

## PODCAST NOTES

*How important is it that there be representation on the NCUA Board from credit unions?*

Chip:

Certainly, funding would warrant a responsiveness to the sources of those funds. But the more important criteria is in a cooperative, the member/owners are in fact the people whose resources are being collectively brought together.

The most effective way to ensure those resources are being used in the member/owners' interest is to make sure they have a role in the governance process, as well. And that isn't just an after-the-fact reporting role, that is a role in terms of looking at policy and making sure that the resources that are collectively managed are being managed in the interest of all the industry not just in the interest of the individual organization's self interest. So self-governance is a cooperative model and I think that's what engenders the trust and the confidence that we referred to that at times seems to be lacking between the regulator and the system that the regulator has responsibility for overseeing.

Accountability is one aspect of it, but it's also responsibility for collective assets. Today, the credit union system has over a trillion dollars of funds that are willed to future generations. These are resources that are held, if you would, in a common trust, that are overseen by almost 7,000 institutions, of which the ultimate regulatory authority is the person who sets the rules. To be responsible for these assets, not just an individual institution, is an enormous undertaking. [It must be done] with a view to understand the needs and the best way to serve the industry, not to impose a set of rules that may have been brought from another context or another set of situations.

*In an effort to make the regulator better, some say it might make current board members defensive, what are our thoughts?*

Randy:

Certainly, anytime we talk about innovation some people look forward, some people say if you're talking about changing going forward, you're damning the past. I totally disallow that. We should say what does it take to innovate for the future. One thing we talk about re the board of NCUA and influencing who is on board or talking about our agenda, and making sure the directors of the NCUA understand that, we aren't talking about changing the bureaucrats or the people in the field making the rules. We are talking about how a board influences the tone of an organization, the marketing of an organization, the brand of an org. All of those things. Consumers today, for our industry to be strong, we have to have a brand for our regulator that is strong.

We want people to say, "Boy they have a great, strong regulator and that regulator is working for consumers and those consumers own the place," and that brand makes our industry stronger even sometimes when we disagree." It is not for us to always be in step with the NCUA. But without a strong

brand for our regulator and strong brand for our insurance, then our industry is not raised by that standard. And when we don't have anything to say about the culture, the brand, the items that they're worried about, the relationship between strategy and tactics, then I think that brand gets weaker.

And when NCUA is not willing to be transparent, and candid, and open, and all of those things, then the three parts that make us a strong industry: the consumer-owner, the regulatory partnership and actual professional partnership are found to be lacking. And we need all three parts to be great. And without that agenda to be a great brand, we're losing. We have a conflict with NCUA [when] we don't get to vote. We have a problem, and someday NCUA is going to turn around and say, "Hey we want to be your regulator." And they may find a lot of people in the industry and others will say, "Why? You don't act special, we don't need a special regulator now." We need to protect [the] special [designation].

*Why do credit unions need a separate regulator?*

Chip:

(We have some of the best minds in financial services in credit unions if you want to look at the track record of the various industries over the past 5-6 yrs.)

The concept of a brand in terms of a regulator understanding and responding to the cooperative model is one aspect of the industry's self confidence and mutual trust. The other aspect is the public confidence. For example, credit unions have a tax exemption and this year, and probably for years to come, that question is going to be asked, why does this increasingly successful industry deserve a tax exemption? And part of our brand and part of the information that needs to be collected and talked about is the unique roles, the unique responsiveness that credit unions perform – not just in a crisis, and during a financial crisis unmatched by anyone – but also today. The consumer public is looking for an alternative that will act in their interest, and credit unions do that day in and day out as part of normal operations. But that's not the image that you would get from the regulatory community.

I have worked with a credit union that has a unique partnership with [one of the most] prestigious universities in the world, where the credit union and university together are providing financing tens of millions of dollars for students at low interest rates, and where there is a shared philosophy and shared long-term view. The irony is the credit unions involved and university found that the capital markets closed on the traditional sources when the crisis hit, and that was the first time the university had looked to credit unions as a model for a long-term partnership in this very critical area of financing. But not just education. But it's not just student education. It's also in housing and first-time homebuyers, and affordable financing for cars. It's in fair and transparent credit and debit card transactions. So our brand isn't just in our performance; our brand is also in how the credit union model provides consumers options, alternative and long-term relationships that aren't routinely available through other options.

