

NCUA BOARD MEMBER MICHAEL E. FRYZEL REMARKS

NASCUS STATE SYSTEM SUMMIT

CHICAGO, IL

SEPTEMBER 16, 2011

Good morning, and welcome to Chicago. It is an honor and a pleasure to address the NASCUS State System Summit. 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 many professional sports teams. 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 want to thank Mary Martha, her excellent staff and all of our state regulators for the outstanding job they do for credit unions across this country.

Chicago always has been a city that knows how to put its shoulder to the wheel, to work, and to come up with solutions. This is a good environment for NASCUS to identify its challenges and to investigate creative solutions.

In January, as many of you know, President Obama identified a few problems concerning the regulatory environment, and he sent out an executive order with thoughts and directives on how to deal with them. This Executive Order was entitled “Improving Regulation and Regulatory Review”, and was written particularly for executive office agencies. He followed this up on July 11 with another Executive Order, which extended the first to independent agencies such as NCUA.

I quote from the first executive order: “Our regulatory system must protect public health, welfare, safety, and our environment while promoting economic growth, innovation, competitiveness, and job creation. . . . It must allow for public participation and an open exchange of ideas. It must promote predictability and reduce uncertainty. It must identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends. It must take into account benefits and costs, both quantitative and qualitative. It must ensure that regulations are accessible, consistent, written in plain language, and easy to understand. It must measure, and seek to improve, the actual results of regulatory requirements.”

Imagine for a moment a new Army recruit after a hard day taking orders hears this one from his sergeant: “Go to the mess hall and eat your dinner.” Sweet are the words of an order you can embrace. As a regulator, I have no quarrel with the paragraph from President Obama I just quoted. In fact, I agree whole-heartedly with it.

Let me point out a few other portions of President Obama’s two executive orders: “Regulations shall be based on the open exchange of information and perspectives among State, local and affected stakeholders in the private sector and the public as a whole . . . . [An] agency shall afford the public a meaningful opportunity to comment through the Internet on any

proposed regulation with a comment period that should generally be at least 60 days.” In addition, “agencies shall consider how best to promote retrospective analysis of rules that may be outmoded, ineffective, insufficient or excessively burdensome.”

We at NCUA have studied these two presidential executive orders and we believe that NCUA is now and has been in compliance with them.

In fact, we are pleased that other agencies will be moving up to meeting NCUA standards.

Regulation is a big subject, and a sensitive one. It always has been and it always will be. Chicago can serve as an example on this subject.

You might recall that more than four square miles at the heart of this city – including this block where we are gathered right now -- burned to the ground in 1871. More than 17 thousand buildings were lost, about 1/3 of the valuation of the city at that time. As the smoke drifted away, persons living in this city had several choices to make.

First, should they rebuild here? They decided that this was still a good location and that they should rebuild right on the foundation of the old. Second, what could they do to make a safer city? The answer was . . . **regulation**. Mainly, this took the form of building codes.

Chicagoans agreed – not just the city fathers imposing their will upon the mass of citizens but also those mass of citizens themselves, the persons who lived and worked in the buildings – that any new buildings to be erected where the old ones had burned should be more fire resistant than the ones before and that they should sit on bigger lots that would make it harder for fire to move from building to building and would better allow emergency vehicles to reach burning property. They agreed to these regulations, for their own benefit, and for the benefit of their fellow citizens, their children and grandchildren of future generations. It would have been

easier and cheaper to erect buildings that were not well constructed, but those Chicagoans of 1871 they understood – the hard way -- that easier and cheaper might very well lead to additional grief later on. Better to put in *more* effort now for a predictable and safer life later.

The result is all around you. Chicago is one of the most exciting, livable, and prosperous cities in the world. And it got this way with reasonable, far-sighted regulation that meant to insure the safety not just of one person in one building but of all persons in all buildings.

There is another lesson to take from the Great Chicago Fire. It is this: Don't wait for a disaster to overhaul regulation. Instead, take a hard look at present conditions and present regulations. In Chicago before the fire, many roads were made of wood, and many families lived in tightly packed wooden homes. The fire department equipment was inadequate and the alarm system was faulty. Would it not have been better to take a hard look at conditions and make changes in order to head off a massive fire? Would citizens have grumbled that there was too much regulation coming down on them? I suppose they would have grumbled, but would they have grumbled had they known better building codes would have saved them from the horrible fire of 1871?

I can imagine that even after the Great Fire, some people were saying there is too much new regulation, that these new building codes are taking away some of my freedoms and that I want to go off and do my own thing. At the same time there were probably other residents calling for even *stronger* regulations on the theory that there is a slight risk that some misfortune might occur despite a very very small chance. But we cannot allow complete freedom; nor can we defend against all risk. The former leads to chaos and the latter to a rigidity that chokes innovation and advancement.

