

**Remarks of NCUA Chairman Dennis Dollar  
To the 36th Annual Conference  
National Association of Federal Credit Unions  
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It is great to be here again at the 36<sup>th</sup> Annual Conference of the National Association of Federal Credit Unions. The Annual NAFCU Conference is always one of the highlights of the year for us as members of the NCUA Board. I know that Vice Chair JoAnn Johnson is here with us today. Board Member Deborah Matz is also here. This is truly one of those “don’t miss” opportunities and I am honored to have been asked to address you again this year.

Now I must admit, as Fred indicated in his remarks a moment ago, that a night at Fenway does increase the stature of any meeting considerably. But, the ball game notwithstanding, this was a “don’t miss” opportunity from the beginning. All of the NCUA representatives are glad to be here. I am certainly honored to be here on behalf of the NCUA Board. I appreciate Fred’s kind remarks. You know when you have been introduced as many times as I have, you never know exactly what your introducer is going to say when they get off the script a little bit as Fred did there a moment ago.

My favorite story about political introductions is the story about when President William Howard Taft was being introduced at a dinner in New York and a U.S. Senator from New York, Chauncey Depew, was introducing him. If you remember your American history, William Howard Taft was probably the largest of our presidents. It is reported that he weighed about 380 pounds and, in fact, speaking of baseball, the tradition of the seventh-inning stretch apparently was started by William Howard Taft soon after he had thrown out the ball at an opening day baseball game. During the middle of the 7<sup>th</sup> inning, President Taft just could not sit any longer with that enormous girth and frame of his. Needing to stretch, he stood up during the middle of the 7<sup>th</sup> and, when he did, everyone in the stadium stood up in recognition of the President having stood. And that is how the 7<sup>th</sup> inning stretch started. That is reported to be a true story.

But back to the introduction story. On this particular night President Taft was being introduced by Senator Chauncey Depew and, right in the middle of Depew’s introduction, the President stood up to begin his movement to the podium, needing a little extra time to get himself up. Senator Depew is right in the middle of this introduction as Taft lifted his rotund girth up for all to see. Depew is saying “and he is pregnant with . . .” and Taft stood up right at that moment. Taft’s belly stood out about this far, and Depew realized that he was in an awkward moment but he continued on. He said that “he is pregnant...with honor. He is pregnant...with integrity. And I present to you the President of the United States.” It is reported that Taft came to the podium and rested his belly on the podium. He looked over at Depew and said, “If it is a girl, I shall name her

honor. If it is a boy, I shall name him integrity. But, if it is as I suspect merely gas, than I shall name it Chauncey Depew.” Introductions, they are always an adventure.

It is an honor to be here; I appreciate Fred’s introduction. Fred, Diane, and Bill, and all of the team at NAFCU. Jim Mills, your chairman; Diane Furness, your incoming chair; the board of directors that I respect so much in this fine organization. It has been truly an honor to work with you during the six years that I have been on the NCUA Board. Both when we have agreed and when we have not agreed, we have worked together for the purpose of safer, sounder, stronger and more viable credit unions, not just for this generation of members but for generations to come. I respect that and it is quite an honor to be here in what very well maybe my last appearance with you in this capacity as Chairman.

I am pleased that we can take a few moments to look back just a little bit about what we have accomplished and then to be able to, hopefully, look forward a little bit to where I think credit unions can and should go in the years to come. I do not have to remind those of you who have heard me speak before that my regulatory philosophy is consistent as I have shared it from the time that I was initially appointed to the NCUA Board. I have talked about the fact that the job of NCUA is to regulate in a parallel with the referee of a football game.

Our job as regulator is to ensure the integrity of the game. It is our job to make sure that the players don’t clip, they don’t hold, they don’t jump off sides, they don’t put fourteen men on the field. In short, it is our job to make sure you follow the rules...to make sure the play is safe and sound. But, like the referee, it is not our job as regulator to get into the huddle and call the plays for you. It is your job to decide whether you need to run or to pass on third down and 7. Because you know better than we do whether or not your quarterback has a hurt shoulder or your running back has tired legs, those are the business decisions that must be properly made at the credit union level. As long as you call your plays within the bounds of safety and soundness and the integrity of the laws and rules as they have been set forth by both Congress and NCUA, it is our job as regulator to enforce those rules but enforce them with sufficient flexibility so that you can adjust to a dynamic and changing marketplace, even as you follow the rules and maintain the commitment to safety and soundness.

I don’t have to tell you how much the financial marketplace is changing. The marketplace is changing not by decades, nor by years. The marketplace is changing monthly and even daily. And credit unions must be able to adjust to that changing marketplace. The flexibility to be able to do so without sacrificing safety and soundness is the biggest challenge that we have as regulators and it is also the biggest challenge that you face.