*Looking ahead – how can we help NCUA foster an environment that gets back to cooperative principles?*

Randy:

It's inspiring them to be creative and how do they use those principles in their jobs. I find it very interesting, I don't have a template of get back to the way it was, but as a regulator with all the technology we have today and the 7,000 credit unions today rather than 24,000 credit unions and the size we can attain with credit unions and all the things we can do, how do you take that environment and apply those principles to today and to tomorrow. I don't have a mission to get back to something, and I don't have something that says "this is the right way or wrong way to do it." But what I want them to say is, "We understand the mandate to be an expert at oversight of cooperative, architected financial services. And then say this is how we think that fits."

I'm more interested in, how do we design business with the cooperative principles that win. And we help consumers who are active enough to own an organization and say these are our goals, succeed at their goals. So, whether it be social mission, viable economic community where they live, or it to excel at returns. I think that cooperatives say that the owners and the consumer-owner picks that. That's why the NCUA should say, "Boy, we've got to be diverse. These cooperatives have a lot of reasons to be in business. They all use the same backbone, and we've got to respect that, so customers want to own cooperatives."

We've got to make it creative for the future, because I think better business people are coming forward every day and the next generation needs cooperatives but they need a message that inspires them to own one.

*With the Agency moving away from the past emergency liquidity system, how important is a cooperative solution?*

Chip:

One of the advantages of the cooperative model is that you're not alone. Cooperatives have created a system, and that system has pooled resources that are available for the inevitable shocks that any organization will go through.

When we disperse liquidity we now make credit unions vulnerable to dependency on other institutions where credit unions and other cooperative models are not their primary purpose, nor is it their primary interest. The credit union system was founded and for more than 50 years was apart from the rest of the financial system. Our initial regulator was the Dept. of Agriculture. And there are forces that would try to pull us into the traditional financial-performance parameters and that not only undermines the cooperative model but inhibits design and creativity. It puts a one-size-fits-all mindset on issues that are very important, like risk analysis and capital. So, for example, one of the top priorities I would have as an NCUA director would be reconfiguring and building a cooperative liquidity option, among other options, because in the times of crisis, generally crises start as a liquidity problem and then morph into a capital

problem. So, one of the first bulwarks of making sure the cooperative system can continue to function when the inevitable happens and times aren't as positive as they are today.

*You've said the industry is at a crossroad; what do you mean?*

Chip:

Coming out of the crisis and the concern about risk and risk management has changed the nature of leadership, not only in the agency but in credit unions. I think today CEOs are more risk-conscious and boards are risk-averse. I think that there's an increasing search for feeling like you're running with the pack as opposed to being out in front on issues and so on. And the cooperative model has an innate capacity for change. It takes the long view in terms of return. So, I think there's been a slowness in realizing the opportunity that has been in front of credit unions in virtually every market and every need that they serve to step up to opportunities.

One example might be secondary market issues. Everyone knows that Fannie and Freddie are going to be changed into something else, and the private-sector options will become more important, reducing the role that government has had in housing. There needs to be a cooperative solution to this, not just borrowing or trying to feed into a private-market dictated solution.

The importance here is getting back our cooperative confidence and the cooperative *joie de vivre*. That is it's fun to run a cooperative, it's fun to be part of a new creation whether it's in student lending or all the others areas that credit unions have pioneered.

*In our early effort, we've learned that credit unions need a mechanism to get credit unions to realize we don't have a way to rally the troops ...*

Randy:

Credit unions are very procedural beasts. The CEO might have a spending authority or the board might have a standing limit on certain immediate actions and boundaries, or a process for how do we go from zero to 100 mph very quickly. Well, for day-to-day operations, credit unions are very willing to design products that are fast to market. We want to see that same kind of intensity around grassroots ideas and promoting ideas, and speaking with your membership, and inspiring your community. So there were many organizations who jumped on it right away but there were far more that said, "Well I'll bring this up at our next board meeting. Or I have to go through and get the approval, or I don't know if I feel comfortable asking my staff to participate. Is it a mandate as an employer?" and so forth.

Now, anything that slows that down in any organization I think we ought to talk about it. Because, when we want to rally, and we want to rally the voice – don't always want to get the same opinion – but when we want to rally, our industry needs to say we're fast to market at that. We'll get people inspired .

We'll start a conversation, we'll start a fire of conversation, as quickly as anybody can. And that should be a standing position.

And when we need cooperative liquidity, we need to understand how to work with like organizations, but we need the same kind of community for action. And if the mechanics of how that works, when people say "we have trade organizations, we have this and we have that," when we can't act as quickly as we need it to rally, without just asking people to speak up, then I worry. And that is as operational as we can get. We need to get just as operational on that as we do on a regulatory change in 2014.

