



## **Statement by NASCUS President and CEO Mary Martha Fortney**

NCUA Eighth Annual Budget Briefing and Public Forum

October 30, 2008

Good morning, Chairman Fryzel, Vice Chairman Hood and Board Member Hyland. I am Mary Martha Fortney, president and chief executive officer of the National Association of State Credit Union Supervisors, known as NASCUS. I am pleased to address the NCUA Board on behalf of NASCUS and state regulators.

We appreciate the opportunity to share our comments with NCUA at its Eighth Annual Budget Briefing and Public Forum as you introduce the agency's proposed 2009 budget. NASCUS will submit our written comments on budget specifics that Executive Director Len Skiles has outlined today that impact state regulators and state-chartered, federally insured credit unions. We look forward to studying the budget details at length.

NASCUS commends NCUA on its leadership to date during these extraordinary times. The agency has provided necessary operational and regulatory tools through several recent actions such as: ensuring the Central Liquidity Fund is available as a meaningful source of contingent liquidity; providing a limited corporate credit union guaranteed liquidity program; and working with Treasury to ensure credit union inclusion, where necessary and appropriate, in programs such as the coverage for non-interest bearing deposit accounts. In addition, NCUA's close coordination with its state regulatory agency partners has facilitated a consistent and effective regulatory approach on all levels. We look forward to continuing coordination and dialogue in the coming months.

Managing the current economic crisis, from a regulatory perspective, will assuredly present challenges to NCUA's budget, just as it is presenting challenges to state regulatory budgets. NCUA's oversight of state-chartered, federally insured credit unions does not take place in a vacuum. Any changes in NCUA's examination focus, and program, as well as shifting NCUA budget priorities have a real world impact on the examination and supervision programs of the agency's state regulatory partners. NCUA should consider these impacts, and the limited options some states may have to substantially alter budgetary and examination program constraints. That is not to suggest the states are at a loss to respond to the current situation. To the contrary, like NCUA, our state agencies have moved effectively to respond to events as they develop.

Around the states, regulators are stepping up examinations and off-site monitoring, increasing training for examiners and requiring their regulated entities to scrutinize, test and solidify their balance sheets. NASCUS remains confident in the state regulatory system's ability to perform its oversight and validate the public's well founded trust in the credit union system.

Intensified and increasingly risk focused examination is only one component of what should be a multi-faceted approach to credit union regulation. This multi-faceted approach should reflect

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the steps necessary to ensure a safe and sound, viable credit union system – a goal shared by both state and federal regulators alike.

From regulatory flexibility that allows credit unions to provide members the products and services they require to recognizing the prudence of revisiting credit union regulatory capital structures, it is important to know the agency's vision for the future. As you know, NASCUS believes it is unwise to delay addressing credit union capital issues. Allowing credit unions access to supplemental capital will bolster safety and soundness and will provide further stability in this unpredictable market. Supplemental capital will provide an additional layer of protection to the share insurance fund, thereby maintaining credit union independence from taxpayer bailouts.

Discussions with our state regulators indicate that credit unions nationwide are seeing increased deposits as members seek shelter for their assets. As a result, the net worth of some credit unions is negatively impacted as they try to balance increases in member demand for credit union services with a capital structure that measures retained earnings as its benchmark. Indeed, credit unions are finding themselves the victim of their members' well-founded confidence and have little alternative but to discourage their member deposits by offering lower rates, or outright turning down deposits.

State and federal regulators have a duty to remain committed to ensuring fiscal responsibility and integrity when carrying out our regulatory duties. We must work diligently to provide the best regulatory oversight while tackling challenges and emerging issues. We must afford the nation's credit unions with the opportunity to protect and grow liquidity as well as give them the tools to react to unusual market conditions.

We must be cognizant of increasing costs and limited resources. Sharing expertise and continuing regulator-to-regulator dialogue and cooperation will help us remain efficient as we face challenges to our resources. In the near term, state regulators will work with NCUA to ensure that credit unions have access to any and all tools to manage the current economic cycle. Further, we will continue to ensure that credit unions can serve their members' business lending needs. Let's work together to revise prompt corrective action regulations where appropriate. We must stand shoulder-to-shoulder in our efforts to ensure the long-term viability of credit unions. That viability is achieved by combining a continued emphasis on sound business practices and balance sheet management with prudent regulation.

In closing, we encourage you to continue promoting transparency in performing your dual role as the insurer of federally insured credit unions and as regulator of federal credit unions. NASCUS and state regulators appreciate your recognition of these distinct dual responsibilities. We also encourage the NCUA to continue its budget transparency for your stakeholders. NASCUS and state regulators appreciate this opportunity to provide our comments. We value your continued commitment to ongoing dialogue about the economy and sound regulatory oversight. Thank you for the courtesies extended today!

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