<u>Remarks of Michael E. Fryzel, Chairman</u>

National Credit Union Administration
Made to the California / Nevada Credit Union Leagues
San Francisco, CA – November 6, 2008

Thank you and good morning. I am pleased to have this opportunity to address the leaders of the California and Nevada credit unions and discuss with you NCUA and the credit union industry. I am aware of the crucial role you as employees and volunteers of credit unions play in bringing affordable financial services to millions of consumers and I recognize the time and dedication each of you put forth for your individual credit unions. I also want to recognize the excellent job Bill is doing as President of your organization. He is accessible and has been very responsive to my requests. Tuesday was an historic day in this country's history. The senator from my home state of Illinois, Barack Obama will be sworn in on January 20, 2009 as the 44th President of our country. His election brings new hope and a promise of change. It is with great anticipation, and a sense of pride, that I look forward to being a part of his administration.

Now that the election is over, the focus once again will become the economy and the strength of our country's financial institutions. All eyes will be on the performance of the providers' of financial services and they will also be on the financial regulators to determine if they are providing the required oversight. The new administration and Congress will have the financial industry as one of their top priorities and you can expect there will be changes.

As a former state regulator of credit unions and attorney in the private sector serving in various legal and advisory capacities, I have developed a regulatory philosophy based on prudent but fair oversight. During my first three months at NCUA, we have made significant efforts to instill that philosophy.

Today, I would like to share with you the principles that are guiding my approach to regulation as NCUA Chairman.

Safety and soundness must be the central focus of any financial institution regulator. Since assuming the Chair at NCUA, I have repeatedly stated that my commitment is to be extremely vigilant in the examination and regulation of credit unions. Federally insured credit unions have never cost the U.S. taxpayers a penny, and I intend to see the high bar that has been set will remain intact throughout my tenure.

Consumers place not only their money in credit unions; they place their trust. And like never before, that trust has been tested by the turbulence in the markets and failures of high profile banks and financial related companies. In order to alleviate the fears of those failures, last month, NCUA implemented a multi-prong campaign to reinforce the strength of federal share insurance coverage. A video message was sent out to all federally insured credit unions to seek their help in our efforts to educate credit union members about the safety of their funds in those credit unions.

We released an electronic tool kit to help credit union members better understand the insurance protection provided by NCUA. The toolkit provides links to insurance-related resources, including a share insurance estimator, brochures, print-ready advertisements, and a Letter to Credit Unions on Educating Members on Share Insurance Coverage.

We have also enhanced our Consumer Assistance Hotline by activating a call center devoted to insurance-related questions about the coverage provided by NCUA.

A closely related element of my regulatory philosophy involves the consumers themselves. I firmly believe that strong regulatory control that aggressively protects the rights of consumers is essential, particularly in this extremely complex and fast-moving financial marketplace. The multitude of choices presented to the consumer must be accompanied by prominent, concise disclosures and understandable options. Contracts, agreements and other documents must be written in plain language. We must pursue common-sense rules of the road that benefit both credit unions and the members they serve. As member-owned financial cooperatives, credit unions naturally gravitate toward giving consumers a fair deal. NCUA, in conjunction with our state regulators, will continue to monitor credit unions to insure that long standing practice remains in place.

Upon assuming my role as Chairman, I have spent considerable time meeting with my staff to evaluate the current state of the credit union industry. While not a big player in the non-traditional mortgage products that have paved much of the way to the present economic crisis, credit unions are not insulated from the larger macro-economic impact of the declining housing market and simultaneous credit crunch. We have noted an increase in consumer credit card delinquency and a corresponding increase in delinquent home equity loans. As a result, we must continue to closely monitor this situation as it progresses, taking proactive steps to test the ability of the share insurance fund to withstand potential losses and identifying opportunities to issue further guidance to the credit union community.
I am also mindful of the increased interest rate risk exposure of those credit unions now holding a much higher percentage of fixed rate real estate loans, and the potential impact to them should we experience a rising interest rate environment. Unfortunately, the stabilization of housing prices is still a future event whose time we cannot predict.

Over the last decade, credit unions' balance sheets have changed significantly; loan portfolios consisting of primarily traditional consumer loans are now comprised of a much higher concentration of long-term mortgage loans. And these loan portfolios are now largely funded by much more volatile rate-sensitive shares. This puts an incredible amount of pressure on credit union management to adequately manage the risks associated with the current balance sheet structure. I want to make sure this is being done in a safe and sound manner and I have entrusted my examiners with the very important responsibility of monitoring this activity during the examination process.

Like every other financial institution in these turbulent times, corporate credit unions, have also suffered and must regroup and regenerate themselves to withstand the balance of this economic downturn. For over 30 years corporate credit unions have provided member owned credit unions with the valuable services of investments, loans, check clearings and overall financial resources. In doing so, they have given credit unions the opportunity to grow and enhance their stature as strong financial institutions serving their member needs.

