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May 19, 2011

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

**Re: NCUA Proposal on Net Worth**

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) is a state-wide trade association that represents a majority of the 538 credit unions located within the Commonwealth of Pennsylvania. PCUA appreciates this opportunity to comment on the National Credit Union Administration's (NCUA) proposed rule concerning Net Worth and Equity Ratio. The maintenance of net worth is a significant concern among PCUA member credit unions, particularly as economic conditions remain uncertain.

PCUA enlisted the assistance of its Regulatory Review Committee and State Credit Union Advisory Committee (the Committees) to review the NCUA's proposal and prepare the comments contained in this letter. The Committee members are the chief executive officers of credit unions representing all peer groups based on asset size.

#### FCUA & Bargain Purchase Gain

From a purely legal perspective, NCUA's proposed technical correction aimed at addressing "bargain purchase gain" appears to be at odds with the definition of net worth contained in the Federal Credit Union Act (FCUA), as amended by the Financial Services Relief Act of 2006. Net worth is defined as:

*With respect to any insured credit union, means the retained earnings balance of the credit union, as determined by generally accepted accounting principles, together with any amounts that were previously retained earnings of any other credit union with which the credit union has combined." 17 USCA § 1790d(2)(A)(emphasis added).*

At the time of adoption of the Financial Services Relief Act of 2006, there was significant debate over the purchase versus pooling method of accounting and potential strains on net worth post merger. Credit union stakeholders were very concerned that accounting practices not deter strategic combinations or mergers. Congress clearly intended that federally insured credit unions were to benefit from some modest relief from GAAP in the merger context. Accordingly, post-merger net worth that exceeds GAAP standards is permissible pursuant to the FCUA. Accordingly, we do not support NCUA's technical correction, which accommodates bargain purchase gain absent further analysis or explanation of the legal authority for doing so.

## Merger Policy, Transparency

From a policy/safety and soundness perspective, the Committees, on behalf of Pennsylvania's credit unions, support the notion of accurate recording and reporting of net worth. Accurate and transparent financial statements benefit consumers and the share insurance fund. If the bargain purchase gain presents a material risk to the accurate reporting of net worth, the Committees urge NCUA to elaborate its argument for its proposed change to the definition of net worth.

An approach that could yield results more consistent with the FCUA as amended would be to develop a test for materiality. That is, as the relative values of assets and liabilities are determined in the merger process, the significance of a bargain purchase gain, if present, could also be evaluated. If a bargain purchase gain would have a material impact on the resulting net worth of the surviving credit union, application of GAAP in the strictest sense might be warranted. By material impact, the Committees are referring to a situation where a bargain purchase gain would unduly inflate the net worth of the resulting credit union. To that end, we recommend an additional proposal seeking comment on the impact of bargain purchase gain and what is material. For example, if a transaction would result in a bargain purchase gain, but the resulting impact on net worth is less than 100 basis points, is that material?

## Section 208 Assistance, Regulatory Net Worth

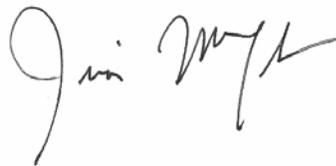
The Committees support inclusion of section 208 assistance in the definition of net worth consistent with the conditions set out in the proposal.

## Conclusion

In conclusion, we understand the desirability of amendments to the regulatory definition to the term net worth. Further analysis is warranted as to whether the proposed definition, which includes a requirement for the bargain purchase gain, is consistent with the FCUA. Secondly, we would appreciate a second round of public comment on the issue of materiality as described above. We would welcome the opportunity to discuss our comments with the NCUA at your convenience.

Sincerely,

PENNSYLVANIA CREDIT UNION ASSOCIATION



James J. McCormack  
President/CEO

JJM:RTW:llb

cc: Association Board  
Governmental Affairs Committee  
Regulatory Review Committee  
State Credit Union Advisory Committee  
M. Dunn