**STATEMENT OF**

**EDWIN J. COLLINS, PRESIDENT AND CEO OF LOCKHEED GEORGIA EMPLOYEES FEDERAL CREDIT UNION**

**ON BEHALF OF**

**THE CREDIT UNION NATIONAL ASSOCIATION**

**and**

**THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS**

**BEFORE THE**

**HOUSE FINANCIAL SERVICES COMMITTEE**

**SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**PANEDMIC INFLUENZA PREPAREDNESS IN THE FINANCIAL SERVICES SECTOR**

**JUNE 29, 2006**

AMERICA'S CREDIT UNIONS™

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**JUNE 29, 2006**

Chairman Kelly, Vice Chairman Paul, and Ranking Member Gutierrez, I am Edwin J. Collins, President and CEO of Lockheed Georgia Employees Federal Credit Union. I am here today on behalf of the Credit Union National Association and the National Association of Federal Credit Unions. My credit union is a member of both trade associations. There are about 8,800 state and federal credit unions serving approximately 89 million members.

I have been involved with credit unions for forty-two years, including as a former examiner with the National Credit Union Administration in the earliest days of my career. I am a member of CUNA's Examination and Supervision Subcommittee and the immediate past chairman of the Georgia Credit Union League. My credit union has over 86,000 members and our assets are approximately $550 million as of May 31, 2006.

While the subject of today's hearing focuses on a very unpleasant topic – the unsettling specter of an influenza pandemic -- I want to commend the leadership of the Subcommittee for holding this hearing to address readiness and preparation within the financial services sector for a potential influenza outbreak.

I also want to recognize the early and ongoing efforts of the Administration to develop a national strategy designed to protect our government and businesses, as well as the general public should such a catastrophe occur. While it is impossible to plan for every contingency or potential outcome that may occur in the wake of a national or regional disaster, in our view, the strategy details a range of issues and recommendations that, if implemented properly, should support continuity of operations within the government, the business sector and throughout our society.

I would like to specifically commend the Department of the Treasury, under the direction of Secretary John Snow, for its efforts to coordinate disaster planning, survival and recovery for the financial sector. Both CUNA and NAFCU have been working with financial regulators on this important issue, and to educate their members, America's credit unions, to help them prepare for the effects of a pandemic. Yesterday, as part of federal agencies' continual efforts on this matter, representatives of CUNA and the American Association of Credit Union Leagues (AACUL) participated in a lengthy meeting with Treasury, the Department of Health and Human Services and others to address specific concerns relating to preparedness. I also want to recognize the work of the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), of which CUNA and NAFCU are members, for its diligence in helping financial institutions identify and address the complex issues surrounding the resumption of business operations following disasters or other widespread disruptions. This organization, working with Treasury and the Department of Homeland Security, took an early lead in helping financial institutions focus on the need for specific planning, including telecommunications infrastructure protection as well as steps that could be taken to protect staff, members and customers following a widespread outbreak.

Like the federal government as well as other businesses, credit unions are seeking to modify their business continuity plans to address unique and specialized needs that would arise in the event of an influenza pandemic. Guidance from the Treasury Department and elsewhere has indicated that financial institutions should develop at least a first draft of a pandemic response plan by this summer. Refining our plan is a priority that my credit union -- in particular my human resources staff -- has worked hard to achieve. As part of our plan, we have determined what is necessary during a pandemic in terms of staff and technology to sustain our operations from offsite, ensuring our members will have access to our website, their accounts via their personal computers, and to automated teller machines. Also, consistent with credit unions' tradition of member service, our focus will be to focus on ensuring members have timely access to their accounts.

A number of resources exist on which financial institutions have been able to rely to modify and enhance their disaster recovery and continuity plans.

For example, the National Credit Union Administration (NCUA) Board, along with the other federal financial regulatory agencies, provided important guidance to credit unions in the first quarter of this year to increase awareness concerning the potential threat of widespread influenza and how financial institutions and their vendors should modify their strategic plans to prepare for particular disasters such as an influenza pandemic. Much of the guidance provided by the financial institution regulators' was drawn from the National Strategy for Pandemic Influenza developed by the Administration.

NCUA's guidance is one of a number of activities the agency has undertaken to address pandemic preparedness, both within the agency and with credit unions.

