

REMARKS OF MICHAEL E. FRYZEL
CHAIRMAN, NATIONAL CREDIT UNION
ADMINISTRATION
CUNA GOVERNMENTAL AFFAIRS CONFERENCE
FEBRUARY 24, 2009

Good morning. It's an honor and a pleasure to be here with you today, and my hopes are that your days in our nation's capital are productive and fruitful. You come to Washington as the most well capitalized and sound component of the nation's financial services sector. Others have pulled back, but you have increased your lending, putting credit where it is most needed, into the families and businesses across the country. In these troubled financial times, you are not the problem; you are the solution, and Capitol Hill will be pleased to welcome you.

However, there is much work still to be done. Our own cooperative non-profit system has received a shock from the same sources that have damaged the nation's financial network. The NCUA Board acted swiftly to keep a troubling situation from becoming worse. We guaranteed deposits in the corporate system and we pledged share insurance fund capital to make good potential losses at U. S. Central Corporate Credit Union. Criticism followed. But so did ideas, from credit unions across America. Upon both the criticism and the ideas we will chart a course of action that will take us through these troubled times and into the heart of the 21st century.

When I finish today I hope you can take away these three things:

First, that I told you what we face without sugar coating or overstating it, that we are going to have losses in this crisis and that it could get worse before it gets better. So we need to prepare ourselves and be ready to act.

Second, that we are not in this crisis with our hands tied behind our backs. As an industry we have a strong capital position and the trust of the marketplace on which to build.

And third, that although in times of trouble people tend to find fault, what we need to do instead is to acknowledge that we have a very powerful legacy of common purpose and cooperation, and that these are *not just our ideals*, but are *the very tools* we will use to work through this trouble, to better times.

Let's talk about credit union strength. The credit union system, which started very small, has generated ideas and services over the last 100 years such that it is now the best capitalized segment of our nation's financial services industry.

In the most difficult economy seen in a generation, credit unions in 2008 achieved an industry average

earnings level of over 31 basis points. As a result, total capital *increased* last year by over 1.95 billion dollars. Our collective capital ratio exceeds 10.9 percent.

Where others reduced credit, credit unions have increased it. 2008 saw the level of loan growth exceed 37.4 billion dollars. We have continued to do what our core purpose calls us to do, grant credit.

In other ways large and small, credit unions are showing they are the solution, not the problem. For example, in the fourth quarter of 2008, one of every five auto loans in the country was written by a credit union. In the first two months of this year, the Michigan League's initiative called Invest in America - - a partnership of credit unions with GM and Chrysler -- is financing million of dollars in car loans. This innovative partnership is a win for members, for credit unions, and for dealers and their local communities.

There is a nationwide mortgage crisis. But in 2008 credit unions increased the mortgages on their balance sheets by 11.6 percent. Early indications are that 2009 will be a *record year* for mortgage originations by credit unions.

Private education loans to help persons improve their life skills, virtually disappeared as secondary markets shut down last year, but not at credit unions. From North Carolina to California to New England, at

dozens of credit unions, educational financing totaled almost 2.0 billion dollars in 2008. Here's one recent example: MIT Federal Credit Union just completed an agreement to fund *all* the loans for the students in the Sloan School of Management, one of the world's leading business schools.

Credit unions put their members first. They do not reach and stretch for profit, because they are not for profit. Credit union owners are their members. Their singular purpose is to improve the financial well being of those who join.

And we should not forget: The credit unions of this country have never cost taxpayers of the United States one penny. This is a proud record that we must strive to continue.

Still, we are in troubled times. Securities with uncertain value have worked their way into all segments of the financial services industry, and our corporate system is no exception. Highly rated bonds of three years ago are now deeply discounted owing to the global credit crisis and world economy.

We need to recognize these losses but also to contain and minimize them with all the powers we have at our command. We need to recognize that the problems brought to us by this economy are larger than any single institution in our system, or individual collection of institutions. They are systemic problems that have

been latent and, until recently, not quantified; and they require a systemic solution.

Up to last month, NCUA's approach to problem resolution was one institution at a time. With this new crisis we have to forge new solutions with different approaches.

