

An Agenda for Cooperative Regulatory Leadership in the 21st Century

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The Credit Union Movement needs a broad, public debate on the role of a cooperative regulator and a common agenda for change. Here's why:

The financial crisis of 2008-2010 precipitated multiple private and public assessments of the regulatory role for financial institutions. The most prominent legislative response was the 2010 Dodd-Frank legislation, which created the Consumer Financial Protection Bureau, the Financial Stability Oversight Council and innumerable new rule requirements.

The credit union system was not the target of this legislation. In contrast, the Movement proved its unique countercyclical capability by providing record amounts of loan originations (\$525 billion) during the worst years of the crisis. However, NCUA's reactions to the investment problems of the corporate system resulted in unresolved concerns about regulatory process and accountability.

One consequence of NCUA's actions was the dismantling of the independent, cooperative liquidity safety net – the Central Liquidity Facility (CLF). The CLF was built through a unique 25-year partnership among the NCUA, the corporate network and the network's member credit unions. A second outcome was the constraints imposed individually and collectively, on credit unions' ability to fully serve members at the peak of the crisis – when they most needed it. These were the result of overstated loss projections, resulting in inflated expenses that immediately reduced credit unions' capital and ability to make member loans.

The following agenda for leadership of NCUA would address lessons learned from the crisis. More importantly, it would respond to the dynamic, forward-looking needs of an evolving system of member-owned financial service firms.

The underlying assumption is that regulation must be a dynamic activity, responsive to the creative potential of the cooperative charter, as well as changing external forces. Regulatory oversight is not a recipe book of rules that, when followed, brings success. Rather, it requires constant interaction to monitor individual credit union performance *and* the system's ongoing responsiveness to consumer members' changing circumstances.

Effective regulation calls for a constant dialogue, based on mutual respect, between the regulator and the regulated. In this approach, the regulator not only models cooperative principles, but also advances member-owned solutions for community needs.

A Contemporary Agenda for Cooperative Regulation (Cooperative Principles)

1. Restore a comprehensive, autonomous cooperative liquidity solution. (Autonomy and Independence)
2. Develop and deploy a forward-looking, network-wide examination of findings in real time to help credit unions better serve members through self improvement. (Cooperation among cooperatives. Education & Training)
3. Design and implement a cooperative governance structure for oversight of the National Credit Union Share Insurance Fund (NCUSIF) and CLF to enhance system wide financial stability. (Democratic Member Participation)
4. Enhance the cooperative model's capability to respond to member and consumer financial needs. (Economic Participation. Voluntary and Open Membership)
5. Collect and publish the cooperative system's role in creating member value and advancing public policy priorities. (Education and Information)

Joint Research Projects for Cooperative Innovation for Industry and Regulatory Study

1. Develop a system capability for aggregating and selling cooperatively underwritten and serviced loans to the secondary market.
2. Expand options for short-term, low-balance, revolving member loan solutions to replace predatory alternatives.
3. Enhance ways cooperatives can create partnerships with universities, foundations and government units for affordable educational financing options for student members and their families.
4. Broaden cooperative network support to enhance smaller credit unions' capabilities to provide member value.
5. Develop new means of providing consumer and member education on the value of cooperative financial services.
6. Strengthen dual-chartering options by enhancing the role of state charters as a vital source for innovation and local responsiveness.

Cooperative Legislative Priorities

Legislative priorities would be derived from these initiatives and may include reform of the CLF and NCUSIF oversight, expansion of consumers' 529 options to include credit union share accounts, and a pilot program for federal charters to match state-chartering authority.

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