

August 14, 2006

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Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments on Proposed Rule Part 708a, MSB Conversions

Dear Ms. Rupp:

T&C Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) concerning the proposed changes to NCUA's MSB conversion regulations. T&C is a federally chartered credit union with over 63,000 members and \$560 million in assets.

T&C has been closely observing conversion attempts in Michigan where the Michigan Credit Union League (MCUL) was actively involved to generally ensure that members were fairly and accurately informed and that the vote process was not tainted in any way. Our comments are derived from this experience and feel they support these earlier efforts. In addition they enlarge upon the comments provided to Chairman Johnson on the same subject in a letter dated June 2, 2006.

Summary of Comments

T&C generally supports a regulatory approach to the credit union-to-MSB conversion process that includes the following elements: 1) monitoring of member disclosures with the goal of ensuring they are accurate and not misleading, 2) permitting reasonable member-to-member communications to ensure communications are balanced as between supporters and opponents to a conversion, 3) requiring regulator involvement at key points and 4) ensuring a fair and independent voting process.

Specific Questions

Public Notice

T&C supports the proposal to publish advance public notices of the pending board meeting where a conversion vote will be considered. The conversion process is a costly and time-consuming series of events. To be able to determine in advance member sentiment for a possible conversion would be a very prudent step before the board votes to expend substantial assets and resources in the effort. The proposal appropriately recognizes the use of additional

member communications channels for this advance notice that recognize the evolving face of credit unions. These include a notice on the credit union's website for credit unions taking advantage of this new delivery channel, and a notice in the local newspaper which recognizes the growing number of community-based charters.

Disclosures Regarding Rates and Director Profiteering

We support the proposal's expanded disclosure to include a straightforward statement of the possibilities of adverse consequences of unfavorable rates on loans and deposits. Membership in a credit union means better rates. Members rely on this benefit and should be made aware of the possibility this benefit could change. The proposed additional statement based on historical data supports this awareness goal. In addition, members should also be clear as to the possibility that directors and other officials will benefit disproportionately with stock options in a two-step conversion plan. The additional statement appears to accomplish this goal.

Advance Payment for Member-to-Member Communication Requests

First, we believe that there should be available to members a flexible mechanism that permits members to communicate with one another on such an important issue. Without it, the credit union board, which is biased in favor of the conversion, enjoys a one-sided communications advantage. However, in terms of reimbursing the credit union for the costs of such a communication, we support the proposition that a member requesting the communications should bear a responsibility to cover these costs. The proposal as to the process and amount involved for advance payments to accomplish this appear reasonable given there are two options, one being more expensive (50 cents times the number of eligible voting members), the other being much less (\$200 flat fee for an email distribution). Because costs may vary from credit union to credit union, we defer to actual credit union experience in reacting to reasonableness based on their understanding of typical costs to accomplish a member mailing. Given the state of technology today, it is appropriate to include electronic communications for this special communications if the member permits this method for other communications from the credit union. We would recommend that the regulation clarify whether the requestor must select one method or the other, and if a combination is permitted, how the advance costs are to be calculated.

Electronic Balloting

We support the idea of electronic balloting so long as the process is consistent with current standards that ensure a fair, independent and legal vote. In today's world, technology has served to facilitate communications between parties and we support its use in this setting subject to the conditions stated above. We also support the proposed change of including the ballot only in the 30-day Notice. This will give members sufficient time to learn about the conversion's details and discuss it with other members without the need to rush into an early vote. Because of a possible change from current practice, we would recommend an early disclosure that states the ballot would not be available until the 30-day Notice.

Incentives and Use of Prize Raffles

While credit unions oftentimes use raffles in other scenarios as incentive for greater participation in events, we believe their use in a conversion setting undermines the serious nature of what is taking place. While conversion consultants will point to their common use to encourage participation in these other kinds of activities, we have observed in Michigan the use of expensive prize automobiles sitting outside of branches, the use of extensive cash prizes, and the use of glossy promotional material, all of which in our view gives members and the public all the outward appearances of attempting to “buy” votes. We do not deny the legal status of raffles in states that permit them, and would support their use in other situations, but believe it is inappropriate in a conversion setting and strongly oppose their use.

Current NCUA regulation, Part 708a.7, gives oversight authority of the membership vote to the Regional Director regarding the “methods and procedures” used. It provides a standard of review, which we believe should be amended to incorporate a requirement that no raffles be used to entice participation in the vote. Because the legality of raffles differs among the states, NCUA can put all states on the same footing by banning them entirely in a conversion setting. Further, we recommend that Part 708a.7 be written in tandem with the earlier Notice to NCUA requirement found in Part 708a.5(b)(1), wherein “material features” of the conversion are to be disclosed. We believe a raffle is a material feature with respect to the voting process, and the initial disclosure to NCUA of its intended use would permit the NCUA to immediately advise the credit union that a raffle is not permitted under the standard in Part 708a.7. This would benefit the credit union by avoiding ahead of time the unnecessary time and expense in setting up such a raffle.

Other – Bylaw Enforcement

In addition to the comments above, T&C also strongly urges NCUA’s involvement in the enforcement of bylaw provisions regarding the calling of a special meeting. Where members properly follow bylaw procedures to petition the board for a special meeting, especially following a post-conversion attempt, the NCUA should play a stronger enforcement role if the credit union chooses to ignore the petition in violation of its own bylaws. While the current posture of the NCUA is that unless the bylaw issue involves a safety and soundness issue, it will not get involved, having already taken the position that it is a matter between the members and their credit union. Thus, the only recourse is for members to file a costly lawsuit. While it certainly will force the issue, we believe NCUA, similar to its role in the enforcement of other bylaw provisions, should take the appropriate action in requiring the credit union to call a special meeting.

The basis for this comment is our belief that the process of obtaining member signatures and petitioning the board for a special meeting gives substantive meaning to the democratic process of a member-owned cooperative, which is at the heart of the credit union movement.

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Thus, in a very real sense, is a safety and soundness issue, on a macro level. As regulator, the NCUA oftentimes focuses on bylaw violations in its audit process. It should do so here. We believe therefore, that NCUA, as a matter of safety and soundness, should take the steps to ensure this democratic process is upheld and honored by all federally insured credit unions.

We appreciate the opportunity to comment.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dianne Addington". The signature is fluid and cursive, with a large initial "D" and a long, sweeping underline.

Dianne Addington
President/CEO