Additional efforts the agency has underway include a review of credit union preparedness as part of the agency's risk focused examination process; guidance for examiners on disaster recovery issues; focusing on records preservation; encouraging credit unions to increase members' access to their accounts via the Internet or other electronic means and to increase the use of the Treasury Department's direct deposit program, the *Go Direct Campaign*, to help ensure member funds will be available during a pandemic.

**Addressing Key Issues**

One of the first steps in developing a strategic plan is the consideration of issues the plan should address. In that connection, in January of this year, the FSSCC issued a "Statement on Preparations for 'Avian Flu'" and a paper entitled, "Issues of Consideration Regarding Preparations for 'Avian Flu'". These documents address specific concerns raised by financial institutions and provide substantial assistance for the identification of potential problems that should be addressed in plans as well as in preparatory and follow-through actions. Undoubtedly, the Subcommittee has reviewed those documents, and I won't detail them here. However, recognition of the substantive issues they address bears repeating in the context of this hearing.

- Business Continuity Issues. The FSSCC identified a number of concerns in this area including the fact that a flu epidemic could last for a number of weeks; certain activities such as certain face to face meetings that could be cancelled; dividing staff into teams to operate from different location;

  the use of expanded technology; staff telecommuting from diverse locations that may raise issues of security; greater use of teleconferencing; limiting long-distance travel; whether arrangements need to be made for key personnel to avoid using mass transportation; increased security, particularly where there is absenteeism in critical positions; and testing to ensure business continuity planning is adequate by focusing on finite areas, such as whether an institution's plans for increased use of technology are feasible.

- Communication Issues, including providing a clear message to credit union members and staff on policies during an outbreak; staff education and awareness programs; communication with regulators as needed; and communication with vendors and service providers.
- Health and Safety Issues, including hygiene; emergency care and how the institution will respond should a member or staff become ill at the institution; identification of reliable sources of information about latest developments; and others.
- Budget and Administrative Issues, including the impact on the institution's budget of greater use of technology; absenteeism; legal issues including certain liabilities, and the institution's policies on sick leave and leave without pay; and documentation of the institution's business continuity plan as it relates to a potential pandemic.

**Planning for Y2K Improved Strategic Planning for the Financial Sector**

Financial institutions, including credit unions, have a solid record in continuity planning as a result of Y2K. As the millennium approached and the concerns regarding computer malfunctions increased in the late 1990's, financial institutions and their regulators worked closely together to identify concerns, develop reasonable approaches and implement them in an orderly, measured fashion. Following the turn of the century, the financial services sector was widely recognized for its efforts to prepare for Year 2000.

While thankfully Y2K problems did not generally materialize, a number of useful lessons were learned from that experience including the importance of a well- developed strategic plan that addresses business continuity, communications, and other relevant issues. Other key issues included the importance of testing that would help identify concerns and reveal failures or weaknesses in critical infrastructures, as federally insured credit unions and other federally insured institutions were required to do.

**Recent Disasters Indicate Potential Weaknesses That May Resurface**

While financial institutions' Y2K planning was commended, thankfully Y2K did not result in a broad based disaster. However, another recent event did – Hurricane Katrina.

A pandemic would undoubtedly differ from a natural disaster such as a hurricane, yet lessons learned from how the Katrina catastrophe and its aftermath were handled are useful for preparations for a potential pandemic.

In the first few weeks and months after Katrina hit, all aspects of the credit union system, including credit unions from states outside the hurricane area and credit union leagues and the national trade organizations, worked together to provide assistance and coordinate relief efforts within the credit union system.

A report earlier this month from the Federal Financial Institutions Examination Council (FFIEC) indicates that generally, business continuity plans worked well and allowed institutions to restore operations.

However, there were major difficulties experienced by institutions in the area, including credit unions. This included destruction of offices and facilities; lack of workable phones or other communication devices; lack of power or fuel for generators; lack of transportation; inability to provide cash through ATMs; personnel whose homes were destroyed or damaged were unable to come to work to staff their institutions; and no delivery or mail service, to name some of the most notable problems.

Further, as has been widely acknowledged, governments should have prepared better, should have responded quicker, should have coordinated their efforts better, and should have communicated with those effected as well as the nation in a more timely and comprehensive manner throughout the crisis.

Previous national tragedies such as the attacks of September 11, 2001 and the bombing of the federal building in Oklahoma City in 1995 also reinforced, among other things, the need for all financial institutions to maintain an ongoing record retention program.

