

APR 23 '07 PM 3:08 BOARD



April 20, 2007

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

RE: *Regarding Proposed CFR Part 708b*

Dear Ms. Rupp,

We agree that NCUA proposed rule making with regard to disclosure of any arrangements that involve a material increase in compensation or benefits is an important consideration in the member's determination of the merits of a merger. Clearly a merger plan that includes significant incentives for management or the Board might have influenced the Board's decision. Members have a right to know of such incentives. Such incentives may point to self-dealing which is a violation of most credit union by-laws.

We think there are many other considerations that benefit insiders beyond just compensation. Insiders can benefit simply by retaining a job that has attractive compensation and benefits. This type of feather bedding is another incentive that favors insiders. The new credit union has the added burden of paying additional executive salary. Perhaps members should receive a list of all executives and their compensation and titles before and after the merger.

Just as importantly, why not adopt regulations that require documentation of the Board's due diligence in making the merger decision? There are typically many credit unions interested in making a merger offer. A merger of two credit unions provides a significant amount of value to the merging credit union, and that value should be passed on to the members in terms of superior products, services and convenience. Members of the merging credit union have a right to know that the board selected the best merger partner and that the Board considered and valued all offers.

When a for-profit bank decides to merge with another bank the competitive marketplace assures that a fair price is paid, thus ensuring that the stockholders receive fair value for the entity. There is little assurance in a credit union merger that the members receive a fair deal. Granted, credit union members do not

have an ownership right in the same sense that stockholders have an ownership right. In fact members have no rights to capital except in the event of a liquidation. But members do have a right to get the best possible merger partner. That partner will largely determine the quality of service, dividends, loan rates and fees that the member will experience in the future.

Certainly NCUA is right to be concerned that insiders will receive inducements that will influence the choice of a merger partner. But a more important consideration from the member's point of view is whether the Board conducted an appropriate process to select the best possible merger partner.

My experience is that in many mergers, the merging credit union does not solicit offers from multiple credit unions nor is there any information shared with members that ensures due diligence was conducted during the evaluation process. If a member was selecting a credit union, the member would evaluate the convenience of the new credit union, its level of service, the rates on loans, dividends on shares, the fees charged on accounts, the variety of services and the overall reputation of the credit union. Why shouldn't the members be provided with documentation that the Board effectively evaluated other credit unions to select the best possible merger partner?

I would propose that NCUA require in the merger plan and in the information provided to members a list of the merger partners that were solicited and considered and the reasons why the eventual merger partner was chosen.

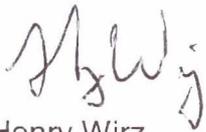
The conventional wisdom is that there will be a lot of consolidation of the remaining eight thousand plus credit unions. There is a lot of economic data that justifies consolidation. In fact, the statistics on credit union performance overwhelmingly support that larger credit unions typically have lower operating expenses, better convenience; lower loan rates and offer higher dividends. The statistics also show that larger credit unions are growing faster which seems to indicate that they are serving their members well. Therefore NCUA should adopt policies that aid and encourage credit union consolidation to the extent that it benefits members. One such policy would be to require the Board to notify members of bona fide merger offers, solicited or not. Members have a right to know how the Board is handling merger offers. Members today are not consulted or given a voice in whether their credit union Board should accept a merger offer until after a merger is submitted for a vote of the members. Members who belong to under performing credit unions that don't provide good service, can only vote with their feet and move their account. If potential merger partners knew that their merger offers would be seriously considered, there would be more merger offers with the likely outcome that credit union members would receive better service as a result of positive mergers that produce more efficient and effective credit unions.

It would seem reasonable that a credit union Board that has decided to merge would request merger proposals from a number of other credit unions.

Economics tells us that the best price is obtained in an active market place of willing buyers. It seems that a credit union Board's fiduciary responsibility is best met by seeking proposals from as many qualified credit unions as possible. NCUA would be well advised to restructure the regulation to assure that such a pro-member merger process is conducted.

A process that solicits proposals from all willing merger candidates and which allows transparency in the form of member review of the competing offers would go a long way to ensure the kind of equitable merger process that NCUA's proposed regulation intends.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Wirz', written in a cursive style.

Henry Wirz
President/ CEO