

COOPERATIVE NETWORK PRESIDENT & CEO ADDRESS

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Rochester, Minnesota

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Good Morning Chairperson Skemp, Cooperative Network Board Officers and Directors, Delegates and Guests. I am very pleased to have just completed my ninth year as your President & CEO and my tenth year as a staff member of the leading state cooperative trade association in the nation.

As with prior years, 2011 has proven to be a very eventful year with all of the changes brought to the nation's Capitol and the State Capitols in Madison and Saint Paul following the November, 2010 Midterm Elections and the resulting apparent political gridlock. This has been an unusual and sometimes difficult political environment for your association and for the broader cooperative community. However, unlike so much of the rest of the country, the Minnesota and Wisconsin cooperative business community is uniquely focusing our attention more on opportunities rather than problems. Because cooperative businesses form the economic bedrock of many of our communities, this is certainly the right approach, particularly if our region and our nation are going to climb out of our economic doldrums. However, as I will shortly discuss, this optimism has made us targets for those who are jealous of our accomplishments and who don't share our optimism.

Our 2011 Annual Meeting theme is "Cooperatives: Making Communities Stronger" and there is abundant evidence from across Wisconsin and Minnesota that we truly strengthen our local communities. Let me discuss some of those ways now.

The Large National Bank Attack on Credit Unions

We are fortunate to have a strong cooperative financial community that is performing relatively well in a difficult economic environment. The main players in this important community are the Farm Credit banks and associations and credit unions. Farm Credit continues to be the primary provider of credit to American agriculture, one of the few bright spots in our economy.

Credit unions have an enviable record of providing high quality service to consumers, while charging their members less for loans and paying higher dividends for member deposits than banks. In contrast, let's consider the large national banks that relied on taxpayer funds to survive and then thanked the taxpayers by initiating new fees -- even to those just attempting to use their own money deposited in the bank. Perhaps it should be no surprise that it appears they want all credit unions to become banks.

This year we saw an unprecedented attack by large national banks against Wisconsin credit unions, most of which are not headquartered in Wisconsin and pay little or no income taxes in Wisconsin. These banks, through the Wisconsin Bankers' Association, sought to sneak legislation into the massive State Budget Bill that would create a new expedited process to convert state-chartered Wisconsin credit unions to banks. As you might expect, this legislation sought to authorize the conversion of a credit union directly to a bank without most of the due process safeguards required by federal law for the conversion of federally-chartered credit unions. The initial legislation did not, for

example, require: (1) 30, 60 and 90 day notices to members of a conversion vote, (2) did not require that members be provided with transparent information demonstrating how they might be impacted by a conversion, or (3) transparent information identifying whether management and the board might be enriched by the conversion.

The credit union conversion language was rejected early in January by Governor Scott Walker when he introduced his budget, in part because of the arguments we made to his staff demonstrating why this would be poor public policy. You may recall then Wisconsin Governor Jim Doyle vetoed a similar attempt by banks several years ago. However, the bankers are indeed persistent and, according to several Capitol sources, were less than forthcoming to legislators about what the legislation would actually do. This led to the legislation being inserted into the State Budget Bill by the Joint Finance Committee despite the fact the language had never been introduced in a written bill, had not been debated in a public hearing, nor was even provided to the public during the meeting. Indeed, we could not get a copy of the adopted language until several days later. This is legislative sausage-making at its worst.

[Display Cooperative Network Advertising Against Credit Union Demutualization]

Despite the efforts of many hundreds of cooperative and credit union supporters – including many in this room who so ably demonstrated the cooperative principle of cooperatives working and supporting other cooperatives -- along with a number of courageous and primarily rural Republican Senators and Representatives -- Governor Walker allowed the language to become law. Obviously this was a great disappointment

to us since cooperatives had enjoyed legislative victories rather than defeats during the past decade. However, I am pleased to report that we were able to work with State Representative Ed Brooks, our former Cooperative Network Board Chair, to obtain a Wisconsin Legislative Counsel memorandum that makes clear that much, if not all, of this new state law is pre-empted by federal law and has little or no effect. This opinion is important because it is from the non-partisan legal counsel of the State Legislature. Therefore, it appears the banks did not achieve the under-handed victory they were seeking.