Promoting that regulatory philosophy has led us to attempt to get away, wherever possible and appropriate, from taking a one-size-fits-all approach to regulation

and to try to take an approach that recognizes the individual differences in your credit union. I would like to say that, to be effective in our risk management role, we at NCUA must treat credit unions as differently based upon your risk profiles as you treat your members differently based upon their risk profiles. I sometimes have listeners, when I say that, argue, 'Oh, Chairman Dollar, we treat all of our members the same.' Well, I understand the point you seek to make but I must insist that this is a distinction with a difference. As you know, I am a former credit union CEO. I certainly agree that all of your members are equal in their member-ownership interest in their credit union. But I can assure you, through my experience, their risk profiles are not all the same. I certainly hope that you do not treat someone with a 420 Beacon score the same as you treat someone with a 720 Beacon score when it comes to a loan approval under your risk-based pricing program. I certainly hope that your collections department does not spend as much time calling the accounts that are current as the ones that are 90 days past due. There must be a certain adjustment of your approach to a member based upon to the individual risk factors of that member. And we at NCUA must likewise be willing to adjust to the individual risk factors among credit unions.

We have made some significant progress in that regard. NCUA has moved to reward well managed, well capitalized credit unions with greater regulatory flexibility - even as we continue to maintain the integrity of our standards and as we continue to apply them appropriately to credit unions based upon their risk profiles. Because there are differences that must be applied and we must move away from a 'one size fits all' approach, that is a challenge to us as a regulator. However, it is a challenge we must meet.

That has led to some of the, I think, most significant accomplishments of recent years at NCUA. From the RegFlex earned regulatory flexibility regulation, which is now in its second year of existence and we have over 65% of the federal credit unions in the United States today that are qualified for RegFlex eligibility, the incentive has been put in place for good, solid management performance, good solid financial performance. This approach is resulting in stronger credit unions even as you earn flexibility through this solid performance.

Incidental powers. The new investment regulation. The new member business regulation which we are scheduled to be voting on within the next several months. The new CUSO rules. The new corporate rules. We have gone back into the NCUA regulations and looked at every regulation on the books to try and find ways to make them more flexible without sacrificing safety and soundness. And to look and see whether or not they are required by statute to be applied the same way to every credit union or whether we might be able to incorporate risk factors into how we apply the regulations.

As we have looked at it, we find that we, many times, were majoring on minors when indeed we needed to be majoring on the majors. This has brought about a

shifting focus at NCUA. This NCUA approach has resulted, I believe, in a shift in focus at your credit union as well. The result is that you are now focusing on the areas of risk that you need to be focusing on. With us focusing on the risk areas we do and you likewise focusing on risk, the results are what speak most loudly. The results speak that the credit unions of the United States have never been stronger, safer, sounder, or financially more well-positioned than they are today.

That is a credit to you and your leadership. I would like to think in some way that we have contributed through the new approach that we have taken at NCUA of being effective, unwilling to compromise on the standards, but willing to provide flexibility within those standards. That is one of the reasons we have a working relationship today between the regulator and the regulated that, although we do not always agree and although by nature a natural tension is always there between the regulator and the regulated, I think that it is a more healthy tension. And I believe it is a healthy tension that has resulted in credit unions being better positioned for the future.

I want to talk about that future just for a moment. Since this is very likely my last address before this conference in my role as NCUA Chairman, I want to take this opportunity to address two challenges that I see for the future of America's credit unions. I see them as both challenges and opportunities. I want to encourage you to think about these challenges as well and to allow your vision for the future - of not only your credit union but the entire credit union movement - to help guide you as you move forward on these challenges.

The first of those challenges is risk management and diversification. As I spoke earlier about some of the progress we have made at NCUA, everything from RegFlex to incidental powers to field of membership has been based in risk management and diversification. Field of membership is a diversification tool. Risk-based scheduling, risk-focused examinations, the revised corporate rule I mentioned a moment ago...all are based in risk management and diversification of risk. The CUSO rule. Investment authority. Member business lending. Access Across America. All of the initiatives that we have put forth at NCUA have been designed to help to encourage you and to, yes, reward you when you do it well, to be as diligent about your risk management as is possible.

Diligent ALM management. The rate environment we are in today brings issues you must address regarding the inflow of deposits and the outflow of those same deposits. How many will stay? How many will go? When the equity markets turn around, how much of that increase in your deposit base will still be with you. How much of it will flow out? These are questions that require diligence in asset-liability management. The long term vs the short term nature of your lending portfolio. The long term vs. short term nature of your investment portfolio. The mortgage portfolio being primarily fixed rate or variable rate. The new products that you offer. How they will match against existing assets and existing liabilities. These are all a part of diligent ALM management.

Risk management is the key responsibility every day in your job. Your responsibility is not, and I remind our people at NCUA often that our job likewise is not, to avoid risk. Neither of our jobs is to avoid risk. Your job, as is ours, is to manage risk. If you avoided risk, you would never make a loan. For every time you make a loan, there is a chance that it may go bad.

