

May 26, 2011

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

Re: Net Worth and Equity Ratio

Dear Ms. Rupp:

On behalf of the more than 150,000 member-owners who have entrusted more than \$1.6 billion in assets, Western Federal Credit Union (Western) thanks the Agency for the opportunity to comment on the proposed changes dealing with net worth and the National Credit Union Share Insurance Fund (NCUSIF) Equity Ratio.

Bargain Purchase Gain

Western does not support the proposal of “requiring the subtraction of any bargain purchase gain from the target’s retained earnings before the latter amount is included as net worth.”

The purpose of the original rule was to account for the fact that under Generally Accepted Accounting Principles (GAAP), acquired equity is not considered retained earnings, yet only Retained Earnings (RE) may be counted for net worth. The proposed adjustment has the unfortunate side effect of penalizing credit union mergers in a situation where there is a bargain purchase gain and fair value equity is greater than zero. A better alternative would be to take the lower of Book Value retained earnings (BV) or Fair Value (FV) equity as the RE adjustment. As shown below, this results in RE numbers that are closer to the GAAP equity than the proposed method.

Assume the case where the acquired institution has BV equity of \$50 and FV equity of \$100 and a \$100 bargain purchase gain. Under the proposed method, BV retained earnings less Bargain Purchase gain would be less than zero. The retained earnings adjustment for PCA would be zero, resulting in a total boost to retained earnings of \$100, compared to GAAP equity gain of \$200. Using the alternative described above, the retained earnings adjustment would be \$50, for a total retained earnings gain of \$150.

The following table illustrates the comparison of GAAP equity versus the current methodology, the proposed change, and the alternative described above across several examples.

	Example 1	Example 2	Example 3	Example 4	Example 5	Example 6
BV RE	100	50	200	100	700	50
FV Equity	0	100	100	200	200	200
Bargain Purchase Gain	100	100	100	50	50	50

GAAP

FV + BP Gain	100	200	200	250	250	250
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Current Method

PCA Equity Adjustment	100	50	200	100	700	50
BV RE + BP Gain	200	150	300	150	750	100

Change as Proposed

PCA Equity Adjustment	0	0	100	50	650	0
PCA Equity Adjustment + BP Gain	100	100	200	100	700	50

Alternative Method

PCA Equity Adjustment	0	50	100	100	200	50
PCA Equity Adjustment + BP Gain	100	150	200	150	250	100

Western believes that the proposed alternative would be beneficial to the acquiring credit union, the Agency in moderating costs to the NCUSIF, and would be more consistent with GAAP.

If we can be of further assistance in this matter, please feel free to contact us at 310-536-5000.

Sincerely,


Dane Morrison
Executive Vice President /Chief Financial Officer


Greg Badovinac
Assistant Vice President – Compliance & Governmental Relations