Financial Crisis Inquiry Commission
Testimony of Wally Murray
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Good morning and thank you for inviting me to testify before the commission. I would like to begin by thanking Chairman Angelides, Vice Chairman Thomas, members of the commission with special thanks to Commissioner Georgiou, for having me here today.

My name is Wally Murray. I am the President and Chief Executive Officer of Greater Nevada Credit Union, a $500 million institution based in northern Nevada that serves 50,000 members. I have been with Greater Nevada for nearly 22 years and have been its CEO since 2001. Although originally born and raised in California, I have lived in Nevada continuously since 1987. Together with my wife Dee Dee, who is a Nevada native, we have raised our family in the state capital of Carson City. Our adult aged daughter is currently employed by the Supreme Court of Nevada, while our son is currently attending the University of Nevada, Reno.

I also currently serve as the Chairman of the Nevada Credit Union League (NCUL), the state trade association for the vast majority of credit unions in Nevada. Representing 18 of the 23 credit unions based in the state, and several others headquartered elsewhere but with operations in Nevada, the NCUL's members combine to serve nearly 500,000 Nevada consumers and total over $4 billion in assets. Nationally, America's 7,500 credit unions deliver high quality financial services to more than 91 million consumers in all 50 states. Together, these institutions held about $910 billion in assets as of March 2010[1].

Credit unions have served an important role in the national economy for over 100 years and are unique from other banking institutions in several important aspects. One of the most important

[1] "U.S. Credit Union Profile – First Quarter 2010 Summary of Credit Union Operating Results," page 5. *Credit Union National Association*, 2 June, 2010. Http://www.cuna.org/download/uscu_profile_1q10.pdf

of these differences is that credit unions are financial cooperatives. This means that they are organized, owned and controlled by the very members that they serve. Another important distinction is that credit unions are not-for-profit institutions.

Combined, these factors help distinguish credit unions from banks and other types of for-profit financial institutions that exist to deliver increased equity value for their stockholders. And because credit unions do not issue capital stock, the compensation models of their managerial staffs are not dependent upon the stock prices of their institutions. Instead, credit union Boards and management are interested in generating only enough earnings to provide an adequate level of capital for their institutions for safety and soundness purposes. (This points out another important distinction for credit unions, in that their sole source of capital is from internally generated earnings. They currently have no access to alternative sources of capital.) Any other potential earnings are typically returned to the membership of the credit union in the form of reduced costs for loans and other financial products, increased earnings on their savings and/or investments in additional services. Therefore, since credit unions are not motivated to maximize profits like other financial entities, they have historically been immune to the perceived excesses in executive compensation that have recently become a political hot button in banks and other financial services entities.

Since only about 4% of the assets in the credit union industry are in business loans, there is undoubtedly a direct correlation between American families and credit unions. As a result of this very tight integration, the fortunes of credit unions are inextricably tied to the financial well being of their members. Therefore, when consumers (i.e. members) face financial adversities then their credit unions also are similarly challenged.

This has certainly been the case for Nevada's credit unions during the past three years, as it has for those based in other states that have been hard hit by the economic downturn. The combination of the factors below has made the operating environment for Nevada's credit unions quite challenging:

- A dramatic economic slowdown within the Silver State that caused many businesses to either close their doors or dramatically reduce the scope of their operations, and led to

the unemployment rate more than tripling between June 2007 and June 2010 (4.6% to 14.2%)

- A heavily increasing regulatory burden on a variety of fronts that is simultaneously increasing the costs of compliance while also reducing the ability to derive revenue
- Mounting pressures from the National Credit Union Administration (NCUA), the federal agency that both regulates federally chartered credit unions and oversees the credit union specific deposit insurance fund (NCUSIF) that is entirely financed by the contributions of its insured institutions. NCUA currently has a very dim view on the short and intermediate term outlook for the state and has therefore imposed an extremely cautious posture on the credit unions in the state.