[Display front page of Legislative Council Memo]

Yet, large Wisconsin banks are now arguing credit unions should pay taxes. That banks would raise this issue at all is a wonder. Two of Wisconsin's largest banks, Associated and the former M&I Bank, now BMO Harris, paid little or no taxes the past several years. For example, from 2001 to 2008, Associated Bank made *\$2.6 billion* in pre-tax profits but paid no state income tax. The former M&I Bank made *\$3.9 billion* in pretax profits, but only paid *\$29 million* in state income taxes, an effective rate of only 0.7% versus the official state income tax rate of 7.9%. Both are investor-owned banks where the stockholders rather than the consumer received the considerable profits. By contrast, credit union margins were directed toward higher deposit rates, lower loan rates, and significantly reduced fees.

[Display photos of Associated and M&I logos]

I know I have been focusing on a key Wisconsin cooperative issue that may seem like it has little application to Minnesota. However, we should all be made aware that national observers are noting that Wisconsin appears to have become the focus of the national banking community's political campaign against credit unions. Given that what happens in Wisconsin often spreads west to Minnesota, the large national banks could easily direct their aim towards Minnesota credit unions. Therefore, this Wisconsin battle provides an important warning for Minnesota credit unions and the broader Minnesota cooperative community.

[Display Slide of Consumer Objections to \$5 Fee from Bank of America]

Speaking at a more national level, has anyone in the room missed the controversy surrounding the Bank of America's now-aborted attempt to charge its customers \$5 per month to use a debit card, which means consumers were being charged to use their own money? Now Chase is requiring credit card customers who previously opted out of receiving offers to opt out again under the false pretense of "updating our customers' preferences." If the customer does not respond to the letter, they are viewed as agreeing to accept a torrent of advertising materials from the bank's marketing partners.

We will continue to watch closely as the banks work to eliminate competition by seeking conversion of member-owned non-profit credit unions to for-profit banks and the taxation of not-for-profit credit unions.

[Display Slide of The Co-Operative UK Bank and Lloyd's]

Before I leave this issue, you may want to know that our cooperative colleagues in the United Kingdom, at The Co-Operative Group UK, have made significant progress in mutualizing Britannia Bank into a member-owned financial cooperative and are reported to be the primary bidders for the mortgage banking business of Lloyd's, the United Kingdom's largest mortgage lender. In other words, rather than banks attempting to convert credit unions, in the United Kingdom they are converting banks to financial cooperatives. This recently happened in a relatively smaller way in Western Wisconsin and Eastern Minnesota when Royal Credit Union of Eau Claire purchased and mutualized a number of branches of the ailing Anchor Bank of Madison. I think all of us here, and the consumers of Wisconsin and Minnesota, would benefit from more of this type of action.

Now, I am issuing a call of action to all of you to help make your local communities stronger. I have heard from several cooperative managers who in the past two years have worked with their board to move their financial accounts to their local credit union from a bank. Indeed, according to press reports, 650,000 American citizens recently switched an estimated \$4.5 billion in deposits to credit unions on or just before "Bank Transfer Day" on November 5. You too, as the board of directors or management of your local cooperative, have the ability to take a powerful step in support of the cooperative business community by moving some or all of your financial accounts to your local credit union. By doing so, you demonstrate in a very real way your commitment to the cooperative principle of "cooperatives working together with cooperatives." And, while doing so, you will be keeping your cooperative's funds invested locally while also taking a needed step to protect your deposits from a bank failure.

Health Care Cooperatives – The Upper Midwest Leads the Way

We are in a unique time in our nation's history where we can significantly expand our nation's cooperative community by developing new health care cooperatives. As many of you know, the Affordable Care Act includes a *Consumer Oriented and Operated Plan* provision (CO-OP) that incentivizes the creation of new nonprofit health insurance companies. The law implies through use of the "CO-OP" acronym that the new insurers should focus on consumers rather than on stockholder profits and, therefore, operate like cooperatives. However, the law does not explicitly require the new insurers to actually be incorporated as cooperatives. Some national cooperative leaders viewed this as a significant cooperative reputation risk issue because these new insurers could be labeled as a cooperative while not actually functioning like a cooperative. This concern has some validity.

