<u>Remarks of Board Member Christiane Gigi Hyland</u>

National Credit Union Administration
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Thank you and good morning. "Imagine the possibilities." The marketing theme for this conference resonates with an optimism so vitally needed to overcome the challenges our country now faces. Not so long ago, economic turbulence and distress gave birth to a system of cooperative finance in this country known as the credit union movement. Next year marks the 75th anniversary of the Federal Credit Union Act, which was signed into law on June 26, 1934 by President Franklin D. Roosevelt.

Think about that for a moment, that time in our history – the middle of the Great Depression – a time when the financial services system was in disarray; when Americans had to be self-sufficient to survive; when nothing went to waste because you never knew what you might need and when you might need it; when whole communities moved out of the Midwest to escape the Dust Bowl and find a better life for themselves and their children; and, when federal credit unions were created to let people help people.

Today, we come together in a time of different but equally daunting challenges. We have witnessed cataclysmic change in the financial services industry over the past several months – the Fannie Mae and Freddie Mac conservatorships, the Lehman Brothers bankruptcy, the Merrill Lynch acquisition by Bank of America, the sale of Bear Stearns, the AIG and Citigroup bailouts -- events arguably unthinkable a year ago.

Credit unions aren't immune from the seismic changes on Wall Street, credit compression and the ever-widening effect of this recession. Yesterday, there was an article in the Wall Street Journal that discussed corporate credit unions. Corporate credit unions are also feeling the strain of credit compression as stress on their balance sheets and liquidity positions. Several corporates have seen significant unrealized losses associated with their mortgage related securities portfolios and their concentration in these assets has challenged their liquidity management. I receive a daily report on the liquidity position at corporate credit unions to assure that payments settlement and other liquidity obligations can be met throughout the system. NCUA is working with the corporate system, the Federal Reserve, the Treasury Department and state supervisors to assure the corporate system remains vibrant into the future.

As these times have shown, there is a broad interdependence and globalization of the financial services marketplace that most never realized. In general, federally insured natural person credit unions remain financially sound. Confidence in the credit union system has resulted in asset, loan and share growth, as well as a membership increase according to September Call Report data. Credit unions have been pillars of strength and liquidity to many communities around the country when other lenders could not or would not lend. Net worth levels remain strong at 11.16% as of September.

That said, there are some concerning trends that NCUA is monitoring. Delinquency ratios increased in all loan types particularly in the credit card and mortgage categories. Net income decreased 15.7%, based primarily on a 71.9% increase in the provision of loan and lease losses account as credit unions reserve for possible losses. In those areas of the country where home values have plummeted, like here in California, and Nevada and Florida, credit unions regularly receive requests from members to help them with loan workout agreements, credit union auto repossession lots are full of cars that members have turned back over to the credit union, and credit unions have home equity loans that are upside down due to home devaluations.

As volunteers, your “job” is tougher today than it has ever been. Your duties and responsibilities are complex. Many of you see your institution’s operating expenses increase while net income decreases or you may have negative income. Charge-offs and delinquencies are on the rise and the return on assets is falling. Sounds pretty grim, right?

And yet, while your “job” is indubitably tougher, it is also more critical than ever to the continued success of the credit union system. As volunteers, you are charged with assuring that the spirit of “people helping people” continues. You are solemnly bound to represent your members’ interests. You set the strategic course for your credit union so it can weather this economic storm and meet members’ financial needs. Your driving motive is to serve your members in a manner that preserves the health and stability of your institution. People helping people. Despite the challenges, this is a time of tremendous opportunity for credit unions – a time to continue to do what you do best – serve your members and meet their needs in a manner that is safe and sound. You should be very proud of the time and energy you give as volunteers in the credit union system.

There’s a great quote on volunteerism I’d like to share with you attributable to Susan J. Ellis, a trainer, consultant and writer who specializes in volunteerism. She says:

> Paul Revere earned his living as a silversmith. But what do we remember him for? His *volunteer* work. All activism is volunteering in that it's done above and beyond earning a living and deals with what people really care passionately about. Remember, no one gets *paid* to rebel. All revolutions start with volunteers.

The thing you “really care passionately about” is the very thing credit unions are chartered to do: serve your members. If you believe in credit unions, then you have to believe in the members. People helping people.