These trials have caused a significant drain on credit unions' financial capital within the state. Many of our credit unions currently find themselves with net worth levels that qualify them as less than "well capitalized" and therefore eligible for regulatory treatment known as Prompt Corrective Action (PCA). Currently, my credit union is included in this group. And, unfortunately, during 2009 four of Nevada's 27 credit unions (approx. 15%) were forced by the regulator to either liquidate or merge with healthier credit unions based outside of the state due to their reduced capital bases.

While pursuit of this "merge them away" strategy by the NCUA helps protect the NCUSIF at the federal level, the damage it is causing to Nevada based credit unions, and their members, will likely be irreversible. At a time when Nevada's credit unions have both the demand from consumers for credit and the liquidity to support such lending activity, they are being directed by an agency that is interested solely in the view from the "30,000 foot level" to avoid taking such actions. This is occurring in spite of the fact that credit unions have long been noted for having far stronger loan underwriting standards than other types of financial institutions. As a result, members who have long relied on their credit unions for assistance during times of personal need, are being forced to turn to other alternatives that are often more costly to them individually.

In addition, in a somewhat perverse anomaly, credit unions having extra liquidity that they cannot lend due to the aforementioned condition are being forced to manage their balance sheets and net worth positions by reducing their deposit bases. This has resulted in credit unions reducing interest rates on consumer savings, which are historically among the most attractive in the market, so that they can rid themselves of excess liquidity that is unable to garner any meaningful yield in the current low rate investment environment.

The unfortunate result of these circumstances is that credit unions within Nevada have been less able to meet both the lending and deposit needs of their members at a time when those families need them the most. The risk-averse condition in which many Nevada credit unions find themselves has even necessitated a curtailing of much of the loan modification activity that had previously taken place. That activity, which was voluntarily occurring within credit unions long before it even was a topic of discussion within federal and state governments, has helped many Nevadans stay in their homes or retain their vehicles which are needed for transportation to and from work.

It should be noted that credit unions were never granted access to any of the assistance funds that the federal government made available to the banking industry through the Trouble Asset Relief Program (TARP). While no official explanation was ever provided regarding this situation, one can conjecture that it occurred because the overall fiscal health of the credit union industry at the outset of this crisis was quite strong, having ended 2007 with a combined net worth ratio of 11.4%. That level was substantially higher than the 7.0% level that qualifies as "well capitalized" by federal statute. Through March 2010, that level had fallen somewhat, but still remained at a robust 9.9%.

Within Nevada, credit union net worth ratios have experienced a somewhat more dramatic decline during this timeframe. To illustrate, during 2009 the combined net worth ratio for Nevada based credit unions declined from 9.84% to 7.35%.[2] This drop is not surprising given the economic challenges that many members have been forced to face these past three years,

[2] WestScan 2010 – The Business Environment for Credit Unions in California and Nevada, page 16. *California and Nevada Credit Union Leagues.*

which have required them to make significant financial lifestyle adjustments. Too frequently those adjustments have resulted in the loss of a home that was now worth only about one-half of what it was less than five years earlier, or the loss of a vehicle that they could no longer afford to pay for or insure once they lost their job or had their work schedule curtailed.

While there is probably relatively little to offer on the causes of the national financial and economic crisis beyond what the commissioners have already heard, hindsight does seem to clearly indicate that a major underlying root issue was the aggressive pursuit of fostering the so-called American Dream during the past generation for as many people as possible. This was certainly a politically popular position to take regardless of party affiliation, as evidenced by the litany of legislative initiatives and market programs introduced during the past 15-20 years that were aimed in that direction. However, it is now also clear that in doing so, decision makers overlooked one vitally important stabilizing factor: the need to ensure adequate financial literacy of those seeking to own homes.

As the various industries associated with home ownership realized how prosperous that endeavor was, they were encouraged to do what they could to build the momentum of real estate sales activity and then keep it going. While the main motivator supporting this was increased profits for home builders, trades people, appraisers, real estate agents, title companies, lenders, and those in the investment world, there were other pressures brought to bear as well.

