



Statement by Linda Jekel (WA)
NASCUS Chair
NCUA Sixth Budget Briefing and Public Forum
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Good morning, Chairman Johnson, Vice Chairman Hood and Board member Hyland. I am Linda Jekel, Director of Credit Unions for the state of Washington and the Chair of the National Association of State Credit Union Supervisors, known as NASCUS. I am pleased to address the Board again this year on behalf of NASCUS and state regulators.

We appreciate this opportunity to testify before the NCUA Board on the proposed budget for 2007. We believe the process of permitting stakeholders to comment on the proposed agency budget continues to be an effective mechanism for informing the public about NCUA's plans, programs and budgetary decisions for the next year. NASCUS respects that the NCUA Board and senior staff understand what is fiscally needed for the agency. This being the case, NASCUS will not comment directly on spending priorities in the NCUA budget.

As you know, NASCUS is the professional association of state credit union regulators who supervise the nation's more than 3,400 state-chartered credit unions. As regulators, both the NCUA and state agencies address many of the same important issues. My presentation will focus on several topics important to state and federal regulators.

1. The benefits of cooperation between state and federal regulators.
2. The effectiveness of a collaborative rule-making process for state-chartered, federally insured credit unions.
3. The important function of the NASCUS/NCUA Document of Cooperation.
4. The value of interagency dialogue.
5. The agency's regulatory and insurance responsibilities.

The benefits of cooperation between state and federal regulators

NASCUS and state agencies appreciate the ongoing cooperation between state and federal regulators. When thinking of the past year, examples of successful

cooperation come to mind. One is especially significant, however, and that relates to the request by the U.S. Congress of both federal and state credit union regulators for information to better understand how credit unions use their federal income tax exemption.

It is clear that both the state and federal credit union regulatory systems are committed to responding with accurate and objective information on the credit union system. We understand the importance of this project. State regulators and NASCUS are committed to gathering this information from all 47 state entities.

The NCUA staff provided guidance that NASCUS considered as we developed our methodology. The bottom line is that this example of cooperation demonstrates the progress that can be made when state and federal regulators work together toward a common goal. There is one word that describes the results of this level of cooperation—synergy. My goal as NASCUS Chair is to find more ways to create synergy between the NCUA and NASCUS.

Please know that as we speak today, we are open to continued dialogue to discover new ways that state regulators and NCUA can work together ... and learn from each other. If we take the time to learn we will discover new ways we can help each other. The primary beneficiary of our cooperation is the nation's credit unions.

The effectiveness of a collaborative rule making process for state-chartered, federally insured credit unions

An area that is especially important to NASCUS is the rule-making process for state-chartered federally insured credit unions. More than forty percent of the credit unions in this country are state-chartered and the majority of them are federally insured. The rules that the NCUA fashions for federally insured, state-chartered credit unions impact their operations.

NASCUS does not dispute NCUA's authority to write these insurance rules. We welcome the opportunity for upfront dialogue with NCUA on the potential impact of regulations earlier in the process. We believe that having this dialogue sooner would create more efficiency in the rule-making process.

Additionally, rules for federally insured state-charted credit unions are written by reference—meaning rules are referenced throughout the NCUA rules and regulations. They are not located in one central section of the rules. Further, some sections of a rule may apply to only federal credit unions; however, language in the same rule may apply exclusively to state-chartered, federally insured credit unions or to both state and federal credit unions. This structure makes it difficult for credit unions, particularly smaller credit unions, to navigate the NCUA rules and regulations and to ensure compliance. The state credit union system would

appreciate if rules written for state-chartered, federally insured credit unions were located in one self-contained section of the NCUA rules and regulations. Again, this is another way to allow for greater efficiency in the rule-making process and to aid with compliance.

The important function of the Document of Cooperation

The NASCUS Board and management set a goal to update the Document of Cooperation between NASCUS and the NCUA. This agreement reflects the commitment we share in making an even stronger credit union system. Our joint effort to develop and improve common examination and supervision procedures demonstrates improved examination and supervision. It shows our commitment to providing quality training to both state and federal regulators.

As NASCUS Chair, I am pleased with our open conversations about updates to the Document of Cooperation. We have made progress. Our dialogue answers several concerns about how to best address issues both in the examination field and on a policy level. Updating the document has proven to be a work in progress to ensure that each party's concerns are appropriately addressed in the Document. I believe this process is yielding positive results. It fosters an environment that allows us to perfect the Document of Cooperation for the benefit of both parties. I look forward to signing the updated Document of Cooperation with NCUA during my chairmanship.

The value of the interagency dialogue

In addition to my commitment to signing the Document of Cooperation between NCUA and NASCUS, it is my goal to enhance communications.

I am pleased that we held the joint sessions between state and federal regulators in Dana Point during the 2006 NASCUS State System Summit. Thank you ... all the feedback I heard was positive. State regulators were appreciative of the opportunity for open discussion on critical issues. We must never forget that we share common goals for a prosperous credit union system.

Let's continue to take advantage of opportunities for open communication. Credit unions are known for their spirit and cooperation in helping members. I am pleased we are enhancing our interagency communication in a similar spirit for the benefit of both state and federal regulators and the credit unions they supervise.

The agency's regulatory and insurance responsibilities

A primary interest for NASCUS in NCUA's budgetary process is the cost of providing federal deposit insurance through NCUA's administration of the National Credit Union Share Insurance Fund, or the NCUSIF. NASCUS understands that

safe and sound administration of the NCUSIF requires that we work together during the examination process to ensure the financial integrity of credit unions. We would be remiss if we did not discuss how funds are allocated for the management of this fund. This allocation has sometimes been a delicate issue between us.

The NASCUS leadership welcomes the opportunity to meet with NCUA and discuss these issues. Our goal is to gain a better understanding of the allocation between NCUA's regulatory and insurance responsibilities. Some of the questions NASCUS would ask in such a meeting would be: What are factors that potentially alter the calculation from year to year? For example, was more funding allocated to regulatory functions this past year? We ask because the federal data collection project required resources that did not affect the NCUA's role overseeing the insurance fund.

In the past, such questions have been the cause of contention between us, but that is not a wise use of our resources and of our commitment to work together. We look forward to future opportunities to have positive and constructive discussions with the agency on these responsibilities.

In closing, credit unions look to state and federal regulators to create regulations that provide safety and soundness while allowing for growth and innovation. We play an important role in the growth and preservation of the credit union system.

Thank you for the chance to share the state credit union regulator perspective on the NCUA's 2007 proposed budget. NASCUS looks forward to future opportunities to work together.

Thank you.