



June 20, 2007

JoAnn Johnson, Chairman
National CU Administration Board
ICO Mary Rupp, Secretary to the Board
1775 Duke Street
Alexandria, VA 22314-3428

Submitted VIA <mailto:regcomments@NCUA.gov>

Proposed Rule Part 708b (Disclosure of Merger Related Compensation)

Dear Chairman Johnson:

The Florida Credit Union League, Inc. (FCUL), representing almost 180 of Florida's credit unions, appreciates the opportunity to offer our comments on the National Credit Union Administration Board's action to amend or issue regulations, particularly such an important proposal as the Board's advance notice of proposed rulemaking on Part 708b (Disclosure of Merger Related Compensation).

The FCUL polled our member credit unions about this issue and have included their comments in our response.

We agree that credit unions should always base merger decisions on sound business judgment that will meet the best interests of credit union members. We also believe that in a vast majority of mergers, decisions have been made only after an extensive evaluation of the affected member's needs and the financial ability of the credit union to meet those needs; and that there is, most always, sufficient due diligence performed by both parties to the merger.

However, the FCUL recognizes that there always exists a potential for self-serving practices when any financial transaction or decision is made and that merger decisions are not immune from this potential. The FCUL also recognizes that now, as in the past, some credit unions have made a conscious decision that mergers are a relatively easy

way to increase their credit union's assets and membership rolls; and have developed and implemented a strategy to court sound, untroubled credit unions and attempt to convince the management and officials of these credit unions to consent to a merger. Unfortunately, one of the methods used by some credit unions following this strategy is to offer financial incentives to the management and executives of these credit unions. We believe that an offer of improper and material financial incentives may adversely impact any decision or vote of individuals subject to such offer or incentive and influence these executives or officials to improperly support such a merger.

The FCUL believes that any offer of compensation by an acquiring credit union should generally conform to the existing salary structure of the acquiring credit union. It should also be supported by a sound business plan that has been reviewed and adopted by the board of directors of the acquiring credit union. Material deviations from existing salary structure should be noted and supported by proper analysis and documentation.

The FCUL believes that such self-serving practices can best be avoided in mergers by;

- Each credit union establishing (and following when necessary) sound internal control procedures that address such situations.
- Appropriate and prompt regulatory review and evaluation of merger plans and requests, to include all compensation agreements attached as a part of such merger plans.
- Ensuring that all of the credit union's officials and its membership are properly informed of facts pertinent to the decision.

While the FCUL recognizes the value in NCUA's concerns, we believe that the merger decision is, appropriately, that of the board of directors of a credit union. We believe that for the majority of merger decisions are made after a board's comprehensive consideration of all the facts and alternatives and are ultimately made to meet the expanding needs of its membership.

The proposal requires NCUA to review and approve merger related compensation agreements. While this seems to place the NCUA in a position of making management decisions, we support it in limited circumstances; particularly in instances of voluntary mergers of sound and financially stable credit unions. We believe this action:

- Will serve as a control and promote ethical mergers that truly are necessary to expand member services and increase business opportunities, and
- Will guarantee that the membership has more accurate and complete information on which to base their vote decision.

While the FCUL supports the proposal, we do have concerns about portions of the proposal, which are as follows:

1. The proposal defines material increase as the greater of \$10,000 or 15% of salary. We believe that this is too inclusive and may not be that material of an increase for some credit union executives. We would suggest a change to, at least, the greater of \$25,000 or 25% of salary.
2. The proposal gives the members right to inspect the credit union's records pertaining to any merger related financial arrangement if a member submits a

request in writing to the credit union one day before the merger vote. This requirement is far too broad. We have the following comments in this area:

- While we agree that members need to be informed, we believe that any review should be limited to the merger plan and documents submitted to the appropriate regulator. If further review is necessary a member has the right to request the supervisory committee to do so.
- The adoption of this requirement could present merging credit unions with serious logistic and operational problems that the credit union is not staffed nor equipped to handle.
- We also fail to see what additional relevant information, not already contained in the merger plan and documents, the members would need to review. We are particularly concerned with maintaining credit union's ability to protect the individual privacy of employee payroll records.
- If, the NCUA Board does adopt such criteria, it should severely limit and restrict the record available for review, in order to ensure that credit unions can continue to operate in an efficient and effective manner.

Thank you for allowing us to share our comments. We always appreciate the NCUA Board's decision to give credit unions, associations and others an opportunity to participate in the regulatory process. We hope the NCUA Board finds our comments useful in evaluating their action on this proposal.

Sincerely Yours,

A handwritten signature in black ink that reads "Guy M. Hood". The signature is written in a cursive style and is positioned to the left of a vertical red line.

Guy M. Hood, President/CEO
Florida Credit Union League, Inc.

cc: Mary Dunn, Associate General Counsel CUNA