This new approach was followed in addressing the corporate network's investment portfolio problems. Four weeks ago, the NCUA Board guaranteed all credit union deposits at all corporate credit unions and put one billion dollars of capital from the NCUSIF into U. S. Central. Safety and soundness for the entire credit union system demanded that unprecedented action.

These steps, using our collective resources, have an estimated cost of 4.7 billion dollars. In order to recapitalize the Share Insurance Fund, it would be necessary to collect this expense this year from all insured credit unions.

We asked for your comments when announcing this action. You responded with energy and emotion, challenging us to find a better way to align the actual losses with how and when the credit union system will pay for them. So with your input, NCUA is working on a new collaborative regulatory framework, mandated

by this world-wide crisis. This framework must recognize:

- There will be more losses and we need a collective way to control and minimize them;
- Our solutions will be within the credit union system;
- Our approach must be flexible enough to meet any scale of trouble the future might hurl at us;
- Every component of the credit union system has a role. Each will have to sacrifice, but our focus must be on the welfare and prosperity of the whole;
- Our effort must look ahead, so that it prepares credit unions for the environment of financial services once our present crisis has passed.

As we prepare to take the next steps on the Corporate situation, we continue to review and work on the ideas you bring to us. We want to hear from you this week and in the days ahead. Our collective challenge, in fact our collective responsibility, is to find a better way, one that will lead us to greater strength.

Here are ideas you have brought us to consider:

- Because the true value of the troubled securities will only be discovered over time, expense losses incurred over five years;
- Use the NCUSIF as the collection point for illiquid securities in the corporate system;
- Fund these securities using CLF, corporate and credit investments such as the successful System Investment Program;
- Align the actual expense of the winding down of troubled securities by asking credit unions to deposit into a new voluntary Cooperative Assurance Fund, an amount equal to the estimated losses. If feasible, this action could shift the expense burden for everyone to a five-year time frame;
- Ask Congress for the authority to raise alternative capital; and
- Set aside TARP funds for credit unions if we require their use.

The NCUA Board and its staff will pursue and continue to work on these and other ideas. We also intend to remain in dialogue with Congressman Dan Mica and his staff as well as with other industry leaders as approaches are developed. Let me stress

though, that there are no easy choices. To use an analogy from a recent event in New York: the problems are at hand and we have only two ways to land this plane--either on concrete or on a river. As leaders, we must stay calm, brace ourselves, and take the necessary action when called upon.

Obviously, the financial services industry is going to look different coming out of this crisis than it did before it began. So we need to look ahead. Fortunately, credit unions have always been good at accepting and driving change. Now we will need to be better than ever, and we should not lose this opportunity to set the course for credit unions in the 21st century.

In the midst of a national crisis, Abraham Lincoln said, “The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise to the occasion. As our case is new, so we must think anew and act anew.”

The credit union industry has done that before concerning issues large and small. When the Share Insurance Fund was threatened in the early 1980s, we deposited capital and made it the strongest insurance fund in the nation’s financial system. Then deregulation required that we compete and prevail as stand-alone entities. We succeeded. We succeeded because we worked hard and we worked together.

Cooperation, confidence, and sweat equity composed the capital that started every credit union in this room. This crisis requires that we once again recognize the tremendous power we hold in our ability to collaborate.

Our members do not want to see us divided when they need us most. We will have debates and must fine-tune our game plans. But most importantly, we must act and not let fear or the desire for external solutions slow us from preserving our system and making it stronger.

So I ask your help – with both your ideas and your actions for the following:

- Completing the steps for addressing the corporate network's losses as these are made known from year-end audits and our own investment valuations;
- Join together to take a common message to Capitol Hill. That message is: Give us the tools to solve this ourselves; we will finish the job; and,
- Finally, and most importantly in this time of uncertainty, extending *more* credit to serve the people who are counting on you. Doing so is more critical than ever.

This is the 75th year of the Federal Credit Union Act and the 100th year of this great cooperative movement. Credit unions exist because we know that markets sometimes fail. Our public policy covenant is to address what one credit union leader has called a serious American short-falling: Those who have the least or know the least, pay the most for financial services. Credit unions work to set that right.

Thank you for coming to Washington. Thank you for taking our collective story to Capitol Hill and thank you for listening.