



**Credit Union National Association
2006 Governmental Affairs Conference**

Remarks by

*The Honorable JoAnn M. Johnson
Chairman
National Credit Union Administration*

At

**The Washington Hilton
Washington, DC**

Monday, February 27, 2006

It's always a pleasure, and an honor, to appear before you as a member of the Board of the National Credit Union Administration. This is my fifth appearance, my second as Chairman, and I must say that every year, I get a greater sense of the growing political and legislative strength of the credit union system. The attendance increases, your enthusiasm for the serious work you undertake is admirable, and the respect for your efforts is notable on the Hill. I commend CUNA for fostering this kind of atmosphere, and you for being such adept participants in the process.

On a personal note, I'd like to recognize Tom Griffiths of my home state. Tom will be retiring in July after 33 years in the credit union system, including the last 21 as CEO of the Iowa League. Tom is the one responsible for introducing me to the credit union community when I was first elected to the Iowa Senate 16 years ago. So, you can blame everything on Tom.

Congratulations, Tom, for your dedication and hard work for the credit union industry.

I have to tell you how pleased I am to have a full NCUA Board in place. The intellect, awareness and savvy that both Vice Chairman Hood and Board Member Hyland bring to the table are already beginning to make a mark. We are working together well as we look for opportunities to maximize each other's strengths and talents. I look for very bright days ahead for the Board, and by extension, for you in the industry.

This conference gives me an annual opportunity to comment on the financial health and well-being of the credit union industry. That's the easiest part of my job, primarily because of you and your excellence in running credit unions.

Taking a few minutes to look at the year-end 2005 numbers, the results are impressive.

In particular, loans are increasing with low delinquencies, shares remain constant and net worth continues to rise – all are key elements to a healthy, vibrant credit union system.

Credit unions exhibited over ten and a half percent loan growth. This strong increase, combined with constant savings growth of nearly four percent, is an excellent indication that credit unions are fulfilling their historic mission of providing a safe place for members' hard earned savings and a trusted source of

cost-effective loans. Federally insured credit unions reported a .73 percent loan delinquency ratio. All these indicators suggest that Credit Unions are educating their members for the prudent use of credit and the importance of building their nest egg.

I applaud your efforts to place money back in members' pockets to enable them to make purchases that make a real difference in their lives. Owning your own home is the American Dream. Federally insured credit unions granted 99 billion in real estate loans in 2005. What's more, member business loans grew 32 percent. Although member business loans are a relatively small percentage of total loans, they are the catalyst many members use to start and expand their small businesses, which means credit unions are working to make a difference in the life and lives of communities across the country. Congratulations on another stellar year.

Because of the fine job you do in managing your institutions, I have believed for some time that credit unions deserve additional latitude in the area of capital. Make no mistake, safety and soundness continue to be our paramount concern at NCUA, however, we recognize that the inherent financial conservatism of credit unions has contributed to a remarkably sound capital foundation. Your capital management, combined with the Agency's continuing experience in assessing risk, led us last year to development of the "risk-based prompt corrective action system." When we submitted this proposal to Congress in the spring of last year, we expected it to come under serious scrutiny, and for good reason.

NCUA did not take this task lightly, and, given the weighty subject matter, we welcome the public policy debate that has ensued. I continue to take every opportunity to discuss changes to the leverage requirements and new risk-based standards with Congress, with Treasury and with others who share my commitment to safe and sound credit unions. By adopting this new risk-based regimen, Congress will empower credit unions to do more for their members, small businesses and communities. I strongly encourage action on this important and forward-looking initiative.

Despite all of the positive measures you have accomplished, there are some thorny issues that need our attention. The complexity, and gravity, of those issues facing us reminds me of the saying over the locker room door which was the last thing we saw as we headed out on to the basketball court to play our arch rival, the Anita Spartans. It said, "When the going gets tough, the tough get

going". Later, when I became a coach, I made sure this same motto was placed above the locker room door for my kids. We all face tough circumstances from time to time, but that's when we pick ourselves up and forge ahead. We look to turn challenges into opportunities.

The conversion issue is one of these big challenges. Why? Because the bankers have successfully diverted attention away from the real issue, that of consumer protection.

While some tried to reduce the conversion issue to the mentality of a bumper sticker, claiming the only point of contention was how a piece of paper was folded, beneath the red-hot rhetoric was a very important issue: Transparency and consumer disclosure. Our job at NCUA is to protect consumers by making sure that complete, understandable and prominent disclosure occurs so the member-owners of a credit union may make a fully informed decision when voting on a conversion. The owners of the credit union certainly have the right to vote for what they believe is in the best interest of their credit union. If that informed vote is to convert to a bank, so be it.

