REMARKS OF MICHAEL E. FRYZEL

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TEXAS LEAGUE ANNUAL MEETING

APRIL 15, 2009

I am pleased to be before you today as Chairman of the National Credit Union Administration. Usually the appearance of a federal official on April 15 is not good news, but I hope I can counter your expectations with my comments.

Before I begin I would also like to take this opportunity to recognize Dick Ensweiler. We have worked together in many capacities over the years, dating to our days in Illinois when I served as the regulator of the credit union industry and he was league president. He has brought the same dedication, the same commitment to excellence, and the same energy to his leadership here in Texas. It's always a pleasure working with Dick, someone who is steeped in the credit union philosophy handed down from Edward Filene. I am pleased to have accepted his invitation to be here.

These are challenging times. I wish that circumstances were such that I could come before you and deliver an upbeat “state of the industry” type of speech that touches on all of the good things that credit unions are doing, and will continue to do, to provide consumers with cooperative financial services.

When I recently testified before the Senate Banking Committee I had the opportunity to remind the Senators that credit unions are very strongly capitalized, and that despite isolated problems in certain segments of the industry, unlike other financial institutions, credit unions continue to lend. In 2008, a very difficult year for the economy, credit unions increased lending by just over 7%, for which they must be recognized. Consumer faith in credit unions is justified by your faith in the consumer.

When I arrived at NCUA last August conditions facing credit unions and all financial institutions were tenuous. The largest thrift failure in the history of the United States had just occurred in California, consumer confidence was shaken and the pressures on the markets were mounting.

Unfortunately, those tenuous conditions deteriorated. Liquidity stress on corporate credit unions mounted as their sources of borrowings dried up or placed an unreasonably high price tag on funding. The entire corporate system began to buckle under these pressures and I knew that decisive action was necessary.

I directed NCUA staff to immediately go to Capitol Hill and have the cap on credit union borrowings from the Central Liquidity Facility lifted. This little-known and little-used NCUA source of liquidity for credit unions was designed to be a backstop in case liquidity strains developed. Now it was needed as never before in its 30 year history.

We made a very direct appeal to Congress to provide liquidity, and Congress listened. In September, with the support of the credit union industry, Congress granted NCUA the authority to lend up to $41.5 billion from the CLF.

Over the last six months NCUA, working with the industry, has infused over $20 billion in liquidity into the system. Innovative initiatives such as the CU SIP (Credit Union System Investment Program) have stabilized liquidity and provided real breathing room for a corporate system that was being hit by market forces beyond its control.

Yet, there is a good story to be told by credit unions. In good times and bad, you provide a fair deal for consumers, as evidenced by the ever growing number of Americans who continue to join credit unions. You must keep telling that story.

And there is a story within a story here. The SIP program has enabled corporates to achieve a broad de-leveraging from outside borrowings, something that, if sustained, will leave corporate credit unions well positioned to avoid a difficult situation in the future. This good news has been somewhat overlooked during this current crisis situation, but it is a real, tangible positive and something to places corporates on stronger footing for the future.

Last month, Congress gave us another vote of confidence by keeping the borrowing ceiling off the CLF until the end of the fiscal year, so that we can continue to use this important stabilizing tool to everyone's benefit.

Liquidity stress has not been the only problem confronting the corporate system. In January, US Central was told by its auditors to write off over a billion dollars in impaired assets. The liquidity strains had turned into a capital problem more severe than anything we have seen in the credit union industry. US Central was put in serious jeopardy by the write-down, and given its position at the pinnacle of the corporate system, there was a very real possibility of a downstream disruption of the rest of the corporates as well as the natural person credit unions that they serve, if US Central failed.

We could not allow that to happen.

Since I became Chairman I have articulated a very basic, very direct philosophy: I will take whatever steps necessary to preserve safe and sound credit unions and protect the consumers who they serve. In that spirit, the NCUA Board took unprecedented action. We moved swiftly to guarantee all natural person credit unions deposits in the corporate network, infuse 1 billion dollars of capital in US Central and called for credit unions to voice their opinion on how to revitalize and restructure the corporate system.

This action was followed by a continued deterioration in the balance sheets of both US Central and WesCorp which needed further action by the NCUA Board. On March 20, NCUA conserved both institutions.

The decision to conserve was made in a very careful and deliberate manner. It was done, to maintain a safe system and to protect member assets.

Despite the traumatic nature of the events, the conservatorships had the beneficial effect of enabling NCUA to gain control of the assets at the two corporates, and prevent a disorderly “fire sale” of assets that would have been disastrous to the credit union stakeholders.   We have continued to maintain a functioning payment system, and the rest of the corporate network, based on our analysis and the analysis of a specialized third party firm, appears to currently hold sufficient capital and is positioned to continue normal operations.

