

GC/LKD:bhs
08-0109R

TO: []

FROM: Sheila A. Albin, Associate General Counsel /S/

SUBJ: Proposed Bylaw Amendment – [] Federal Credit Union

DATE: February 12, 2008

You have asked for our comments regarding a proposed bylaw amendment from [] Federal Credit Union (FCU). The proposed amendment would change Article VI, Option 1, paragraph (h) of the Federal Credit Union Bylaws (Bylaws). The change would increase the Loan Review Committee's (LRC's) size to five members and office terms to three years, and designate certain senior management positions to staff the committee. The amendment is permissible though we believe the increase in terms is of no consequence and recommend eliminating any reference to the Management Credit Committee (MCC) to avoid confusion.

[] does not elect or appoint a credit committee. Instead, the FCU appoints an LRC with authority to review and overturn loan denials. This action is consistent with the Bylaws under Article VI, Option 1, paragraph (h). The FCU would like to amend this provision to increase the size of the committee to five members, extend the terms of committee members to three years, and appoint specific staff positions to the committee. The appointed positions are the same as those staffing the MCC. You indicate you are inclined to approve the amendment, as revised by you, to exclude from the committee the power to overturn loans denied by the MCC and naming the specific positions.

We have no legal objections to the proposed amendment. We note the increase in committee size and member terms is permissible though we question the need to provide a term given the designation of specific staff positions to the committee. Since the FCU intends to reappoint the President/CEO, Executive VP of Member Services, Executive VP of Support Services, VP of Lending and Credit Adjustment Manager every three years, committee personnel would change only if the person holding this position changed and not because of the end of a three-year cycle. Consequently, the three-year term has no meaningful effect.

The exclusionary language, referencing the MCC, raised several questions for us and we believe the wording may be confusing to members and in its application. The MCC is not a committee provided for in the bylaws and, without adding an

explanation of its function, the reason for the exception you suggested is not apparent. Furthermore, given the proposed identical staffing of both committees, we question and think it is confusing legally and practically. We suggest a better solution is to advise the credit union to establish a single committee with loan review and management credit responsibilities.

We defer to your judgment about any safety and soundness implications.