*Chip, thoughts on this?*

I think the prospects for credit unions couldn't be greater – all the way from the macro environment where there have been continuing critiques and reappraisals of the capitalist model. There are many areas of society that now recognize the potential for credit unions that didn't before the crisis occurred. BTD was just one consumer recognition that credit unions are an alternative that are doing things differently and for the long term. So, I think we have the opportunity to seize the momentum he needs and the economies with consumers that still exists are very, very great. We've never been stronger from any financial measurement you want to make. So, I think the momentum is there in the marketplace, in the public marketplace, and it could even be greater if we could align the regulatory efforts to support this. The unique opportunity is to show the cooperative model works. It's not just a difference by design, but it's also a way people are increasingly choosing to commit their resources – not only for their own welfare, but for the welfare of their communities and in some cases the welfare of the country.

*Why is that important now?*

Randy:

For myself, I think it's technology, and it's a mindset with the actual community. It's so much easier now with technology and what people are learning to be part of something – both good and bad. The idea that businesses out there say, "Now, I can rally people to create and become a business." And there are all these ways to do this that are so much more impactful. And so cooperatives make a lot of sense.

When I go and help someone in a town I say, "What's the big driver behind your credit union?" And they say, "all the banks left town." And that may seem insignificant, but when you look at some of the rural parts of America, and you see that our credit unions are the local community's solution to add financial services to their economic model of the whole town, it's easier than ever before and it's needed. And it's very timely.

Chip:

I think the time is now because the need is now, as well. There was just a report released last month, the combination of Pew Research Center and the Census Bureau, showing that while there is definitely an economic recovery, it has been extraordinarily uneven. And the part of the market place that credit unions serve, the middle marketplace, has lagged behind even the very slow recovery. And Congress, the public, are still looking for solutions that work. And one thing you can say about credit unions, is they work! When you can start a trillion-dollar industry with zero capital, just think what we can be with that capital and the trillion dollars we've got today 10-15 years down the road. And it takes time to build these solutions and to build these roots and the time to get started is now.

*Given that the industry now has \$1 trillion and more than 100 small credit unions just recently merged, is our tax-exempt status in danger?*

Chip:

Ever since I've been in credit unions about 35 years, the taxation of credit unions has always been an issue. And it's been brought up as kind of a "boogey man" issue: "If you do this, then you might run the risk of being taxed. If you do that, the banks might come after you."

I think that will always be an issue. The most important thing we can do is demonstrate the benefit of the cooperative charter and the impact that we have. And once you do that, then the question of taxation almost gets removed from the table because we are doing things that other institutions are unable to do, unwilling to do, or wouldn't even consider. And once our track record is clearly presented and understood, then that's the best argument for why others don't have a tax exemption. Every dollar, *every dollar* that goes into the credit union as capital is willed to the future betterment of those members, their heirs, and the communities and society in which they live. No other institutions can say that. Other institutions spend; we create wealth for the betterment of the future and that's why we have the tax exemption.

Randy:

And the interesting thing about that is you can take all the way to the part of inspiring American consumers to become owners of businesses. That taxation is granted to the owners of credit unions to inspire consumers to become owners of their own financial solution. It's not just for a big institution, it's for the consumer-owner. And I hate to take that away, that incentive to start a business for your community with those high ideals – that's worth the tax incentive. And I hope people always look at that. I hate when we look at a \$10 billion institution or \$10 million institution and say one deserves a tax break and one doesn't. The consumers that activate as owners, that's the inspiration for that and that's a worthy goal and that's worth our tax dollars.

*We measure success incrementally, what would success look maybe 5 years out*

Randy:

To raise the level of awareness. If I could talk to a quarter million people that work in credit unions today members today, and I felt that a large percentage of them were aware of how leaders of the NCUA were elected or placed, I think that would be a major win. If they actually said that they understood how to have a voice and they activated their voice, I think that would be huge. Then go to their membership. It's a shame that we don't have it with our own vested career professionals. But then, we want to go to the membership too. But a long-term win for me is to look back and say we woke up people to their options to be active, and they rose to the occasion and they're more active than they've ever been. I don't know what the goal is 10%, 15%, 20%, or whatever that is. But that voice I trust will engage the process and innovate it, but we just have goals for people to be more aware.

Chip:

The other side of that is that as you get people engaged, success for me is that credit unions are increasingly seen as the go-to resource, the go-to institution, the go-to place for communities, for public policy initiatives, for educational institutions, looking for ways to find solutions to their most important opportunities or needs. So, the credit union is perceived, not as kind of a local solution, but the cooperative nature resonates with all of the other institutions that make a community not only a fun and successful place to live, but a quality of life where people can feel, as Randy said, that they're participating in their future.