The NCUA Board heard the voices of those in the industry who are upset with these actions. We understand your concerns about the effect on the bottom lines of the 7,800 federally insured credit unions, and about how your earnings will be adversely impacted by the need to replenish your share insurance fund. We know that your displeasure is borne from a genuine desire to protect your members. And on this crucial point, we are in complete agreement.

These are difficult days and the industry has been put under serious stress due to the corporate dislocations. NCUA has been, and will continue to be, interested in hearing from any and all responsible voices with ideas about how to mitigate the costs and renew the corporate network. Working together, we will show that all of us are smarter than any one of us.

There's a saying that tough times don't last, but tough people do. I would modify that slightly to suggest that tough times test us, and reveal things about the vision, the knowledge and the abilities of all of us who are being tested. Moving forward, I am confident that the industry will emerge a great deal more knowledgeable about what works, and what doesn't work, in the corporate credit union arena.

The need to maintain a strong and durable National Credit Union Share Insurance Fund is not in conflict with your clearly stated desire to spread out the impact of the assessment before us. The NCUA board has worked tirelessly over the last several weeks to devise a plan that both restores your fund to an appropriate level while at the same time meets necessary accounting standards.

The Corporate Stabilization Proposal passed by the NCUA Board accomplishes this, and I am very pleased by the level of support that it is receiving from both the credit union industry and the key players on Capitol Hill who will ultimately decide its fate.

I have personally gone to Capitol Hill and will do so again next week, expressing my strong belief that this proposal is not only workable, but also desirable. It is completely consistent with the admirable credit union tradition of taking care of our own problems. And our credit union friends in

Congress approve of its prudent use of NCUA borrowing authority to spread your costs over a more manageable period.

The Corporate Stabilization Plan is what we need for credit unions today. I need you to roll up your sleeves and in that great credit union tradition of grassroots activism, get it enacted into law so we can mitigate the cost to the system and allow credit unions to continue to serve their members. When this Stabilization Proposal becomes law, our job will not be finished. I have made a commitment to the Administration, to Congress and to you in the industry that NCUA would undertake a broad and comprehensive reform of the corporate system. We have initiated a rulemaking process that I promise will yield results.

The current dislocations in the broader financial markets, and the circumstances involving the corporates, have presented challenges, but have also provided us with an opportunity. An opportunity to re-evaluate and refine some of our basic assumptions about the role of corporates in the credit union system.

Their membership, structure, size, and types of services are central issues that we will actively examine. Specific questions are being, and will be raised by our Board regarding capital, permissible investments, management of credit risk and liquidity, and corporate governance.

None of this is being considered in a vacuum. We actively solicited, and received significant and helpful input from almost 500 commenters, and you can rest assured that your views will be integral to whatever final product emerges. This is your corporate system, created, governed, and directed by you for over 30 years. You properly have a voice in what new, reformed corporate network emerges and I strongly encourage you to stay involved.

This process will be a careful and deliberate one, especially given the broad scope and complexity of the issues before us. At the same time, I intend to move forward with all appropriate speed and diligence. The corporate situation warrants a new set of rules that will facilitate the creation of a safer, stronger, and more financially viable network of corporate credit unions, and NCUA must take a wide-ranging look at all options and then act decisively.

The times we are in are putting everything we know about credit unions to the test. I am certain that everyone in this room realizes the severity of the economic downturn, and its effect on your communities, and your credit unions. I am equally certain that working together, we will succeed in shepherding this industry through one of the most challenging economic environments of our lifetime.

Whenever there are problems, the easiest thing to do is place blame and point fingers. With the corporate situation, there is enough blame for everyone to share. But rather than looking in the rear view mirror, I would prefer if everyone learned from past mistakes and set their vision forward. My goal as chairman has always been to protect the funds of the 90 million Americans who are credit union members and maintain a safe, sound credit union system. The corporate structure is part of the system, it needs to be reformed and NCUA is doing what needs to be done.

I ask everyone, who believes in the credit union system as I do, to help pass the Corporate Stabilization Plan that the NCUA Board has sent to Congress. People working cooperatively built the credit union system. People working cooperatively will make it even stronger.

You have built a strong and vibrant credit union movement, one that continues to have tremendous value for the Nation's consumers. Especially in times like these, it is important to rely on your basic principles of commitment to your members, common sense-based operations, and recognition that, working cooperatively, there is nothing we cannot accomplish.

And in the words of Dick Ensweiler in his letter of invitation to this meeting, "Now is the time to make our difference known. Now is the time to manifest our destiny."

Thank you for listening