

June 18, 2007

JUN21 '07 PM 2:51 BOARD

National Credit Union Administration
Mary Rupp, Secretary of the Board
175 Duke St.
Alexandria, VA 22314-3428

Member Inspection Rights Proposed Regulation- Request for Comments

Dear NCUA Board:

I am responding to your request for comments on the Member Inspection of Records proposed regulation on behalf of Sunmark Federal Credit Union.

I want to say up front that we strongly disagree with NCUA's assumption that members' financial interests are the same as those of stockholders of for-profit corporations. Yes, members are owners of their credit union, as are corporate stockholders, but that is where the similarities end. The underlying bases of the two business types are worlds apart. Members are not using their credit union deposits to speculate on the volatile movement of the principle value of their insured investment, as with the stock market. They want a good, safe return for their sound investment. They want to have the right to use our products and services which serve to enhance their convenience and quality of life. Credit unions provide the means for day-to-day banking unlike a corporation that sells stock for speculation or (hopefully) long term investment growth. The stockholders of a corporation stand to lose the entirety of their investment if the company is mismanaged or if management does not keep up with the competitive forces. In a credit union, which is closely regulated, the value of a member's deposit does not generally fluctuate and it is federally insured (up to a certain level, of course).

At Sunmark, we believe that this regulation, while well-meaning, needs some serious modifications. We do agree that such a (modified) regulation is preferable to reliance on state corporation law for numerous reasons.

First of all, we believe that the proposed requirement of petitioners is too low a threshold. We agree with the OTS' threshold of 1% of "members", with no maximum. In the worst case, we would live with the NCUA's threshold for nominations by petition of 1% or 500, whichever is the lower. We also believe that the signature of the credit union's employees should be excluded from the list so that they could not gain access to management salaries which we feel would be very detrimental.

Regarding the member inspection rights, we feel that the terminology of "proper purpose" needs to be clearly defined and limited. For example, the inspection rights related to a bank conversion, merger, or liquidation seem reasonable. Inspection of minutes and books and records because a credit union institutes an unpopular fee or closes a branch is going way too far.

Management and the Board need to be able to run the credit union as they see fit without constantly looking over their shoulder and worrying about who will be petitioning to look at the records based on their decisions. There are many instances where we have to make decisions that negatively impact a minority that clearly benefit the overall membership.

We understand that since you are requiring a certain amount of signatures for this purpose, and that a select few would represent the petition group in inspecting the records, that it would only be appropriate to allow them to copy the records to share with the rest of the petitioners. However, we are very concerned about such records getting into the hands of parties with less than an appropriate purpose, such as the media, competitors, vendors, disgruntled employees, etc. Therefore, we feel that the records that may be copied should be very limited and that a confidentiality agreement be executed by the inspecting party with the credit union so that they may not be shared with others. Typically, most signers of such a petition are not interested in the inspection for themselves and if they are that interested, they may come in and do their own inspection. We disagree with the NCUA's assumption that credit unions do not have proprietary information or "trade secrets". Competition in our markets is fierce and the differentiating factor/strategy that a credit union employs is its main and only weapon against its competitors. If that differentiation strategy and related tactics were to go public or to a competitor, it loses all of its power and the credit union is at an extreme disadvantage.

We are also very opposed to the release of management salary and benefit information. We understand that there is pressure being placed on the industry for more transparency (although we believe much of this is coming from the banking industry.) However, releasing such data will only serve to enrage the rank-in-file member who does not have the total information picture that makes up why an executive is compensated the way they are in the first place. These are: levels of education, years of experience, local salary market data, peer salary data, accomplishments, etc. In a vacuum, an executive's salary data will only create confusion and hostility in the members and will ultimately cause Boards of Directors to pay less since they will be worried about member repercussions. This in turn will drive down the quality of credit union management and the quality of credit unions themselves. Maybe a fair compromise would be for credit unions to allow inspection and/or publication of an executive's salary relative % to peer data on such a position. For example, "the CEO salary level is at 105% of the CUES peer CEO average salary for the asset class and these are the reasons why ...".

Sunmark also believes that communications between a credit union and its attorneys should be kept confidential and protected under attorney client privilege. This is a firmly entrenched and accepted doctrine of law that needs to be protected. Such communications must be made with complete clarity, openness and honesty, in order to be effective, without the concern of who will have access to the conversations, letters, etc.

In conclusion, Sunmark does recognize that our members are our owners and that there must be a mechanism for them to inspect certain records under certain circumstances. We feel that the proposed regulation goes too far to the extreme, however. For example, we agree that a member should be able to request information on any payouts to management or Board members related to a merger. If they are about to lose their credit union as they know it, they have a right to know what is really taking place. The same holds true for conversions to banks. However, in the

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normal course of business, we feel that members need to rely on their board of directors and if they are not happy with their direction, they need to speak out at the annual meeting and to request changes on the board.

Thank you for your consideration of our points of view and we appreciate the opportunity to provide our comments on this proposed regulation.

Sincerely,



Bruce M. Beaudette
President/CEO