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

at the

## Defense Credit Union Council

## Defense Issues 2014

Washington, D.C.

# Remarks

Thank you, Arty, for that warm introduction, and for the great work that you and the defense credit unions do for the men and women of our nation's armed forces and their families. It is an honor and pleasure to be with you here in our nation's capital.

For the last five-and-a-half-years, I have had the pleasure of working with Arty, your council and many of you individually.

To serve on the NCUA Board, both as Chairman and a Board Member, has been an honor. I have met some of the most dedicated people in the financial services industry—many of you right here in this room—people who care deeply about their members and go the extra mile to help them and their families.

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 29, 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 relive 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 decisively 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 you and I both 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 market meltdown to our regulation and supervision of the credit union industry.

Whether it is in an enhanced examination process that more effectively allocates 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.

Just last month the NCUA Board passed a derivative rule that has taken over three-and-a-half years to discuss, develop, change, make better and finally put in place.

In fact, it was one of your own credit unions, Navy Federal, under the direction of Admiral Dawson, with whom I discussed the derivatives issue, that convinced me NCUA needed to move forward and provide this tool. For eligible credit unions, the new derivatives rule could be of significant value.

The Board has also proposed a new risk-based capital rule. Once all comments are received and reviewed, changes will be made and I believe this rule will help strengthen the entire credit union system.

When we discuss and consider risk-based capital, 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 recognize that 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. That risk can and should be managed.

If properly formulated, risk-based capital 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. As long as I remain on the Board, I will be keeping this vision in mind as NCUA considers changes to the industry's risk-based capital rules.

As credit unions and the entire financial service industry continue to change, we need to look forward. I would like to challenge you and the entire industry to think about the year 2020, what credit unions will look like and what they will need if they are to continue to be relevant players in the financial services arena.

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 significant number 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 2014, 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. 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, 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 thinking and reasonable application of experience and knowledge.

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[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 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."

It sometimes is tempting, and easier, to react to the accident that remains uppermost in our minds.

We faced serious challenges in 2008 and 2009. They were the greatest challenge credit unions have ever faced. But we met the challenge head on and took the action that needed to be taken.

On account of these actions, I am proud to say today that the corporate system is well and better serving the industry, that the Share Insurance Fund is healthy, and that natural-person credit unions, as a whole, have weathered the storm and are doing better every day.

The credit unions of this country —and very notably you who are here today—did what needed to be done and saved for the nation's citizens what credit unions have become, the premier financial service industry in the country. These accomplishments—as hard-won and as difficult as we have ever achieved—could only have been accomplished with challenging work by both the regulator and the regulated.

Working together, we did what other financial service industry people could not. We fixed what was broken with innovative, new and never-been-tried programs and solutions.

Today, we have a better, stronger infrastructure of not-for-profit, member-driven, democratic, cooperative financial institutions guided by their first principle: uplifting those who join.

All it took was hard work and cooperation to get the credit union system through the crisis to where it is today— a better place with a brighter future.

Being in Washington, D.C., I am reminded of Abraham Lincoln's speech in March 1865, after five years of crisis, of national toil and hardship. Lincoln's Second Inaugural Address is a great speech; so great that it is chiseled in stone on the north wall of the Lincoln Memorial.

Lincoln summarized the trauma the nation had been through in the years since his first inaugural address four years earlier and he ended with these words: "With malice toward none, with charity for all…let us strive on to finish the work we are in."

Lincoln understood that mainly the crisis had passed, and the hardest work accomplished, but also that much work needed to be done, and that work required cooperation and vision. It was a time for looking to the future and not to the past. And so should it be with us. We should be looking towards a brighter future.

President Lincoln also once said, "You cannot evade the responsibility of tomorrow by evading it today." In our own crisis, I believe that you understood your responsibility for tomorrow and you did not evade it. You tackled it, and you won. You built a credit union system that is going to last. You built it for your children and their children, and I hope you are proud of that sizable accomplishment.

Because your great work, you have helped develop and expand the middle class in the United States and you have touched and elevated families who wanted to move into the middle class. You must keep up this good work for your members and their families.

You work for the dedicated men and women who risk their lives for this great country we live in. You must make sure that everyone understands what cooperative credit unions are, the work cooperative credit unions do, and the great potential cooperative credit unions have for the people and the economy of this country.

We weathered a great storm. We are the stronger for it. The future is bright.

Thank you for inviting me here to be with you and thank you for listening. May God bless you and your work, and may God bless the United States of America.