As volunteers, you must live that passionate concern for your members' financial well-being. You must be active, informed, knowledgeable, visionary, and constantly challenge and question management's assumptions. You are your institution's first line of defense in risk management. These turbulent economic times require the utmost vigilance on the part of the regulator and the regulated. These times also require innovation. Let me take a few minutes to discuss this seemingly odd couple of vigilance and innovation.

The focus of my remarks to all audiences this year has been due diligence and the need for credit union CEOs and volunteers to exercise due diligence in the affairs of the credit union. As a regulator and insurer, my role, first and foremost, is the safety and soundness of your institutions. As an NCUA Board member, I must weigh the need to assure members' money is protected and well-managed with the competing need of not restraining credit unions' ability to be nimble in today's fast-paced financial services marketplace. My job, as regulator and insurer, is not to drive credit unions to be completely risk-averse. My job is to drive credit unions to effectively manage risk.

Over the past year, NCUA has issued significant supervisory guidance to examiners on due diligence which has been shared with credit unions in the form of Letters to Credit Unions. The Letters lay out key due diligence principles to consider in light of credit unions' changing balance sheets. Credit unions of today are not the credit unions of a decade ago. More than 50% of your assets are in long-term real estate loans that are funded by more rate-sensitive deposits such as CDs and money market accounts. Asset-liability, credit and liquidity risk management are more critical than ever. Due diligence means vigilantly monitoring the risks within your institution so that you understand them and you manage them.

For my part, as regulator and insurer, vigilance means adhering to the principles of open and transparent government. It includes reading all of your comment letters and listening to your concerns so that regulations are prudent and fair. It means challenging you to serve everyone within your field of membership, including those of modest means. It means challenging you to document your efforts to show how the cooperative financial model of a credit union continues to provide value to America's consumers. And, it means challenging you to be vigilant stewards of the safety and soundness of your institutions while encouraging you to innovate and be responsive to your members' needs.

In the face of the current uncertainties in the financial markets, you cannot be afraid to take the educated and managed risks that you need to take in order to serve your members. You must diligently manage risk, but not avoid it. Vigilant due diligence on your part entails understanding the products and services your credit union offers. It means asking questions of your management and fellow volunteers until you do understand. It includes identifying and understanding the risks associated with your product line and requiring your staff to measure and manage the risks prudently for the benefit of your members. Vigilant due diligence also means regularly evaluating the risks of your entire institution to assure that the risks are being appropriately managed and to make adjustments as necessary.

Vigilance by the regulator does not mean overreacting so that innovation is stifled. In order to weather the current economic crisis, innovation is critical both within credit unions and within the agency. For your part, innovation can include looking at the larger credit union system to seek ways to cooperate and leverage resources. It can include looking at new ways to compensate your staff rather than the old-fashioned and, I would argue, obsolete methodology of tying performance to return on assets. It can include utilizing your capital wisely to weather the current turbulent economic climate. It can include truly understanding your current field of membership, its diversity and making sure that your board and staff look like your membership and are responding to what your members' need. Finally, I believe it should include the recognition that now is not the time to cut back on marketing or member services. As I stated earlier, despite the challenges, this is a time of tremendous opportunity for credit unions – a time to continue to do what you do best – serve your members and meet their needs in a manner that is safe and sound.

For my part, as a regulator and insurer, innovation means pursuing opportunities within the agency so that the agency can accomplish its mission. It means leveraging technology whenever possible to facilitate communication between the regulator and regulated on key risk issues. And, it means assuring that NCUA staff has the resources, training and expertise to handle the increasing complexity of credit union operations.

"The only limit to our realization of tomorrow will be our doubts of today."
"Ask not what your country can do for you, but what you can do for your country."
"There is not a liberal America and a conservative America. There is the United States of America."

Those are the words of President Franklin D. Roosevelt, President John F. Kennedy and our President-elect, Barack Obama. Words of wisdom and courage that resonate the theme of cooperation.

In this country, we have a credit union system – a system founded on the worldwide cooperative principles of voluntary and open membership; democratic member control;

member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community.

As volunteers, you are the cornerstone of this system. Your continued willingness to volunteer to lead your credit unions, your ongoing belief that the cooperative financial business model of credit unions is an important part of the financial services industry, and your willingness to commit your time to advocate to Congress and NCUA all remain critical during these challenging times.

Be active. Be informed. Be visionary. Ask questions. Manage risk diligently, but do not avoid it. With your energy, open-mindedness and commitment to serving your members, credit unions will thrive long into the future. Thank you for listening.