However, your members did not join your credit union to be in a glorified investment club. They do not want you to just go out and invest in Treasury securities, and then say everything is risk-free. They want you to be there when they need you for that car loan, for that home loan, or for a loan to send the kids to school this year. That is what credit unions do; that is how credit unions make a difference.

Your job is to manage risk, not avoid risk. And proper asset liability management, diligent management of those portfolios, is the key risk management tool in today's environment, particularly in the real estate area. Real estate lending is a crucial arena for diligent risk management in this present rate environment because we all know that it will eventually and certainly turn around.

Effective risk management requires risk diversification. Diversification of risk also must be evaluated in other areas: your member service products and your lending products. Member business lending has really grown in interest from credit unions. One of the reasons for this interest in member business lending is because of the need for diversification in many of your loan portfolios.

Member business lending is not for everyone. But member business lending is an option for many credit unions who are looking for new diversification strategies. And it is important that those diversification options that are allowable by law for credit unions to be there for you.

The new investment regulation that we just approved was designed to provide additional investment options allowable under the law – still conservative yet also a viable opportunity to enable credit unions to have greater investment diversification options.

Field of membership. Fred mentioned this morning some of the great progress that we have made in the field of membership arena and I am very proud of the improved field of membership options we have provided you under the Credit Union Membership Access Act. I believe those new rules have positioned credit unions for the future better than ever before when it comes to field of membership diversification options for federal credit unions.

But let me say that the purpose of the field of membership rules we have put in place has not been merely to provide you with another growth strategy. They have been designed to provide you with enhanced diversification options.

We have lost more credit unions over the years because of employer shutdowns and recessions in a particular industry than we have for any other reason. If we are to save those credit unions, we must be able to provide diversification options for your field of membership that will enable you to evaluate your risk and to come forward with the best strategy to diversify.

We do not wish to lose financially sound and otherwise solid credit unions solely because there was a shut down of an employer, a closure of a base, or a local hospital that sold to a larger out-of-town entity that had its own credit union. Diversification in field of membership is essential to maintaining strong and viable credit unions.

Risk diversification is a natural progression in other areas as well. It progressed in our approach from RegFlex into the risk based exam scheduling program, then into the risk-focused examination program. I believe the next logical extension of the risk-based approach is going to require you to go beyond NCUA and go to Congress.

We need to take a long look at the one-size-fits-all PCA law that we have in place today. PCA needs to have a risk based component placed into it.

Today, after the passage of the 1998 Credit Union Membership Access Act, your credit union status of being considered well capitalized is determined by where you stand versus a statutory figure of 7 percent. It is in the statute. It is in the law. I know there are those of you who do not like that 7 percent figure. It is in the statute. Congress made that decision because they wanted to make sure that credit unions continued to place a high premium on the building of net worth. I agree with that as a priority.

However, the problem with the formula Congress put in place was, again, that it established a one-size-fits-all approach which says that your net worth is based upon a percentage of your total assets. They do not allow us to separate those of your assets which consist of 30-year fixed rate mortgages from the cash that is in your vault tonight. Under PCA, you are reserving 7 percent against all of it.

The result is that NCUA has few PCA-related tools with which to encourage you to be more effective in that risk management. We can penalize poor risk management performance – which we have always done as a part of our supervision program. But we cannot reward better risk management because of the one-size-fits-all approach of the PCA statute. You are given no guide posts within which to say that ‘perhaps I could structure my risk management a more effective way and receive some benefit under PCA.’

The need to risk base PCA, I think, is going to be one of the key risk diversification and credit union management issues for the next several years. It will require action by Congress. I believe that you, as credit union leaders, and this audience is certainly full of them, should weigh out whether you think a PCA statute based upon risk assets rather than total assets has long-term benefit for the credit union movement. I personally believe that it does, and I certainly believe that this is an issue worth considering.

There are those who have asked me why I took on this far-reaching risk management issue during the last several months of my term. They say this is going to take two or three years, if indeed that soon, for Congress to act upon it. You know how long it takes them to act. Why are you taking on this issue knowing that you are not going to be there to see it through to final action.

Well, while I still have this pulpit, I want to be able to spread the gospel. On the challenge of risk management, I want to be able to share what I believe to be some of the solutions for some long-term issues that credit unions are facing and will continue to face. I do not want what we have accomplished over the last number of years in the risk management arena to be set back by a one-size-fits-all approach to PCA that does not recognize the difference in individual credit union risk.

Everything we have done at NCUA from RegFlex forward has been risk based...for that is what a good regulator bases his decision upon.

Let me give you some figures quickly that I think will help make this point.

