REMARKS OF MICHAEL E. FRYZEL

BOARD MEMBER, NATIONAL CREDIT UNION ADMINISTRATION

NAFCU 43RD ANNUAL CONFERENCE

JULY 23, 2010

Good morning, and welcome to Chicago. It is an honor and a pleasure to address your 43rd Annual Conference. It is fitting that you gather in such a magnificent city as Chicago.

As many of you know, Chicago is my home town. Carl Sandburg called it the City of Big Shoulders. Some people call it the We Will City. Others have called it the most American of all American cities. It is unique. It is big. It is exciting.

It has museums and art galleries, and beautiful parks and beaches along Lake Shore Drive. It has fantastic shopping along Michigan Avenue, countless world class restaurants and, not to forget, it is home of the Stanley Cup champions, the Chicago Black Hawks. We also boast four other professional sports teams, one of which is the Chicago Bears, coached to a super bowl title by one of your earlier speakers, coach Ditka. There is much to do in this great city and I hope you have the opportunity to see at least a small portion of what it offers.

Of course I again want to thank Fred Becker, Brad Beale, Dan Berger, Brad Thaler and Carrie Hunt for the outstanding job they do representing and advocating for credit unions across this country every day in our Nation's Capital.

I always appreciate the effort that goes into the daily letter NCUA receives from NAFCU. Fred is passionate about credit unions and that is reflected in the work he does. He always researches the topics of concern and provides excellent input and advice. Though we may not always agree on how an issue should be addressed, he has the ability to see both sides and recognizes the regulator cannot always take the most popular position. That I appreciate very much.

As you all know, credit unions across this country continue to face numerous challenges as we work through these very difficult economic times. Holding your conference this year in Chicago is meaningful because Chicago has faced its share of challenges, too. It was a shapeless bog in 1832, more than two hundred years after New York and Boston began, and a hundred years after Philadelphia got its start. In 1871 a third OF CHICAGO lay in ruins but it rebuilt itself bigger and better than ever before. That bears repeating: It rebuilt itself bigger and better than ever before. This was not an easy task, but people have done remarkable things in our history and they will do remarkable things again.

I compare the challenges we face to this great city because credit unions are much like what Chicago exemplifies. It is a city of broad shoulders and the We Will Spirit. Credit unions, especially these last two years, have shown their own broad shoulders and We Will Spirit in meeting the problems of their members and their industry by simply stating, "we will get this job done."

The task we have been given and the solutions we need to put in place have consumed immeasurable hours and stretched our resources to the limit. Hardly a day goes by that does not have some event which impacts our road to recovery and tests our endurance to continue. we are all aware that at times it takes a herculean effort to keep something exceptional in place. Credit unions are exceptional and every conceivable effort must be made to keep them strong. They must retain the status they have achieved as the result of 100 years of hard work.

I have been at NCUA for 24 months. each time I speak before a group I always hope that the remarks I make will put a smile on everyone's face; that I can tell those listening that things could not be any better and use words like dividend instead of assessment. Although I cannot do that today, I can tell you, As I always have, where I believe we are, what must still be completed, and when I feel we might get there.

These are the nine issues I believe are in the forefront of credit union concerns.

<u>Corporate Credit Unions:</u>

This is perhaps the most difficult challenge facing credit unions and NCUA. Our proposed rule has elicited over 800 comment letters. Dialogues at town hall meetings have expressed concern as well as a commitment to get the process of change right. Corporate losses continue to grow and we continue our efforts to both find a way to get rid of the bad investments and provide a good model that will allow credit unions, if they choose, to recapitalize or present an alternative. The proposed rule involves changes in four very important areas.

Capital standards will be strengthened. In order to reduce risk, corporate would be subject to a leverage capital requirement, aligned with basil one standards and subject to prompt corrective action.

Asset liability management requirements will be put in place to prevent excessive risk and to prohibit accepting funds from a single source that exceeds 10 percent of a corporate's assets.

Risk concentration will be limited by not allowing corporates to excessively concentrate in a single type of asset.

And Governance standards will raise eligibility for corporate board members to achieve greater levels of expertise, experience, and motivation. We expect the NCUA Board will present the final rule this fall.

<u>Legacy Assets:</u>

This has been an enormous undertaking which has been ongoing for months. There is no easy way to un-buddle more than $50 billion worth of assets, repackage them into marketable bonds, and move them from corporates' balance sheets without realizing losses.

The effort is so huge- and so important- that we have dedicated 30 of our top staff to work on it. In recent months, our team has been brainstorming every idea for safely resolving the corporate crisis at the lowest possible cost to credit unions. With nearly every possible solution, more questions-and more legal and accounting issues-are raised.

One Plan would remove the riskiest legacy assets from ongoing corporateS, while carrying forward the most valuable pieces of the corporate system. This plan would empower natural-person credit unions to choose which corporate they will support. And it would ensure that those corporates begin with clean balance sheets.

That and Other ideas continue to be vented with the hope of putting forward a workable solution this fall.

Credit Unions in Crisis:

Assembled here today are some of the strongest and best run credit unions in the country. But there are also a few that are troubled and may be wondering if next year at this time, they may be merged with another credit union.

As this economy continues to struggle, so do our credit unions. And many, especially in our sand states, are fighting to survive.

I have repeatedly said my goal at NCUA is the protection of the insured deposits of the nearly 92 million credit union members, a strong share insurance fund, and a safe and sound credit union system.