Regulation, of course, is nothing more than mutual aid and protection. We sit down together and identify problems. We discuss means of dealing with them. We come to a consensus on what to do about them. Then we agree to all abide by the solutions. Some people always think some solutions are too cautious, and some that more stringent solutions should have been adopted. It's always this way. It's important to keep our eyes on our ultimate goal. If it's safety, you tend to have more cautious rules; if it's growth and innovation you tend to have fewer. With credit unions, of course, it is a mixture of both safety *and* growth and innovation.

Let's look at President Obama's executive orders again. Part of them asks for a review of existing regulations. As you know, NCUA for thirty years has had a policy of reviewing one third of its regulations each year, so that all of its regulations are reviewed over three years. My belief is, this is a reasonable policy. Going faster would require more employees – an expense – or being more hasty, which results in some regulations not receiving the reasoned examination that they should. I believe NCUA should hold firm to this policy of reviewing one-third of its regulations each year. It is a large but manageable portion. And, we publicize what we are going to review. The present process allows us to take a hard look at current regulations, giving us time to suggest some be made more flexible – and others be strengthened – based on public comment and what we perceive to be future conditions. The present process allows us to proceed in an orderly progression. Of course, we are open to any suggestions and we will try to become even more pro-active in publicizing what regulations will be considered in any year, the time of year they will be reviewed, and how persons can comment on regulations under review.

I believe, however, that we cannot write a report about every regulation we review. Doing so would be too burdensome and not particularly fruitful. But at the same time, we are

pleased to review any regulation – not just ones slated for review – that enough credit unions call to our attention as having out-lived its usefulness. And we welcome suggestions compatible with safety and soundness.

There has been talk in some circles of not creating a new regulation without at the same time eliminating another. This one-for-one mathematical formula sounds pleasing at first but, it uses a butcher's knife when it is really scalpels that are called for. Each regulation was created for a purpose. If the environment has changed so that the regulation is not doing its intended work then thoughtful reflection should alter or eliminate it. Keeping a report to a hundred pages by lopping off the first two pages if two are added on at the end is not a thoughtful or astute way of making a good report.

Another part of President Obama's orders calls for access by the public to the regulation process. Again, we have already met or exceeded the president's directives. Credit unions and the public have always had full access to comment on regulations proposed by NCUA. All of these comments are read by the NCUA, and we make changes in proposed regulations based on those comments. The Obama initiative is trying to have other agencies catch up with *us*; we have been well ahead of the curve. This does not mean, however, that we cannot do better. As I said, we are open to all ideas and we expect the best ones to rise to the top. But you can be certain we will take into account all comments and not finalize any regulation before we are sure it is not overly burdensome and that it will do the job intended.

Other than what we already do, and in keeping with my statement that contrary to some suggestions we should not write a report on every regulation being reviewed, I also do not believe we should write a report on the cost-benefit analysis of every regulation NCUA

proposes. Doing so would be too burdensome, or necessitate hiring additional employees. In any event, the intended benefits are generally obvious in the regulations we propose, and, indeed, many comments point out potential costs -- we need not duplicate those efforts. Like credit unions themselves, we at NCUA need to run as tight and as focused an agency as we can.

NCUA is charged with certain responsibilities we take seriously and those should be our focus. The NCUA is not charged with making the credit union system the largest financial services system in the nation, or the most efficient, or the most loved, or the most technically advanced. The NCUA is charged with keeping the system *safe*, in keeping the deposits safe, and the share insurance fund safe. That is it. If diversification will aid safety, then we can draw up regulations about diversification.

But some of what I will call improvements to the credit union system are properly *not* the charge of the NCUA. If the trade associations, the leagues and the credit unions want some new authority, they are best advised to discuss it among themselves, come to a consensus, and lobby Congress for legislation; it is the trades and the leagues and the credit unions themselves who should do the heavy lifting. Congress might come to us and ask us what we think of a particular idea and we will be pleased to give them our opinion as we have by urging them to lift the member business lending cap and consider alternative capital but it is not our job to initiate or promote courses of action outside our primary focus. NCUA needs to have, and should have, a single focus: safety and soundness.

Regulation is often thought of as a negative. But we could just as easily think of it as a positive. You might say regulations made this city WE are IN today. Without regulations Chicago would not be Chicago; Regulation allowed for innovation and growth. Here in Chicago

regulation paved the way for the world's first skyscrapers and a city that was free to grow without fear, *It kept people safe, but it did not hold them back.* That is exactly what we at NCUA want to do.

Safety to deposits and the system. A healthy skepticism to any regulations that may have run their course. An open door to all comments and ideas. The greatest good for the greatest number. And a keen eye to the future as we see it unfolding rather than clinging to past formulas. These need to be our guides going forward.

Thank you for coming to Chicago and thank you for listening.