

# *CU Financial Services*

*Strategic Planning and Implementation Services for Progressive Credit Unions*

*Alan D. Theriault, President*

*East Coast Office:*

*West Coast Office:*

e-mail: [atheriault@cufinancial.com](mailto:atheriault@cufinancial.com)

PO Box 1053 \* Portland, Maine 04104

San Francisco, CA

URL: [www.cufinancial.com](http://www.cufinancial.com)

Tel: 800-649-2741 \* Fax: 202-478-0935

Tel: 888-846-5204 \* Fax: 415-358-4506

August 21, 2006

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

Dear Ms. Rupp:

## RE: CU Financial Services Comments on Proposed Rule Part 708a

CU Financial Services is a strategic planning and implementation firm. Since 1984 it has helped credit unions grow and realize their full potential. Asset & liability management, mortgage lending, business lending, insurance services, financial services and charter conversions are among the many strategic topics that have resulted in our staff becoming well known in the boardrooms of hundreds of credit unions.

## The Proposed Rules Go beyond NCUA's Authority

CU Financial Services would like to go on the record as being opposed to these over-reaching conversion regulations. I am certain virtually all of my current and former clients share my opposition. The current and proposed regulations are in direct violation of H.R. 1151. Congress passed the law's conversion amendment in order to: (1) remove NCUA's pre-H.R. 1151 anti-conversion bias and related bureaucratic red tape; and (2) provide credit unions with a viable charter choice in the face of capital and business lending restrictions imposed by H.R. 1151. Congress eliminated NCUA's approval authority and assigned it a minimal ministerial task related to conversions.

Faced with the prospect of large credit unions executing their legal right to convert, NCUA has systematically labored to eliminate the option by making the process burdensome, costly and uncertain. Led by career Washington bureaucrats in this self-serving campaign to preserve NCUA's cash flow, the subject regulations increase the wasteful role of a government agency by imposing more bureaucratic red tape on a charter conversion process which for other types of financial depositories is routine, cost-effective, transparent, and non-controversial. Furthermore, NCUA is hindering the consumer's freedom when it restricts the choice of charter which many believe will best support the mission of their institutions to better serve members and the community.

## The Proposed Rules Hurt Smaller Credit Unions

These anti-conversion regulations hurt smaller credit unions the most. First, because the red tape increases the fixed conversion costs. Second, the rules may slow conversion timing for larger credit unions, forcing them to continue to steal market share from their smaller counterparts rather than competing in a bigger arena with banks.

I would like to make two additional points:

One, the regulations would interfere with corporate governance and communication between a credit union board of directors and its members. Also, since the NCUA believes special mechanisms are needed to facilitate communication, a key element justifying the tax subsidy is undermined. The argument that credit union members share a “common bond” is harder to support. If members had a true “common bond” wouldn't they already be communicating, or have mechanisms to do so?

Second, the regulation acknowledges the hopelessness of easing business lending restrictions, reducing capital levels and gaining access to secondary capital. If not, why would NCUA and the trade associations be working so hard to put up a wall around credit unions and to discredit the regulators of other member-owned institutions?

In conclusion, didn't NCUA's career bureaucrats believe that the addition of the “box language” in the 2005 anti-conversion regulation would be the ultimate conversion deterrent? The 71% and 76% voting in favor at the two billion dollar Texas credit unions proved otherwise. Which of the new rules do they now believe will be NCUA's magic anti-conversion formula in 2006? How many future conversions will NCUA allow under this latest rule before proposing yet another punitive revision or costly handcuffing legislation? Will it tax the capital transfer? Or perhaps force the expensing of the share insurance deposit?

Credit union leaders should be asking NCUA, how long will this cat and mouse game be played? By virtue of the repeated rulemaking, anyone who believes a conversion may make sense for the future of his credit union has yet another reason to convert today. With a conflicted NCUA, it is unlikely conversion will get easier.

Sincerely,

*Alan D. Theriault*

Alan D. Theriault, President

ADT:ap

WEB Site: [www.cufinancial.com](http://www.cufinancial.com)

**CU Financial Services**

**Strategic Planning and Implementation Services for Progressive Credit Unions**

Post Office Box 1053 \* Portland, Maine 04104 \* Telephone: 207-775-2741 \* Telecopier: 207-829-4178