 37% of growth; share certificates another 20%; and IRAs 11%.

Growing real estate and growing deposit bases create opportunities for growth, but must be managed particularly in today's very unusual interest rate environment. Put more bluntly, we know interest rates will rise; it's just a matter of time when they will rise. And, when rates rise, will credit unions have the mechanisms in place to manage the possible outflow of these interest rate sensitive accounts, given the large portfolio of fixed rate real estate loans? Taking a proactive regulatory approach to this impending risk for credit unions is not meant to place an undue burden on credit unions. Rather, it is meant to alert you to the issue so that you can put the risk safeguards in place to safely and soundly manage through this scenario.

The loan participation, CUSO and access to emergency liquidity proposals are founded on the premise I cited earlier – an approach which proactively addresses risks that credit unions need to monitor. I understand how important CUSOs and loan participations are to credit unions. I understand they are mechanisms that allow credit unions to innovate and diversify. However, all three proposals reflect NCUA's commitment to more effectively assess credit unions' ability to identify and manage the risks in your institutions.

This is the new regulatory reality, not a fairy tale. NCUA will continue to be proactive in resolving issues at credit unions and setting regulatory parameters which require credit unions to more holistically manage risk.

Can you impact this reality? Of course. You already have and continue to do so through your comment letters. The remarks you've sent to NCUA on the aforementioned proposals will undoubtedly result in refinements and changes in my policy decisions as the NCUA Board finalizes the rules later this year.

So, here we are, six years after my metamorphosis into a regulator. Events have certainly shaped my outlook on safety and soundness, but true to my word, I have kept that standard paramount as I executed my duties as an NCUA Board Member. I have also kept my promise to listen to you and include your comments as I make my policy decisions. I'm proud of the work I've done at NCUA, especially the Outreach Task Force Report, the corporate stabilization efforts, the Supplemental Capital White Paper. I'm particularly proud of NCUA staff. They work hard to make sure that credit unions stay safe and sound. That said, I've enjoyed disagreeing with them and challenging their assumptions. Of course, I'm a lawyer. I'm trained to disagree.

Finally, I'm proud of this thing we call the credit union system. You, your staff, your boards of directors have done a tremendous job weathering this financial crisis. In large part, you've stayed true to the mission of serving your members. But there is a great deal of road still to travel. I hope you continue to stay ever vigilant in preserving the uniqueness of credit unions, in renewing the system by attracting the generations after mine, and in adhering to your mission to serve your members.

Godspeed and thank you for listening.