To meet that goal, hard decisions must be made. Some of the actions taken by NCUA are not popular and at times questioned by individuals who are well intentioned, but who, in my opinion, do not see the entire picture.

I fully respect the right of everyone to voice their option and suggest alternatives. I only ask that they do so with all the facts in hand and a full knowledge of what has occurred.

These are unprecedented times that require decisions and actions the industry has not seen taken before.

I am often asked if I can see the light at the end of the tunnel. Yes, it is there but it flickers. it goes on-again-off-again indicating we have a ways to go before we see it as a strong and steady beacon.

Member Business Loans:

Credit unions continue to make funds available for small businesses but are limited by statute on how much of their assets they can use for such loans. The administration has joined numerous members of Congress who have said they support raising the cap on member business loans. I believe the cap should be totally eliminated and NCUA given the authority to set the rules that will govern how much individual credit unions can lend. These rules will be based on a credit union's safety and soundness, capital structure, and ability to be involved in that product.

There are thousands of credit worthy small businesses that could benefit themselves, our economy and our workforce if they were able to secure a credit union business loan. The industry must continue to lobby and pressure congress to approve this needed legislation.

Assessments:

Credit unions work with two different funds. The Share Insurance Fund, which has long insured deposits at natural-person credit unions, and the Corporate Stabilization Fund, which NCUA created, with the approval of Congress in early 2009 as part of our efforts to solve the problems facing corporate credit unions.

At the open Board Meeting in June, the NCUA Board assessed federally insured credit unions 13.4 basis points for costs associated with the continuing losses in the corporate credit union system. Later this year, there will be a separate assessment for the share insurance fund to cover losses at natural person credit unions.

A few months ago, at the request of the credit union industry, NCUA projected the total assessment to be between 15 and 40 basis points. In speaking to credit union audiences across the country, I have repeatedly advised them that I believe it would be prudent to budget on the high end.

Mergers:

A concern exists that well managed credit unions are not included in the merger-consideration process and are unable to grow because of that exclusion. Some believe the procedures used to consider merger candidates are not clear, resulting in a distrust of how the system works. Some feel there is an inconsistency across regions, leaving them to believe that mergers are steered to certain credit unions, while other qualified candidates are not made aware of opportunities. Although some mergers require swift action to maintain safety and soundness, others do not and should be open to interested bidders. NCUA has recently committed to review, improve, define, and implement changes where needed to make the process open and competitive.

Last month, Chairman Matz sent a detailed letter to all federally insured credit unions providing information on mergers and purchase and assumptions. I urge you to read the information it contains as it provides a sound insight on NCUA procedures, going forward, on this important issue.

Consumer Protection Agency:

Congress has now passed a law that details what the CPA will look like who will be covered and what type of examination or reporting requirement there will be. Implementation of the new agency will take at least a year. NCUA however continues to move forward with the establishment of a consumer protection office within our own agency.

All, but the three largest credit unions would be under our jurisdiction on this most important issue. We are putting in place the procedures and mechanisms needed that will establish a model consumer office for financial regulators.

Credit Unions have always been consumer friendly. Our efforts will keep that in place and keep our credit unions a step ahead of other financial service providers.

Community Charters

For years credit unions working to expand their field of membership have been required to submit binders of material to NCUA to justify the changes requested. Staff and board members have had to read through hundreds of pages of paper. Chairman Matz has said enough is enough there has to be a better way. And there is. At its June open board meeting, NCUA adopted a final rule that we believe will make it easier and faster for Community Charters to be approved.

State Budgets:

Never before have so many states experienced the deficits we are seeing across this country. The loss of revenue and jobs the closing of plants and businesses and the rising cost of providing needed services for their citizens, have led states to slash their budgets reduce agency staff and put in peril the delivering of critical needs. One group impacted severely by these cut backs has been the agencies empowered to regulate and examine our nation’s state chartered, federally insured credit unions. Some staff of those agencies are operating on a bare bones budget with no money to hire additional staff and in some cases maintain the staff they have on board.

NCUA and state supervisors along with NASCUS their national association maintain an excellent cooperative relationship. We are working with them to provide help in those states where it is needed. NCUA has a responsibility to lend our resources and support to ensure that all federally insured credit unions are determined to be safe. Through a cooperative state and federal effort, that goal will be accomplished.

Those are some of the areas in which NCUA and credit union have been. And will continue to be, involved as we work together to solve the confronting the credit union industry.

I have consistently told credit union audience that we can only get better through a cooperative effort. The continued communication between NCUA and the industry along with your involvement your input and your vision for the future must continue to be part of our cooperative effort to solve the problems we face.

100 years of hard work have gone into becoming the nation's premier financial service provider. That is what credit unions have achieved that is what credit unions must maintain.

You are the best because you work to be the best. I ask your continued commitment to preserving and making the credit union system stronger than ever.

You must continue to tell the credit union story of outstanding service to 92 million Americans and to work cooperatively on the problems we all share. Together we have built a truly tremendous and beneficial system. Together we can solve our present problems and move on to an even brighter future.

We must keep our heads high and our shoulders broad as we carry the industry forward through this difficult period, a period that will pass and lead to better financial times for our nation. We will get there; we will survive, and we will see this country and its credit union industry reach new heights of greatness. Chicago built itself into this magnificent city. Credit unions will build a magnificent future for themselves better than its extraordinary past.

Thank you for listening.