But I will not sit back and allow any conversion to occur when members aren't given the opportunity to be accurately and fully informed about that on which they are voting. I heard a compelling story about a member of one of the converted credit unions who found out about the conversion late in the game, voted against it, did her best to inform fellow members, but ultimately wound up on the losing side of the question. She was very disappointed and frustrated by the experience, and by what she read in the Dallas newspapers.

Her comment: "I'm glad that all of these Congressmen in Washington had a good time talking about bureaucrats and folded pieces of paper. But meanwhile, back here in Texas, I lost my credit union, and I didn't even know it was happening until it was too late."

A Supreme Court justice in the 1930's noted that "sunlight is the best disinfectant." I am committed that NCUA shed as much light as possible on this process. Credit union members have a right to expect nothing less.

Let's turn to an issue that arguably is and will be one of the most important matters facing America's credit unions for years to come: measuring service to members.

If one looks back at the history of the Federal Credit Union Act, you might be surprised to learn that the term "modest means" is a relatively recent addition to the legislative vocabulary. In the preamble to the Federal Credit Union Act of 1934, Congress stated that credit unions were being established to, among other things, "make more available to people of small means credit for provident purposes." The actual term "modest means" did not appear in the statute until the Credit Union Membership Access Act in 1998.

Service to those of modest means is not your entire mission, and I don't believe that many serious people in Washington believe so either. But, particularly in the wake of the House Ways and Means proceedings, I am convinced that there is a desire on Capitol Hill, among credit union friends and foes alike, to see evidence of those things that you, as an industry, are doing to fulfill that element of your mission.

In recognition of that, NCUA has recently announced a pilot initiative to collect data on service to members from some federal credit unions. Congress has defined, by placing parameters on the Fields of Membership, who a credit union can serve. Therefore, it is important that this entire process of gathering data to measure service to members must be evaluated within the context of these statutory restrictions.

As you know, we faced some pretty tough questions in a very public forum from Chairman Thomas during his hearing on the credit union tax exemption. The most difficult of these centered on the issue of serving those of modest means, and what actions, if any, does NCUA take to verify the job that credit unions do. Chairman Thomas used HMDA data to paint an unflattering picture, compared to banks, of credit union service to low income people. I must admit he did an effective, if incomplete job, but he raised legitimate congressional issues which require our response.

HMDA data, by itself, does not give a comprehensive portrayal of credit union service. Nor, frankly, does any one measuring stick. That realization framed our thinking here at the Agency as we began to formulate a response to the questions presented by Chairman Thomas and other members of the Committee that, if left unanswered, would have a corrosive effect on the perception of credit unions and our tax exemption.

I would like to make something very clear: This Agency is not about to impose CRA on credit unions. I will repeat: NCUA, under my leadership, is not about to

embark on a path that would lead you to CRA. Credit unions simply don't deserve that kind of burden which would inhibit, rather than enhance, your efforts in reaching out to Americans from all walks of life.

These Ways and Means questions are not the only items in the hopper. If you recall, the Government Accountability Office has presented the Agency with its own set of questions, which dovetail very closely with both the spirit and the letter of the Congressional inquiries. Taken together, these paint an undeniable picture that challenges us to demonstrate how you are serving your members.

And as a former state lawmaker, I believe it important to make a point: there are a lot of pithy sayings about politics, and none are truer than the one about "perception being reality." The perception on Capitol Hill, in the aftermath of the hearing, is that credit unions have something to prove on the question of service to those Americans who sit on the lower rungs of society's economic ladder.

Don't kid yourselves. The fact that these seeds have been planted by the banks makes no difference now. I believe, as a testimony to CUNA's CEO, Dan Mica, and his political acumen, your organization's response to NCUA's initiative has been sensible and reasoned. It recognizes that a charge like the one being leveled by some in Congress rapidly becomes accepted truth if left unanswered. CUNA's response recognizes that a job needs to be done, and done the right way. Thank you for understanding the gravity of the situation, and for taking a positive step.

I want to make one other equally important point about this process. The job that needs to be done is one that the regulator must do. As always, we welcome input and opinion from the industry, but at the end of the day, the regulator is the one charged with responding to Congress.

NCUA is approaching this task with due deliberation. We intend, in the words of any good carpenter, to "measure twice and cut once". We want to look more broadly at ways you reach out to Americans, ways that go beyond simple numbers concerning member income levels.

I have long believed that America's consumers are the truest and fairest judge when it comes to assessing credit union services. Millions of Americans vote with their feet--and their wallets--every day. NCUA understands the role that you play in the lives of your members.

Rather than this data collection process being seen as a cause for concern, I encourage you to view it as an opportunity to continue that culture of service. You have a good story to tell, and in today's environment you should back up your good story with data.

This is a moment when you in the credit union community can move forward by looking back--back to your roots and your traditions and values of reaching out and giving America's consumers a good deal for their money.

The times we are in present a challenge, to be sure. I know, working together, that we're all up to it.

Thank you very much.