One such example in the credit union industry was a concept that became popular with regulatory bodies in the mid-1990's and throughout most of the first decade of this century called "serving the underserved". This concept was instituted under the belief that credit unions were originally formed to deliver financial services to those who were unable to garner them from other sources in the marketplace (i.e. banks). Therefore, even though the credit union industry had matured significantly during its more than 90 years of existence at the time, it was told that it needed to honor its original heritage by reaching out to provide financial services, including home loans, to people who were not able to get them elsewhere. Toward this aim, NCUA adopted a major initiative called "Access Across America" that was focused on the concept of "serving the underserved". Its Board members also frequently gave speeches to

various audiences in which they strongly encouraged credit unions to do more to reach out to those who were less fortunate, especially in the area of providing opportunities for home ownership. Of course, little mention of that initiative is made by agency personnel in the current environment, nor does there seem to be any acknowledgment that perhaps some of the things that credit unions did to try to comply with the spirit of "serving the underserved" may have contributed to their current financial straits.

Throughout this period, significant advances were made toward making the process of buying a home and obtaining a loan easier to achieve. In addition, efficiencies were also gained in parsing and pooling the resulting mortgages and their servicing rights for the benefit of large institutional investors. However, very little was done in the area of ensuring an adequate understanding of the consumers who were entering into these very complicated transactions that would impact them for years to come.

This situation was only exacerbated by the housing bubble that occurred because of this frenetic activity level. That bubble caused many consumers to use their rapidly increasing home equity to take two actions that are contrary to responsible home ownership: trading up to a more expensive home essentially for investment purposes, and increasing the leveraging of their home to purchase non-equity building consumables.

In addition, many people who had an eye toward investing decided that purchasing and selling homes that they had no intent of living in was another way to utilize this opportunity for their personal gain. This last factor has been a large contributor to the downturn in Nevada. This was especially in the southern part of the state which contains the majority of Nevada's population, and which became well known for its real estate "flipping" opportunities. The mortgages supporting those transactions were the first that people stopped paying on when real estate prices began their decline, which is why the environment has been so much more challenging for lenders in that part of the state as compared to their counterparts operating in the more northern portion.

Without a full understanding of the risks and responsibilities associated with the purchase of a home, some people tend to be swept up in the euphoria that can be associated with such a transaction. I believe we are witnessing the fallout from such a lack of education and hope we can learn from that experience. This should serve as the impetus for requiring that the responsible use of credit be incorporated into the curricula of our schools at secondary level. We can also help avoid repeating the mistakes of the immediate past by not allowing people to enter into loan modification agreements without requiring that they are first able to demonstrate some basic level of financial acumen. Absent that proficiency, they should then be referred to appropriate financial literacy education courses to obtain such capabilities. While this may sound somewhat burdensome for the consumer, evidence is bearing out that those who do not possess such capabilities have as little chance of succeeding with their modified loans as they did when those loans were first granted.

There should be little doubt that the state of Nevada is in the throes of an economic reset. Many people originally postulated that because Nevada was one of the first states hit hard by the bursting of the housing bubble, it would be one of the first to come out of it. Unfortunately, those holding that opinion neglected an important factor, which is the composition of the Nevada economy.

With so much of our economy tied to the hospitality and leisure industry (i.e. gaming), it is unlikely to be one of the first states to rebound. Instead, it seems far more likely that it will be one of the last to do so. That's because taking vacations to destination locations like Las Vegas is probably something people are less inclined to do unless they have a high degree of confidence in their current personal financial position.

With that said, it does appear that people and businesses in Nevada have made significant strides toward adapting their lifestyles to the current climate. This is helping them make ends meet as we continue the "bouncing along the bottom" condition we seem to be experiencing. At Greater Nevada Credit Union, we have seen these adjustments manifest themselves in our members being more willing to increase their upfront equity positions in the personal assets they are acquiring, whether those be real estate or personal property. This also generally means that they

are now more interested in purchasing at the value end of the price spectrum than they had become accustomed to in the years leading up to 2007.

On the business side, we at Greater Nevada have also experienced the effects of this economic reset. Like many other organizations, we have worked hard to increase our internal efficiencies to better meet the current needs of our business. This has led to a reduction in the number of staffed positions by about 15%. Those people that remain have also experienced a reduction in their base pay and their benefit packages, measures that have now been in place for nearly 18 months. While those employees were not pleased to be affected in this way, they quickly recognized that it was far better than the alternative they could have been facing, and have adjusted their lives accordingly.