There are those who called it a novel concept to risk base PCA. Oh, no. Prior to 1998, each and every one of your credit unions had a statutory reserve on your books. That statutory reserve was based upon what? Risk assets.

Those of you who were around prior to 1998 remember that you were able to take out of your statutory reserve calculation, your cash on hand, your overnight deposits in your corporate, your investments in federally-insured institutions, your 1 percent investment in the National Credit Union Share Insurance Fund. Those assets are not determined to be at risk and therefore the reserving formula should accommodate that fact.

Let's look at the numbers when the reserving formula was risk based.

Prior to 1998, from 1980 to 1998 – an 18 year period – credit unions went from accumulating \$58 billion in assets to holding just over \$388 billion in assets. This is under a risk based system.

Credit unions went from having \$3.6 billion worth of capital – that is, actual dollars in capital - to over \$42.3 billion worth of capital. Credit unions built over \$38 billion of additional capital or net worth operating under a risk based system.

Why? Because you were rewarded when you took a less risky approach and were able to make your own risk management decisions without them being prescribed by a statutory one-size-fits-all approach.

Net worth ratio, the capital-to-asset ratio as we used to call it, went from 6.28 percent in 1980 to 10.88 percent in 1998 when Congress preempted the use of risk basing assets and put in place the one-size-fits-all approach. Those are good numbers...good growth and, most importantly, risk-managed growth.

I want to challenge you to keep this issue on the forefront.

This may not seem to be the most important issue to your credit union today depending upon where you may be with your present net worth ratio, but I can assure you that if the market were to continue as it is today where you are paying around 1 percent on your deposits and yet still have them flowing in by the millions and in the movement as a whole, by the billions, because of the flight to security that comes with federally insured accounts - ultimately the one-size-fits-all PCA standards are going to come into play in a way that could stifle innovation and investment in the enhanced member service and technology necessary to stay competitive. And I think it would be a tragedy to see the outreach that has been initiated by America's credit unions, making a financial difference in the lives of millions of Americans from all walks of life, if that were to be stymied – that vision to be stifled – because of an unnecessary and less effective one-size-fits-all approach to PCA. There has to be a better way, and I believe risk basing PCA would be a step in that direction.

So, with risk management and diversification being a key issue for the future of credit unions, I wanted to again throw the issue of risk-based PCA on the table and encourage you to continue to evaluate it as a movement.

The last issue I want to touch on very quickly before I am finished today is another that I believe is going to be a key credit unions issue over the next several years. Risk management and diversification, as we discussed a moment ago, is certainly going to remain one of those key issues. Another is taxation and demutualization.

The taxation issue has been a long-standing struggle for the credit union movement because there have always been those for-profit institutions who feel that, because they pay corporate income tax on their profits, for some reason they seem to construe that not-for-profits should likewise pay corporate income tax on their reserves.

They call it a level playing field. Well, let's look at that just for a moment and try to understand a little bit more about this crucial issue. Then, I want to take this issue to some safety and soundness ramifications which are really our concerns as safety and soundness regulators in the taxation debate.

We clearly understand that, whether the Congress chooses to tax federal credit unions or a state legislature chooses to tax state-chartered credit unions, is a public policy decision for those lawmakers to make. They are the taxing authority, not us.

But I do want to talk about the fact that there are some ramifications that everyone should be mindful of on this taxation issue.

First of all, right now you may look at it and, as federal charters, find some level of comfort that most of the battle on taxation seems to be taking place at the state level and to be focusing itself mostly on the state-chartered credit unions. Let me just tell you, in my opinion and through what I saw during my years as a state legislator, through my years as a businessman, and now throughout my years in Washington, that taxation, like excessive regulation, tends to become malignant and grow upon itself. So, what is today perhaps a state credit union issue has every potential to become a nationwide issue for all credit unions – state chartered and federal chartered. The reason that the bankers are taking the approach to go state by state is because, up until this point in time, they have had very little success in Washington trying to bring about taxation of federal credit unions by Congress. Your leadership in that has been one of the reasons for their failure in that regard.

But they have not yet given up the battle. They will now begin going state by state by state...perhaps get a half dozen or so states to tax their credit unions and, all of the sudden, they come to Washington and claim there is a nationwide trend building for the taxation of credit unions. They will claim that Congress does not need to leave the federal level out of this source of revenue.

The unrelated business income tax issue that is beginning to rear its head in a number of states as well has that same potential. Federal credit unions are today exempted from UBIT, but the goal of those that want to see you taxed is certainly not to leave that status quo. Their goal is to ultimately move that from the state level to the federal level.

Now again, I recognize that taxation is up to Congress and it is up to the state legislatures. I am a former state legislator and I would never want the folks in Washington, particularly some regulator, to come into my state and tell me whether or not I should tax a particular entity. That is a state decision. In Washington, it is a congressional decision.

