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Remarks of Michael E. Fryzel
Board Member
National Credit Union Administration

at the

American Association of Credit Union Leagues
2013 Winter Meeting

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Remarks

Thank you for the kind introduction and thank you to the AACUL membership for again giving me this opportunity to address your group. I have always regarded these forums as a venue that fosters direct and candid communication about the issues that matter most to the credit union industry, and today I hope I can continue that precedent of candor.

In my view, AACUL has been a valuable entity, because of your closeness to credit union professionals and your ability to translate what you see and hear into understandable and useful recommendations and input. You are on the front lines. You translate and interpret often chaotic messages from the credit union community, and using your considerable experience and judgment, you make sense of it.

To be sure, we do not always agree—that is the nature of a healthy and proper relationship between a regulator and a regulated industry. But I have always respected your perspective as one that comes from a genuine knowledge of, and affection for, a credit union industry that in turn is so valuable to America's consumers. You are a cornerstone of any sound relationship that credit unions have with their federal regulator, and you should be proud of and protective of that relationship as we move forward.

While I am on the topic of the balancing act inherent in the relationship between an industry and its regulator, let me be clear on one point: My view is that we should collaborate in an effort to reach a common goal of a healthy, well-run and prosperous credit union industry. However, that does not and cannot translate into a partnership. None of us in this room should view it that way. There is an appropriate, and I think beneficial, arms-length tension that, if properly maintained, will benefit us all in our distinct roles. Common ground and common purpose should be the watchwords, but those should never be confused with an overly close intermingling of the government authority and the industry that it is charged with overseeing.

My time on the NCUA Board is drawing to a close, and I am tempted to use this platform to review my very eventful five-plus years as a federal regulator.

There would certainly be plenty of material to cover. I took office as NCUA Chairman on July 27, 2008. *The Wall Street Journal* sounded the opening bell on the corporate credit union crisis on August 11, 2008. I knew very quickly what my principal task would be in my first few months on the job.

Today, I am not going to rehash the momentous events of 2008 and 2009. Let me instead summarize my views and recollections by simply saying that NCUA took the actions that were necessary, in recognition of the unprecedented strains being experienced by the entire financial marketplace, and in a timeframe that dictated that we act and act immediately. Given the dual collapses in liquidity and asset quality, it would have been far riskier for the regulator to do nothing and hope for the best.

To be certain, not all of the decisions that NCUA made at that critical and testing time were popular with the credit union industry. I can safely say that both you and I heard more complaints than compliments. But I hope that you realize now, through the valuable lens of hindsight, that we did what we thought was right, necessary and prudent in our efforts to protect the credit union system and its now more than 95 million member-owners.

The financial landscape has clearly changed in the last five years. Regulation has shaped, and in turn been shaped, by the aftermath of the financial crisis. I believe NCUA has successfully and appropriately applied the tough lessons learned from the Financial Crisis to our regulation and supervision of the credit union industry.

Whether it is in an enhanced examination process that apportions our resources in an effort to mitigate, or prevent entirely, problems that can cripple an otherwise healthy credit union and cost your members money, or whether it is new regulations designed to foster a safer, sounder, more realistic capital regime, NCUA is working to stay abreast of an evolving industry.

For example, consider NCUA's contemplated changes to risk-based capital. While I am not prepared to discuss specifics today, I would draw your attention to parallel evolutions occurring in the banking system, driven by Basel III requirements. Credit unions are not statutorily covered by Basel, but NCUA is required to maintain a system that is "comparable" to that of the banking industry.

Comparable is an interesting word, primarily because it is subjective. I advocate neither an overly stringent nor an overly permissive approach. I advocate "right sizing" NCUA's risk-based capital rules. One of the undeniable lessons learned from the crisis is the value of a financial institution's capital—capital that is ample, durable and can be readily deployed to shore up a balance sheet under duress.

A credit union's function in serving consumer financial needs, by definition, carries risk, and I want NCUA to view risk, not as an extraordinary characteristic that should be avoided, but as a part of doing business as a 21st century, relevant provider of financial services. Risk can and should be managed.

Risk-based capital, properly formulated, should match up with the real-world activities of a credit union. Greater net worth might be necessary, depending on the type of activities that credit unions pursue as they serve their members.

However, consistent with something I said about regulation when I appeared before the Senate Banking Committee for confirmation as NCUA Chairman in 2008, I want to see standards that are as minimal as possible, and as much as necessary. I will be keeping this vision in mind as NCUA considers changes to the industry's risk-based capital rules.

When I spoke of hindsight a few moments ago, it of course reminds every one of the adage that hindsight is 20-20. With that in mind I'd like to challenge this audience to think about the year 2020, what credit unions will look like, what they will need if they are to continue to be relevant players in the financial services arena, and what leagues can do to empower and assist them?

How will a smaller number of larger credit unions stay in step with their members? How will increased regulatory scrutiny affect credit union operations?

If current trends continue there could be as many as 10 credit unions with in excess of $10 billion in assets and thus directly examined by CFPB by the year 2020. That is significant, and needs to be part of the industry's planning and NCUA's regulatory thinking.

While we're talking about asset size, consider this: In 1990, there were five credit unions with a billion dollars in assets. In 2013, there are 207. Trends like that are ignored at their own risk.

In this future reality, NCUA will have to adjust its approaches, as well. That is as necessary for a regulator as it is for a financial institution or a trade association. While I want to extol the virtues of applying lessons learned, I also want to warn against becoming complacent in a belief that if we simply apply those past lessons we will somehow prevent future problems. Capital is essential, but increasing requirements is not a panacea for all problems. As an example, it will do little or nothing to help a credit union avoid cyber-threats.

Bottom line: Use the past as a relevant guide, improve and sharpen your tools based on experience (particularly bad experiences), but do not assume for a minute that future challenges will bear any resemblance to past problems. Stay fresh in your thinking, constantly test assumptions, and never stop learning.

The Federalist Papers asked what I think is a critical question: "Are we capable of establishing good government through reflection and choice? Or are we destined to make decisions by accident and force?"[1] I sincerely hope it is the former path, illuminated by serious, smart

[1] A paraphrase of the quote by Alexander Hamilton in the Federalist Papers, No. 1. The full quote is: "It has been frequently remarked, that it seems to have been reserved to the people of this country to decide, by their

thinking and reasonable application of experience and knowledge. It sometimes is tempting, and perhaps easier, to react to the accident that remains uppermost in our minds.

I would suggest that all leagues strive for balance in all circumstances: past with both present and future; practicality with philosophy; technology with common sense. By definition, and by historical precedent, leagues are entrusted with a leadership role that carries with it the twin burdens of pressure to constantly innovate as well as to constantly seek consensus. Successfully maintaining balance in all of this is, I believe, the key to fulfilling both your promise, and the promise of the members that you serve.

Jointly, as regulator and industry, we must be willing to evolve for the right reasons, at the right time, and at the right pace. Change is necessary and inevitable. Change allows us to forge our own futures. In the case of NCUA and the credit union industry, I am confident that working together in each of our respective roles, that future will be a bright and prosperous one for all of us.

Thank you again for inviting me to be here and thank you for listening.

I would be pleased to hear any questions you may have.

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conduct and example, the important question, whether societies of men are really capable or not, of establishing good government from reflection and choice, or whether they are forever destined to depend, for their political constitutions, on accident and force."