[Display cover page of Section 1332 of the Affordable Care Act]

Given this risk, Cooperative Network stepped in and determined that it would be far more productive for this new law to be viewed as a significant cooperative development opportunity rather than solely as a risk. To this end, I was very pleased to be appointed by the U.S. Comptroller General in June of 2010 to serve on a fifteen member board advising U.S. Department of Health and Human Services (HHS) Secretary Kathleen Sebelius on how this very important provision should be implemented. We began our work in January of this year and my goal was to make these new nonprofit insurers look

as much like cooperatives as possible. I was pleased when I was appointed to chair the Governance Committee of the board, one of the four committees we created to work out the detailed implementation recommendations sought by HHS. I am very pleased to report that the Board unanimously adopted my committee's recommendations that the new insurers include several very important cooperative attributes:

[Display photos of the HHS Advisory Board, including meeting shots]

- (1) Directors must meet state-of-the-art ethical, conflict of interest and disclosure standards to ensure they are working for the benefit of the cooperative and not in their self-interest;
- (2) Every board director must be elected by the full membership;
- (3) A clear majority of directors shall be elected from the consumer membership with a strong preference that consumers represent even a larger percentage of the board while allowing for some outside expertise or provider representation;
- (4) A board nominations committee should work to ensure there are at least two candidates for each board seat; and
- (5) As required by law, the insurer's "profits" must be used for the benefit of the consumer-member, whether through lower premiums or increased health care quality.

[Display slide of Advisory Board meeting]

These recommendations may seem like common sense to all of us in this room.

However, as you can imagine, powerful for-profit insurers do not favor development of

new health care cooperatives that will bring competition to their markets. Indeed, the for-profit health care industry was well-represented at all of our Board meetings in Washington, D.C. and some of those lobbyists testifying before our Board argued that consumers should not be elected to the board because they did not have the necessary experience to run a business. Of course, I strongly argued with such misguided statements given my experience back here in the Upper Midwest. I think you only have to look around this room to determine how misguided these arguments truly are.

Fortunately, I was greatly assisted in rebutting these arguments by the testimony offered by several existing health care cooperatives, including HealthPartners HMO, Group Health Cooperative of Eau Claire and Group Health Cooperative of Puget Sound. In addition, HHS has been very interested in obtaining information about Group Health Cooperative of South Central Wisconsin. I thank all four cooperatives for helping me make the case that these new insurers should be, in fact, organized as member-owned and led cooperatives where possible.

[Display photos of HealthPartners HMO and GHC of Eau Claire]

Uniquely, much is at stake here because Congress also appropriated \$3.8 billion to help capitalize these new non-profit insurers with the stated goal of creating at least one new nonprofit insurer in each state. Obviously, this is intended to create access and competition, because there are so few health care access options for many un-served or under-served health care consumers in many states. Cooperative historians, who include many of you in this room, will recognize Congress and the President were turning to an

idea that similarly led, for example, to the creation of our rural electric cooperative system.

An insurer seeking this federal funding support must make clear in its grant or loan application that it intends to meet these cooperative requirements and I understand HHS is giving a governance review benefit to those new nonprofit insurers actually organizing as cooperatives under state law.

Many of you know Cooperative Network and our predecessor organizations, the Minnesota Association of Cooperatives (MAC) and the Wisconsin Federation of Cooperatives (WFC), have long viewed the cooperative form of business as being uniquely applicable to health care since it is the only way to combine the interest of the consumer with the interests of providers and insurers. The former MAC recognized this long ago when it helped create the 1.3 million member HealthPartners HMO.

HealthPartners is rated as the highest quality health care provider in Minnesota. The former WFC played a significant role in the creation of Group Health Cooperative of South Central Wisconsin (GHC) 35 years ago. GHC is rated as the seventh highest quality health care provider in the entire nation and the highest quality plan in the state of Wisconsin.

[Display photos of HealthPartners HQ, GHC of South Central Wisconsin]

We are continuing this cooperative health care activism. In 2007, we worked with the Wisconsin cooperative community, the University of Wisconsin School of Medicine and

Public Health, and the Wisconsin Department of Agriculture, Trade & Consumer Protection to create the Farmers' Health Cooperative of Wisconsin. I am very pleased to report this cooperative is about to begin its sixth year of business and will offer its members a rate renewal increase of 5.35%, the sixth straight year the increase is under 10% which is substantially below the market rate. We continue to work hard, along with United Farmers Cooperative and AgStar Financial Services, to launch 40 Square Cooperative Solutions in Minnesota. We hope to have state approval of our innovative health care plan in the very near future and to begin offering an innovative health care plan to Minnesota agriculture by early 2012.