I am sure you are all aware of the Wall Street Journal article this summer which drew much attention to the Unrealized Losses impacting some of our largest Corporate Credit Unions. I became aware of this situation shortly after arriving at NCUA and immediately initiated a series of actions designed to monitor and mitigate the effects to the industry, with a primary focus on the potential downstream effects on natural person credit unions. I receive daily updates from my staff to monitor the liquidity position of corporate credit unions and established a team of key capital markets specialists to develop various impact scenarios. At my urging, and with the assistance of some key players in the credit union community, we were able to convince Congress to increase the lending limit of the Central Liquidity Facility. This limit, has for years been capped at $1.5 Billion, is now currently set to the maximum statutory limit allowed in the Federal Credit Union Act –$41 Billion dollars. This strategic move is designed to ease potential liquidity pressures that could be felt by the natural person credit unions.

I have ordered NCUA staff to develop various corporate plans which the Board would be able to discuss and decide which to pursue. The purpose of this is to ensure that NCUA is proactive in keeping the system safe and operable.
NCUA is committed to work with the Corporates to do what is necessary to maintain the integrity of the credit union member and their deposits.

It is my intention to use every tool available to restructure, reenergize and maintain the corporate system as a viable entity. And in doing so, I am urging every trade organization, every league and every credit union to render their full support to our efforts to keep the credit union industry vibrant and member driven.

The volatility of the markets has also prompted me to take aggressive measures that will constitute an ounce of prevention as we move through the remainder of the year. The current crisis is much more broader than anyone expected and no one knows how soon it will end.

I have directed Agency staff to conduct a broader and more comprehensive stress test of the National Credit Union Share Insurance Fund (NCUSIF). While NCUA has conducted such assessments of the Fund in the past, I want our tests to more accurately measure the Fund's capacity to withstand the stresses that could develop as a result of the credit and mortgage dislocations.

To further enhance NCUA efforts at the examiner level, we issued a Supervisory Letter to our field staff on evaluating current risks to credit unions. This letter, also released to all federally insured credit unions, addresses such relevant and timely issues as the changing credit union business model, assessing risk management systems for mortgage portfolios, and the importance of off-site monitoring as part of our risk-focused examination program. My expectation is that this will serve to improve our regulatory ability at a time when we need it the most. I pledge to continue to look for opportunities to get timely and relevant guidance out to the industry and our examiner staff.

During the first quarter of 2009, we will conduct a high-level industry Symposium that gathers leaders from the regulatory, credit union, trade associations, and broader financial world to discuss the ramifications of the continued volatility in the credit and mortgage markets, and identify measures to mitigate the impact.

NCUA is rich with talent. It has the advantage of individuals with decades of experience in the regulation and insuring of credit unions. Such a resource of human intelligence and ability combined with strong leadership skills has the potential for an agency with insight, historical knowledge, perception of problems and the vision to meet challenges head on.

Last month, I ordered a return to the 12 month examination schedule for all federally insured credit unions. A time period between 18 to 24 months between examinations is totally unacceptable in this economic climate.

In order that we can properly monitor credit unions and perform the job as regulator and insurer, we need accurate, current and meaningful data.

In addition, I have also called for a complete review of the examination process. The exam program now in use was last totally changed in 2002. Six long years has passed since a total rewrite and the exam must be updated to account for the way credit unions do business, how they invest, how they loan, the procedures they follow and their potential to remain strong and viable. Changing sections of the exam over time is no longer sufficient. A complete review and rewrite is required.

In addition, we will realign personnel to enable us to have a fresh look at what we do and to make sure we do it in the best way we can.

These are difficult and challenging times for the entire financial service industry. No one can predict the next turn in the market place and whether or not it will be in the right direction.

However, credit unions have consistently been there for their members. They have provided the financial needs of their membership from savings to checking, from debit to credit, from mortgage to home equity. And they have provided these products at fair and reasonable rates and must continue to do so.

I challenge every California and Nevada credit union to reassess what you do as we are doing at NCUA; to step back and take a new look at your members; to develop fresh ideas as to what you can do to better and to reconnect to the philosophy of people helping people.

A financial regulator does not and should not have the power or ability to influence the direction of the economy. But they do have the chance to work in a positive way to weather the storm and help guide institutions through turbulent times. Our nation has repeatedly bounced back from economic slowdowns. It will again do so and get on the path to real growth and achievement. Industry and regulators, working together during these difficult times, will ensure we create an environment that will enable credit unions to enjoy the success that lies ahead. Vigilant and thorough supervision with an emphasis on safety and soundness and a proactive approach to consumer education and protection; that is our mandate and pledge to the industry and the consumers who make credit unions their financial choice.
With your support and cooperation, I will achieve that objective and we will share in being a part of a vibrant, progressive and fiscally sound financial industry.

I want to hear from you, I value your opinions and I look forward to forging a strong partnership with all credit unions.
Thank You