Taxation is not a regulatory decision but from a regulatory point of view, I want to make a couple of points for you to consider. There are legitimately some reasons why the taxation issue should be a concern from a regulatory and safety and soundness perspective.

One, it is indeed a structural issue. Your tax exemption as a federal credit union is based upon your structure as a member-owner, not-for-profit financial cooperative. There are those who will try to define your tax exemption as being based upon size and your field of membership. There will be those who will try to define it as based upon what kind of people you serve, such as the low income, people of modest means. Certainly credit unions do have a limited field of membership and, yes, credit unions do indeed serve people of modest means. In fact, the credit union movement is the one part of the financial services industry in America today that has a history of meeting the needs of people of modest means. You are to be commended for this.

But that is not the definition of a credit union that makes it a tax-exempt entity. What makes credit unions not taxed is the fact that you are organized as a financial cooperative and are not for profit. It is your structure that defines your taxation structure.

I like to use the example that both the Girl Scouts and Keebler sells cookies. It is not the product that makes the Girl Scouts not pay taxes, and it is not who they sell them to. Because I must tell you, I have bought Girl Scout cookies in front of the very grocery store that I could have gone inside and bought Keebler cookies. They don't just sell cookies to the low-income or people from one part of town. The Girl Scouts certainly are not tax exempt because of their limited membership. It is not the fact of who they serve or where they sell their cookies - it is the fact that the Girl Scouts are selling cookies not for profit and Keebler is selling cookies for profit that determines their tax treatment. It is their structure. It is not the product - it is the structure. It is not the customer base - it's the structure. Credit unions should never allow the taxation argument to be based upon anything other than your structure.

In your hometown, I am sure that there is likely a for-profit hospital such as Columbia HCA and also a St. Mary's or a St. Agnes charity hospital. One is for profit; one is not for profit. If you get sick, you can go to either one. They both have emergency rooms. They both have doctors and CAT scans. They will both take care of you. And you will pay a bill to one of them or the other. But, one pays corporate income taxes on its earnings, the other doesn't. Why? Is it who they serve? No. It is the structure. Is it the services offered? No, you can get well at either place. It is the structure. One gets you well for profit and the other gets you well not-for-profit. That is an important American business option and that, my friends, provides Americans with consumer choice.

In nearly every business in America, there is a for-profit sector and a not for profit sector. As a general rule, the for-profit sector is taxed because they make a profit. The not-for-profit sector is tax exempt because they are structured differently. They retain sufficient earnings to maintain financial stability and to offer consumers a choice, but they do not make a profit. They return the profits to the members or owners.

And in every case I am aware of, it is natural for the for-profit sector to want to see the not-for-profit sector taxed. I am not sure if they have an official company position on the matter but I would guess that Keebler would prefer if the Girl Scouts had to pay taxes because it would have an impact upon their competitive position. I guarantee you Home Depot would prefer to see the local Farm Co-op pay taxes. You can buy feed and seed at either place...but one is doing it for profit, the other is not. That's why one pays corporate income taxes and the other does not. It is the structure. Never, never, give up on the structural difference that separates you from the for-profit sector. Protect it with your beliefs and your actions.

But, frankly, I want to go beyond just the structural difference. That is an argument for you to make as the credit union movement. I want to touch upon the safety and soundness aspects of corporate income taxation on the net worth picture of credit unions. As member-owned financial cooperatives, credit unions can only build net worth one way...through retained earnings.

Credit unions cannot issue stock to build capital. You cannot issue bonds. You cannot do an IPO. The only way that you can meet that 7 percent net worth requirement that is required by law in order to be considered well capitalized is by your retained earnings. The only way that you can meet our regulatory requirements that you have a sufficient buffer to protect the share insurance fund is through your retained earnings.

Retained earnings are the buffer that protects the insurance fund. The insurance fund is the buffer that protects, you know who? The taxpayers. When someone proposes taxing a not-for-profit credit union's retained earnings, they are attacking that net worth buffer. You cannot tax something without getting less of it. Therefore, when you begin to tax the retained earnings of credit unions, you begin to eat away at that buffer protecting the share insurance fund and that puts the share insurance fund more at risk. Of course, it goes without saying that when the share insurance fund is more at risk, the American taxpayer is more at risk.

From a safety and soundness point of view, it is improper to enter into the taxation of credit union retained earnings lightly, for there is unquestionably a net worth issue involved with no other way than retained earnings to build the buffer protecting the insurance fund and ultimately the taxpayer. Let me just give you a figure here real quickly. If the federal 35 percent corporate income tax rate had

been applied for the last ten years on credit union earnings, the net worth ratio of America's credit unions today would be 8.42 percent, not its present 10.71 percent. Now someone might argue that those taxes would have gone into the US Treasury and that the Treasury would be better served having those dollars. Perhaps those few dollars might have indeed benefited the Treasury, but I submit that the increased exposure of losing almost 300 basis points of buffer protecting the share insurance fund could potentially put the American taxpayer at more potential long-term jeopardy than they might benefit from the small comparative number of dollars that may come into the Treasury by taxing not-for-profit financial cooperatives.