All of these disasters – apart from the range of human issues -- brought into focus a number of real, operational concerns for financial institutions including how to respond to members' needs for cash and how to meet compliance responsibilities, some of which may carry penalties and fines for noncompliance, despite an institution's impairment or inability to operate. They also gave us lessons learned that can be used to help prepare for a pandemic.
These include:

- Financial institutions must develop appropriate, well-tailored plans for addressing a potential pandemic;

- Financial regulators should continue providing guidance to financial institutions and provide resources to institutions to develop specific plans;
- Should a pandemic occur, financial regulators should be proactive in communicating information to the institutions they regulate;
- The financial sector should continue its coordination efforts and develop best practices for all sizes of institutions to deal with a pandemic;
- Financial institutions must keep themselves informed of all developments regarding the pandemic;
- Financial regulators should provide limited but reasonable leeway to impaired institutions regarding compliance responsibilities;
- Financial regulators should work with Congress to facilitate the use of electronic access to accounts, such as by encouraging financial institutions to offer Internet access to members and customers.
- All levels of government must coordinate and communicate on a timely basis among all levels of government; this will be essential.

**Further Clarifications Would Facilitate Preparations**

We also recognize that experts warn us that an influenza pandemic could be vastly different from other catastrophes and planning for it should entail different considerations. While financial institutions have begun to prepare, numerous questions remained unanswered. The following issues, if clarified by Congress and the federal government, would help America's credit unions better prepare for future pandemics.

**Information**. While emphasized above, it is imperative that the financial services sector have accurate and timely information about any developments concerning possible pandemics and what steps the federal, state and local governments are taking or planning to take in response. For example, schools and day care centers may be forced to close. Having the latest information about such closures would be very important to credit unions who have parents of school age children within their workforces. In addition, credit unions need information about any potential hurdles to the implementation of their pandemic-related business continuity plans. For example, will credit unions be able to rely on the telecommunications infrastructure if workers wish to work from home? If not, such information should be made readily available.

**Regulatory Flexibility.** Also as indicated above, with credit unions facing high levels of absenteeism during a pandemic, it may be difficult for them to comply with certain regulatory requirements. For example, staff trained to comply with legal requirements under the Bank Secrecy Act may be ill at home for weeks. Credit unions may need to postpone or cancel mandatory member meetings. Vendors that supply member statements may also face staffing/supply interruptions. Also, the United States Postal Service may be facing high absenteeism as well. Filing deadlines may need to be relaxed - as employees normally responsible may be at home sick, scared, or caring for loved ones. Regulators should work with Congress to permit a reasonable level of flexibility should a pandemic occur. If we have this flexibility plan in place beforehand, financial regulators will not have to answer repeated questions during a pandemic - when the regulators themselves may have high absenteeism.

**Notification**. Many credit unions wonder who will be responsible for "flipping the switch" into "pandemic mode." Also, when and how will financial regulators decide when any pre-planned regulatory flexibility will go into affect? History indicates that an early, well-organized and thorough response to a pandemic will lessen its impact. While a strong, early response seems best, it is unclear as to who will force such a unified response. The flip side is this - who will give the "all's clear" signal once a pandemic has passed.

**Liquidity.** It will be reasonable to assume that during a national disaster such as a pandemic, consumers will want to have access to their cash. Indeed, the impact of Hurricane Katrina demonstrated the need to have cash available to meet liquidity needs. In preparation for Y2K, the Federal Reserve's discount window stood ready to provide additional liquidity. Also, the cap placed on the Central Liquidity Facility (CLF) for credit unions was removed and the CLF was allowed to borrow up to its statutory limit—twelve times the subscribed capital stock and surplus of the facility—if the need was there. Fortunately, it was not needed for Y2K, but such ability may be important should a widespread pandemic outbreak occur.

In raising these issues, I do not mean to criticize the efforts made to date by government officials to prepare for future pandemics. As I have stated earlier, speaking on behalf of my credit union, CUNA, and NAFCU, I wish to praise the Bush administration, the FSSCC, financial regulators, and this committee for all their efforts. Rather, I raise these issues in the hope that we can address them before a pandemic reaches American soil.

**Conclusion**

Thank you for the opportunity to provide our views on this timely topic. Again, I commend the Subcommittee for its commitment to addressing concerns relating to a pandemic and will be pleased to respond to any questions Subcommittee members may have.