

SchoolsFirst™

FEDERAL CREDIT UNION

May 20, 2011

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

Re: Comments on Notice of Proposed Rulemaking - Net Worth and Equity Ratio

Dear Ms. Rupp,

I am writing on behalf of SchoolsFirst Federal Credit Union, which serves school employees in Southern California. We have more than 475,000 Members and over \$8.5 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on NCUA's proposed rule on net worth and equity ratios.

SchoolsFirst FCU generally supports most of the provisions in NCUA's proposed rule and recognizes that the majority of the provisions of this rulemaking are required by the signing of Public Law Number 111-382. However, as a federal credit union subject to following Generally Accepted Accounting Principles ("GAAP"), we have concerns with regard to the provision, which would require the subtraction of any bargain purchase gain from the target credit union's retained earnings before the latter amount is included as net worth in the context of mergers. This provision of the proposed rule is not mandated by Public Law Number 111-382 and is contrary to the definition of "net worth," which was provided by Congress in the Financial Services Relief Act of 2006.

The Financial Accounting Standards Board ("FASB") implements GAAP rules. One of the requirements of GAAP is that, in a merger of financial institutions, a bargain purchase gain be recognized immediately as a gain in earnings, which increases retained earnings and qualifies as regulatory capital. Current NCUA regulations, as required by Congress' amendments to the Federal Credit Union Act in 2006, take this one step further by including in this definition amounts that were previously retained earnings of the merged credit union.

NCUA's proposal to abandon this requirement and revert to a slightly different permutation of GAAP requirements would be inconsistent with NCUA's longstanding directive to follow GAAP. This inconsistent accounting change by NCUA lends itself to confusion for several reasons.

Throughout the years, NCUA has told credit unions that they must follow GAAP on the one hand, but then carved out unwarranted exceptions to GAAP on the other. For example, the market

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value change in 'available for sale' investments is currently recorded in equity in accordance with GAAP; however, NCUA requires the exclusion of this modification in calculating NCUA regulatory capital ratios.

By not following uniform GAAP standards, NCUA creates further discrepancies between regulatory requirements and accounting requirements and generates more confusion to credit union Members when they compare Financial Statements issued under GAAP principles to 5300 call reports. GAAP should be followed across the board, not on a selective basis.

Furthermore, by promulgating this exception to the current requirements, NCUA will be creating a disincentive to credit union mergers by decreasing the net worth of continuing credit unions in merger arrangements, in complete contravention to the intent of Congress when it adopted the Financial Services Relief Act of 2006. In that legislation, Congress added to the definition of federally-insured credit union "net worth" the phrase "the retained earnings balance of the credit union, as determined under 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." Clearly, it was the intent of Congress in amending the Federal Credit Union Act to *increase* post-merger credit union net worth.

There has been no showing that following the existing regulations has created any safety and soundness concerns for the continuing institution in the case of previous mergers. Without such a showing, there is no rational basis for this component of the rulemaking.

SchoolsFirst Federal Credit Union appreciates having the opportunity to comment on the proposed rule. As stated above, we disagree with the concept of creating exceptions to GAAP accounting principles in all cases. We also disagree with the proposed amendment to the current definition of "net worth" in Section 702.2(f)(3) of NCUA regulations which would impact the reporting for bargain gains in the context of mergers. This proposal creates additional burdens for credit unions, alters the significance of standardized accounting principles, and will result in no identifiable benefit to the credit union industry or to the public.

Please feel free to contact me if I may be of further assistance.

Sincerely,



Francisco Nebot
SVP/Chief Financial Officer
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)