Yes, there are rare instances of not-for-profits being taxed with corporate income taxation in this country but it is extremely rare when it is done and, when it has been done, never has the financial structure been as sound and the integrity of the structure as unpenetrated as it is in America's credit unions.

I would like to take this one step further because I mentioned demutualization a moment ago and, I think, this should be one of the additional concerns for the credit union movement about taxation of credit union net worth.

Taxation can certainly attack your credit union's net worth and, through that, the buffer protecting the insurance fund and also the taxpayer. But another concern about taxation should be that it would attack the very structure that helps establish your credit union difference. Taxation could blur the difference between being a not-for-profit credit union and being a for-profit institution to the point that it might become very, very tempting - and we are even today seeing small storms of this type beginning to brew in certain parts of the country - for credit unions to choose to convert from credit unions, in other words, to choose to demutualize themselves and convert into for-profit institutions.

You must understand that over the course of the years, that 10.71 percent net worth that has been built up in America's credit unions has been viewed by some as money with nobody's name on it. To convert to a stock-held company would enable all of those dollars to suddenly and overnight become a part of the net worth of that for-profit institution and, therefore, part of the stock value of that institution. I can think of nothing more tragic than to see the credit union movement, as the result of taxation, finding credit unions saying that there is not enough reason to stay a credit union if I must face statutory restrictions on my field of membership, statutory caps on my small business lending and legal requirements that I hold a higher net worth percentage than if I were a for-profit institution. I doubt those that truly believe in the credit union philosophy would ever do that, but there are always those who see the dollar signs and are tempted to say that 'maybe philosophy isn't as important to me as I thought it was before I saw the pay day.'

Demutualization of the credit union industry would, I think, be a terrible loss for the American consumer. I have said many times that I would not want to live in a country that did not have banks. I am not at all anti-bank. I believe that the banking sector has helped to build and fuel the economic engine that has driven America and made us economically great over the course of the years. But on the other side of that equation, I do not think that I would want to live in a country where the banks had no competition either. And it is the not-for-profit sector - yes, the credit union sector - that provides the best downward pull on the pricing of financial services. The best consumer based approach in any sector is to be able to say the consumers have an alternative.

To be able to achieve self sufficiency in your financial life is something that you can achieve and you can be a member and an owner too. That is what makes the credit union difference. I don't want to see credit unions lose that.

The demutualization of the credit union movement could be a concern if taxation gets a foothold and grows to be something that credit unions are forced to deal with even as they face statutory and regulatory restrictions that are so very costly.

Am I predicting the demise of the credit union movement if there were taxation? I can't predict that. However, I am predicting that there would be a significant sea change in options for the consumer if some begin to see the credit union's strong net worth sitting there with, in their opinion, no one's name on it and decide to claim it by converting to another for-profit institution.

The right of member-owners to convert their institution's charter is inherent in a financial cooperative. But you and I know better than to say that there is no one's name on a credit union's net worth. The people whose names are on that capital are the member-owners who paid a few basis points more on a car loan than they would have otherwise so that their credit union could build enough capital to meet the legal requirements and stay in business. They are the member-owners who received a few basis points less on a share account than they would have otherwise so that their credit union could build that necessary net worth in the only way they could. That capital does have someone's name on it - it has the members and the owners of America's credit unions on it and I don't think that you ought to give it up lightly.

So as we look at the taxation issue, we must recognize that it has ramifications. I think credit unions must take that stance and it will require credit unions to stand up and be counted for the credit union difference.

Taking a tough stand is not always easy but it is always important. I have tried to operate throughout my time on the NCUA Board in the same way that I operated as a credit union CEO, the same way I operated as a legislator back in Mississippi. I have had one mantra throughout my professional and political

career and that is - what's right is not always popular, what's popular is not always right.

I tell this story that I have only told once in a credit union setting, but I want to share it with you today to make this point about the need to take a stand, regardless of the consequences. When I was a young state legislator back in Mississippi, I was first elected in 1975 at the age of 22. After I finished my first year in the legislature and was beginning my second year, I was beginning to get my sea legs as a legislator having passed a couple of bills in my freshman year. In the legislature, I was pretty much the same as I have been here at NCUA, as well as when I became CEO of my credit union, I am pretty much a reformer by nature. I come into something new and say o.k. here is how it is, how can we make it better.

One of the problems that I saw in my home state of Mississippi in the mid-1970s was that we were trying to escape a legacy of about 20 years which had resulted in the labeling of the state - sometime deservedly, sometimes not deservedly – as having a very, very harsh racial background. As I said, although we had made tremendous strides in our state's race relations, some of that reputation was unfortunately deserved. Much of it was not.