Further evidence of the "bouncing along the bottom" phenomenon can be seen in the level of real estate activity for much of the past year. In the northern part of the state, the decline in home resale prices seems to be well along the way to abating. Granted, it's true that those prices are currently at roughly the same levels as they were in 2002 and almost no new homes are being built these days. However, the inventory of homes on the market has dropped substantially over the course of the last 12-18 months, and now sits at a level generally considered by real estate professionals to be a neutral market that favors neither buyers nor sellers. This represents a vast shift from the not-so-distant past, where it was definitely a buyers' market.

While the level of unemployment in Nevada remains a concern, not enough focus is given to the fact that it is a lagging indicator from an economic viewpoint. What seems important is that companies have altered their operations to a level where they are now once again generating profits. Once those entities gain more confidence in their ongoing ability to keep making a positive bottom line, they will become more likely to once again seek to broaden their market shares. In turn, that activity will increase the likelihood of employers growing their payrolls, thereby putting people back to work.

One area where credit unions can make a contribution to the effort to help stimulate employment is in their willingness to make further extensions of credit to small businesses owned by our members. While this initiative would currently be less applicable to most Nevada credit unions than it would be in other parts of the country, it is nevertheless something that is worth pursuing and strongly endorsed by the NCUL membership. And the good news in this age of burgeoning concerns about growing federal budget deficits is that this is literally a zero-cost solution for the government.

Credit unions have been providing small business loans since our inception early in the last century. For nearly 90 years, we were able to do so without regulatory restrictions. However, in the late 1990's an arbitrary cap was applied which limited the business lending portfolio of a credit union to 12.25% of its assets. Credit unions have been working with Congress and the Administration to pass H.R. 3380, S. 2919, and the current Senate Amendment #4443, offered by Senator Udall of Colorado. All three have been endorsed by the Treasury Department and the NCUA, while also enjoying largely bipartisan support. It is worth noting that both senators from Nevada, the Honorable Harry Reid and the Honorable John Ensign, have indicated their support for this legislation. In fact, Senator Reid has signed on as a co-sponsor to the Udall Amendment and S. 2919.

These pieces of legislation will simply extend the credit union member-business lending cap from 12.25% to 27.5% of assets. Estimates are that such an action will help create roughly 108,000 new jobs nationally and $10 billion in the first year after it is enacted. As previously mentioned, this increase in lending will not require any outlay of federal funds. In fact, the jobs it helps generates will serve to provide additional income to the Treasury via additional payroll and income taxes. In addition, none of that increased economic activity will be slowed by having to pass through a governmental bureaucracy. Instead, it will be quickly and efficiently delivered directly to main street.

Presently, the Udall amendment awaits action on the Senate floor for consideration as a part of the small business lending package. Interestingly enough, that package also contains $30 billion

in direct governmental assistance to community banks. Nevertheless, we strongly encourage the passage of that passage at quickly as possible.

This is just one more example of the ways that credit unions work for America and Americans. By our very nature, we consistently look for ways to cooperate with our members, the communities we serve, our government and, one another. We have always been motivated by the concept of "people helping people" and even as many of our credit unions face financial challenges of their own, we are still seeking creative ways to do more for the consumer.

One of the key criticisms of the financial crisis has been the lack of care and compassion shown for the consumer, especially by those on Wall Street. Yet credit unions have a history of consistently demonstrating our concern for those on Main Street. Our members come to us because we offer a more localized approach to banking that considers the needs and goals of individuals and their families.

In attempting to devise solutions to this crisis, credit unions have been largely overlooked by our government as a potential conduit for delivering quick assistance to the people who need it most. We hope that this can be resolved in part through increased participation in important forums like the FCIC to provide the credit union perspective on financial issues that affect people.

Thank you again for allowing me the opportunity to testify today. I will be happy to answer any of your questions to the best of my ability.