



Office of the President

June 14, 2007

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

Re: 12 CFR Part 708b; Disclosure of
Merger Related Compensation
Arrangements

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to the National Credit Union Administration's (NCUA) proposal on disclosure of merger related compensation.

Navy Federal believes that the rules in existing 12 CFR Part 708b are sufficient to inform both NCUA and credit union members about the rationales and justifications for mergers. For example, Part 708b requires credit unions considering a merger to submit a detailed merger plan to NCUA, describing the financial position of both credit unions before and after the proposed merger to ensure that the continuing credit union will be safe and sound. Part 708b also requires a merging federal credit union to disclose to its members a summary of the merger plan, including current and consolidated financial statements for both entities, the reasons for the proposed merger, and any changes in the insurance of member accounts. This information is sufficient to inform both NCUA and a merging federal credit union's members of the financial position of both credit unions and the rationales for the merger.

NCUA states in the supplementary information of the *Federal Register* document, "The NCUA Board is concerned that prospective merger partners **may** seek to improperly influence the outcome of deliberations by a board of directors of the merging credit union" (emphasis added). It continues, ". . . a potential merger partner **might** agree to provide financial incentives in exchange for support from senior management" (emphasis added). The *Federal Register* provides no indication that abuses have actually happened or that disclosure of compensation arrangements would actually remedy a perceived problem. Additionally, the *Federal Register* indicates NCUA believes disclosure of merger related compensation would be required in less than one percent of credit union mergers. If there are any abuses within this one percent or less, NCUA should handle those on a case by case basis. In the absence of actual problems involving merger related compensation arrangements, we believe NCUA should withdraw this proposal

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and focus its rulemaking efforts on issues that significantly affect the credit union movement and the millions of members that depend on reliable and reasonably priced credit union services for their essential family living needs.

If this proposal becomes a final rule, we believe it will result in unintended consequences that would be detrimental to the credit union movement. The disclosure of merger related compensation to credit union members represents an unjustified invasion of privacy of the credit union managers involved and will likely have a chilling effect on their abilities to effectively serve credit union members, especially in personalized, face-to-face situations. The disclosures would likely discourage a continuing credit union from offering fully justified compensation increases to retain valuable senior managers of the merging credit union. Managers of small credit unions often work long hours for low wages to keep their credit unions viable. Mandatory disclosure of modest and fully justified salary increases serves no worthy purpose. We believe the mandatory disclosure of merger related compensation would actually impair the level of service the continuing credit unions could otherwise provide their members.

Further, we believe that parties who have not been involved in the hours of frank discussions preceding a decision to merge would not fully understand the business rationale for offering compensation increases to the merging credit union's officials. Each merger is unique and requires consideration of a multitude of factors resulting from in-depth study and analysis ranging over the course of a few months to potentially years. The justifications for compensation increases are likely complex and involve human resources considerations for the continuing credit union, such as its ability to adequately serve the merged credit union's members and retain top quality senior management from the merging credit union. We believe the decision to offer an increase in compensation, and the amount of the increase, to a merging credit union's officials is a business decision best left to negotiations between the two credit unions.

Navy Federal opposes additional regulatory burden where none is necessary. As indicated earlier, NCUA estimates that the proposed change would affect less than one percent of merging credit unions each year. NCUA does not provide any specific examples of situations where credit unions have merged to the detriment of members' best interests, nor are we aware of any such mergers. Therefore, we do not believe this proposal is necessary. It would simply introduce another layer of complexity and unnecessary scrutiny to the merger process under Part 708b without providing any benefits. For all of these reasons, Navy Federal strongly encourages NCUA to withdraw this proposal.

However, if NCUA moves forward with the proposal, we believe that the term "records pertaining to any merger related financial arrangement" in proposed Section 708b.106(a)(2)(vii) is defined too broadly. It is unclear which "records" the merging credit union would be required to produce if a member requested to review them. This ambiguity could increase the number of disagreements related to member access to credit union records. For example, members may

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assert that all records relating to a merger would “pertain” to a merger related financial arrangement. We believe such a broad interpretation is inappropriate. We encourage NCUA to narrowly define the term to include only the amount of the official’s current salary, the amount of the increase under the terms of the financial arrangement, and the credit union’s justification for the increase. We do not believe disclosure of more information, such as the name or title of the official receiving the increase, is needed for members to fully understand the arrangement.

We appreciate the opportunity to provide comments on the proposed new requirements involving credit union mergers. If you have any questions, please contact Shannon Burt, Senior Policy Analyst, at (757) 234-4073.

Sincerely,

A handwritten signature in black ink that reads "Cutler Dawson". The signature is written in a cursive style with a large, looped initial "C".

Cutler Dawson
President/CEO

CD/sb