Unfortunately, one of the things that had been deserved was the fact that we had a state agency in Mississippi called the Mississippi Sovereignty Commission, which is a state agency that had been established in the 1950's for the purpose of spying on our own citizens who were involved in attempting to integrate our schools and our society. Under the guise of protecting the state's "sovereignty," state funding had actually gone into this effort, one of the primary purposes of which was to try to deny some of our state's own citizens the right to be able to be equal partners in the growth of our state. I felt that that was wrong and a number of other state legislators did as well

This was an agency, although the appropriation had been vetoed by a courageous governor two years before, was still on the books when I got to the state legislature in 1976. In 1977, my second year in the Legislature, I announced that I was going to introduce a bill to repeal the Mississippi Sovereignty Commission. I introduced that bill and it received a great deal of support. But, as so often happens, there is also opposition – even to good ideas. The opposition to that particular bill, a small handful of people who were still hung back in the '50s and the '60s, were very vehement about their opposition. I remember very well, some of you know my lovely wife Janie, that we had just gotten married that November, I went to the legislature in January. We were both young newlyweds. I remember I went to Jackson for the first legislative session of our marriage and the hate phone calls started at my home. The first experience my dear wife had being married to a state legislator was phone calls saying, "Is that n-lover Dollar there? I am going to get him. He won't be home this weekend."

I tell this story today not because I claim to be some stalwart in the civil rights struggle. Far from it, my role was just as a part of the clean-up crew. I tell this story because I believe that in life we must come to the conclusion at times there are just certain things that are worth taking a hit for. I knew when I introduced that bill in 1977 that it would not be popular with every one. But I also knew that it was right. Not only did we hold firm together against those nasty phone calls, but we held firm against all of the opposition, rallied the considerable support for the legislation and overwhelmingly passed the bill. The repeal of the Sovereignty Commission took place as a result of that bill that I introduced in 1977 as a young legislator in my early 20s. And as a result of that bill, the files were eventually opened and the prosecution of some of the most heinous racially-motivated crimes in the history of our nation were able to be prosecuted because of the release of those files from the repeal of the Sovereignty Commission. Racial tolerance won a victory and today my home state of Mississippi has more African-American elected officials than any other state in the nation.

My message is very simple. Never should we let the fear that comes from making tough decisions to paralyze us. If so, I would never have introduced that bill or I surely would have backed away from pushing it once the attacks came. But, folks, what is right is not always popular, and what is popular is not always right. Janie made a plaque following those events that went on my desk at the state legislature and I kept it there until the day that I left the legislature in 1984 that said those very words: "What is right is not always popular and what is popular is not always right."

The challenge to you today is the same challenge that I faced as a young 23 year old legislator, the same challenge that I faced later as a credit union CEO, and again the challenge that I face each day as the Chairman of NCUA. When you make decisions, there are times when they are not going to be popular. Since I have been in this position, I have been sued by bankers who disagreed with our decisions. I have been sued by NCUA employees who disagreed with decisions we have made at the agency that I feel improved the agency and its efficiency. I have been sued by credit unions who disagreed with regulatory and supervisory decisions that we have made. But in each and every case, we did what we thought was right. We took the hits that came.

The results are that if you do what is right, ultimately I am convinced that - although you may never become popular - that your respect will grow as the results show clearly that doing what is right pays for itself. To the credit union movement, the leaders of which are gathered in this very audience here today, let me say to you that you are going to have members of your credit union who are going to ask for things from your credit union that are not right or not financially sound for your credit union. I hope that you will have the courage to say that just because it is popular doesn't make it right. You are going to have challenges in your community, within your own Chamber of Commerce, within

your own Rotary Club, within your own Kiwanis Club, from competitors who are not going to like what you are doing at your credit union. But if you think those actions are right for your credit unions and your members, it doesn't matter whether they are popular with your competitors. Certainly, as you go forth in this battle over taxation, as you go forth in the battle for a risk-based PCA, as you go forth to Capitol Hill, as you come to the regulator and begin to raise issues with us, there will be some that will be popular and some may not be.

But you believe they are right, do not abandon the field. Credit unions have made tremendous strides. You are a political force on Capitol Hill today because you were not willing to say we can get by with a Supreme Court decision that was going to cause credit unions serious long term problems, but rather than put our political capital on the line and run the risk of losing something, credit unions were going to stand back and see how it works out. That was not the approach you took.

You put your political capital on the line, realized that it was going to be a fight and stood up to the opposition in a way that may have raised a few eyebrows back in your home town. The result was not only the passage of H.R. 1151 which, even warts and all, was a victory for credit unions that today continues to pay dividends for you and your members. Today credit unions are being heard on Capitol Hill and, as a general rule, are being viewed as one of the good guys that cares about the financial needs of folks from all walks of life and are serving them safely and soundly with the lower cost financial services that they desperately need.