[Display logos of FHCW and 40 Square]

Moreover, we are providing assistance to several developing health care cooperatives, including Northern Communities Health Cooperative in Duluth, Common Ground Health Cooperative in Milwaukee and a third health care cooperative being developed by the Chicagoland Chamber of Commerce. We have also been called upon by many other health care cooperative developers from across the country to assist them with their development. In recognition of our important educational efforts, the United States Department of Agriculture's Rural Development Service just awarded us a \$225,000 grant to, among other goals, provide such health care cooperative development assistance.

Once again, this is a unique time for health care cooperative development nationwide and I hope you share our excitement that the Wisconsin and Minnesota cooperative

community is being asked to help lead the way. Our Annual Meeting theme is “Cooperatives: Making Communities Stronger” and our vitally important cooperative health care development work greatly illustrates your association’s efforts to realize this goal.

2012: International Year of the Cooperative

Minnesota and Wisconsin cooperatives have another unique opportunity in 2012 because the United Nations has declared next year to be the “Year of the Cooperative.” The United Nation’s recognition is based on its finding that “the cooperative movement balances both economic viability and social responsibility. As noted by Deputy United Nations General Secretary Asha-Rose Migiro, cooperatives “make enormous contributions not only to their members, but also to their communities and societies.”

[Display Year of the Cooperative Logo]

A great example of living the “Year of the Cooperative” is an event Cooperative Network helped to host in Madison on October 1st called “CO-OP Connection.” Summit Credit Union took the lead in renting the Monona Terrace Convention Center just east of the State Capitol and the very popular Saturday Farmers’ Market. Twenty six (26) area cooperatives across a broad sector of the local economy, ranging from food, to information technology to the local worker-owned taxi company participated by manning booths that explained the benefits of consumers belonging to and patronizing cooperative businesses. Madison Mayor Paul Soglin provided the keynote address where he

emphasized the very important role cooperatives play in his city's economy. This is a great example of "Cooperatives: Making Communities Stronger."

[CO-OP Connection Logo displayed here]

We would like to see this type of event multiply across Minnesota and Wisconsin during this Year of the Cooperative. Please contact us if you would like our assistance planning a similar event.

We also are working with the National Cooperative Business Association on other events to mark this special year and we encourage you to continue following our web page for details.

The Dysfunctional Political Climate Compared to Cooperatives

Finally, this was a political year I have not seen before despite my many years working in government and one that I unfortunately suspect will be repeated for at least the next several years. Cooperative Network was somewhat astonished that we had more than 100 new federal and state legislators to educate on the cooperative form of business following the November 2010 Midterm elections. We knew a political wave was coming, but we did not fully guess its height. This wave essentially overturned the results of the 2008 election which in itself was a tidal wave of considerable height.

I am going to make a few political comments that I hope are not mis-interpreted as expressing a partisan political viewpoint. As you know, I have been privileged to be appointed to high level positions by Republican and Democratic governors in both Minnesota and Wisconsin and your Cooperative Network board of directors believes cooperatives are best served by our continuing to work closely with all of our elected officials, regardless of party, to move forward the cooperative form of business.

However, I would be remiss if I did not compare the apparent dysfunction of our current political system with the ability of diverse participants to come together to form a cooperative to meet their product or service needs. Unlike our professional politicians, cooperative managers and board directors have learned that we can achieve so much more working together rather than separately. We do this despite our many political, religious, ethnic, and economic differences. We do this because we have placed a much higher priority on working together for our own benefit and for the benefit of the communities in which we live.

[Photos of the U.S. Capitol, Madison Capitol (with protests) and Saint Paul Capitol]

Compromise -- or the ability to work together -- has truly become a dirty word among the professional political class at the national and state levels. I recall conversations I had with former Texas Agriculture Commissioner Jim Hightower when he would visit former Minnesota Agriculture Commissioner Jim Nichols at our office in Saint Paul. When arguing that Commissioner Nichols should take a more ideological view on agricultural policy, he would frequently exclaim to us that "the only thing down the middle of the

road is a dead armadillo.” Yet, every day, cooperatives practice the art of working together because, as said so well by Benjamin Franklin, the inventor of the first American cooperative, “We must indeed all hang together, or most assuredly we shall all hang separately.”

Benjamin Franklin would have also objected to our 24-hour nonstop media sound bite culture that depends on politicians saying the damndest things to gain media attention. His words from more than 200 years ago have equal meaning today: “Well done is better than well said.”

[Photo of Benjamin Franklin]

Let’s remain committed as cooperative businesses to honor our cooperative principles by working together to strengthen our communities. Thank you.