Credit unions are the ones who are offering an alternative to the pawn shops, the check cashers, the payday lenders, the rent-to-own companies. Not only are you providing an alternative to those that may fall into the category of predatory lenders, you are providing a downward pull on the costs and the prices of even the traditional financial sector. Again, the banks, the thrifts, the mortgage companies...are all having to look at their financing plans just a little bit closer because of the credit union competition that is out there.

The consumer wins when there is an alternative. Consumers always benefit when choice is available. So the challenge that I give to you today is, although I know we will not always agree because the regulator and regulated relationship by its very nature will be an adversarial relationship at times, to understand that the things credit unions stand must be believed by the movement to be right and you must stand for them regardless of opposition. That is why we seek to do at NCUA. Make the tough decisions whether you agree with them or not...whether the bankers agree with them or not.

You must do the same. Whether it be risk management decisions that are difficult to make but yet they are the right thing to do, I challenge you to make the tough call. When it is dealing with issues that require you to go to Capitol Hill, I

encourage you to do what you think is right even though it may be a tough call. Even in dealing with us at NCUA to do what you think is right, even though it may be a tough call. The result will be, I believe, that the respect factor of the credit union industry – not only in Washington but throughout the country – will only continue to grow.

I believe that at NCUA we have tried to create a regulatory environment that will empower you, within the bounds of safety and soundness and within the bounds of the statute, to be able to adjust to a changing and dynamic marketplace and to be able to be even financially stronger ten years from now than you are today. But there are storm clouds on the horizon. We have mentioned some of them here today, whether they be taxation, demutualization, risk management issues, diversification.

It is those issues that will be your challenges in the years ahead. For those who look to NCUA for the answers to these challenges, you must realize that, as a regulator, we can only do so much. First of all, there are standards that we cannot and will not lower. There are statutes that we cannot and we will not sacrifice. There is a marketplace that we cannot control, nor are we able to influence. However, we do realize that as that marketplace changes, you must be able to change with it. Still, how you adjust depends on you. If you allow yourself to be paralyzed by fear that what you choose to do may not be popular or may have opposition, today's fast moving marketplace could leave you in its wake.

We have tried to build upon the safety and soundness of America's credit unions with an approach to earned regulatory flexibility that says "as long as you stay within the bounds of safety and soundness and abide by the rules, then you have earned the flexibility to be empowered to adjust to that changing marketplace without unnecessary regulatory interference."

But it comes back to you to make the tough decisions. They are not always easy. But whether you be a volunteer or whether you be a part of a management team, whether you be a representative of an outstanding trade association like NAFCU or a local credit union chapter...regardless of what your role is in the credit union movement, please keep yourself forward focused.

If I can leave any legacy at NCUA, I hope that it is that we leave an agency that is forward focused and not backward looking. That is just not a challenge for a regulatory agency; that is a challenge for a credit union as well. I have been asked before what I hope to leave as a legacy at NCUA and I always say, "Look, I'm not the one to decide my legacy. That's a job for history." But any of us, whether we are running a credit union, a trade association, a corporate credit union, or our local civic club, we are given the same assignment I was given by the President of the United States when I was appointed to the NCUA Board and when I was designated Chairman.

Our job is to try to leave the place a little better than we found it. I believe that we have done that at NCUA. And I believe that you have likewise done that in America's credit unions. However, we cannot afford to rest on those laurels, pat ourselves on the back, and say we have finished the task...that we have arrived. Arrival is a process, it is not an event.

I want to challenge you to be the leaders that will bring about the continuation of that process by being an industry that is always forward looking, not merely looking back on credit unions' history and tradition. Yes, building upon the tradition that brought you where you are is important and the pioneers of America's credit unions have indeed built a strong a dynamic movement, but you are today's pioneers. You must realize that tradition alone will not satisfy the membership needs of tomorrow. Tradition alone will not provide safety and soundness for generations to come. Only your decisions and your leadership will.

It has been an honor to be able to serve in this position as NCUA Chairman. It has been the true highlight of my professional career to have been able to be the chief regulator of an industry that I respect and admire as much as I do the American credit union movement. As I said a moment ago, I have taken quite a few hits along the way for the decisions we have made but I think we have done what is right, whether or not it is popular.

Now the challenge comes to us all as we move forward to remember that this is just the beginning of a coming of age process for America's credit unions, still less than a hundred years old. Credit unions must always be forward looking.

May your vision carry you as far as you seek to go within your mandate as credit unions, as far as your members deserve to become financially self-sufficient as member-owners, as safe and sound as your vision for tomorrow requires and that generations to come are able to say that they are proud of their investment in America's credit unions under your stewardship and ultimately theirs.

Thank you very much. It has been a tremendous pleasure being here.