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Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

Re: Comments on NCUA's Voluntary Merger Proposed Rule

Thank you for the opportunity to provide comment on the proposed rule changes for Voluntary Mergers of Federally Insured Credit Unions. On behalf of First Source Federal Credit Union's Board of Directors and our 47,000 plus members, I am writing to you to share our thoughts on the proposed rule.

Credit Unions today are facing more and more challenges as we strive to meet increasing consumer expectation for competitive rates, new products and services, and enhanced delivery systems. Our industry has become a commoditized one where it is increasingly difficult to compete and meet these consumer expectations. In addition to these challenges, the industry must keep up with technological advances, safeguard member information, protect against cybersecurity attacks and stay on top of endless regulatory requirements.

Scale matters in a commoditized business. Growth is critical to individual Credit Unions as without growth; Credit Unions will become irrelevant in the competitive environment we operate within. For many years, statistics show that smaller Credit Unions have experienced little to negative membership growth, low Return on Assets and eroding Net Worth. These Credit Unions simply do not have the capacity to continue to provide value to their members.

First Source FCU believes that a healthy merger environment is good for the industry. NCUA should be striving to make the process easier rather than cumbersome as the new proposed rule seems to indicate. Scale, growth and diversification are all essential ingredients to the long-term viability and safety and soundness of our industry. Mergers should be market driven, and voluntary mergers should be easier to consummate when they provide true benefit and value to the membership.

While we strongly support full transparency where all relevant facts are disclosed on both sides of the transaction, we believe NCUA has swung the pendulum too far with the proposed rule. NCUA already exercises its discretionary authority to require more

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expansive disclosure of merger-related financial transactions, as well as requiring Credit Unions to provide additional time for members to consider the merger before a vote is called. Given NCUA's existing authorities under 12 CFR§ 708b.105(b) to approve a merger proposal "subject to any other specific requirements as it may prescribe to fulfill the intended purposes of the proposed merger", we do not see the need to fundamentally rewrite the merger rules. Two major components of the proposed rule are particularly bothersome and would be cumbersome for Credit Unions seeking a merger partner:

Merger-Related Financial Arrangements for Covered Persons

The proposed rule is unnecessary and cumbersome. The existing rule already requires the salaries of any Senior Management official to be disclosed if an increase of 15% or over $15,000 in income or benefits is to be paid to any of those covered individuals as part of a voluntary merger. Surely, any increase in an amount less than required by the current rule does not necessitate a new rule as anything less than the current requirement is immaterial to any merger decision.

Most merging Credit Unions are smaller than the continuing Credit Union and as such, have fewer resources to adequately compensate their senior executives. Larger Credit Unions by the very nature of their size and complexity will have higher pay scales than smaller, less sophisticated Credit Unions and it should not be portrayed as inappropriate for an executive or employee to receive a salary increase or increase in benefits when they move to a corresponding position at a larger institution.

No disclosure requirement should be required for any executive or senior level member of management below the highest five paid in any Credit Union. The two year requirement both before and after a merger for disclosing any salary or benefit increases, in particular, is cumbersome, burdensome and unnecessary.

Member to Member Communication

We believe this is the most troubling aspect of the proposed rule. Requiring the merging Credit Union to send the unsolicited opinion of one member to all members provides a forum for negative comments which may or may not be factual. For example, allowing a disgruntled member who was denied a loan or had an automobile repossessed two years ago to have a regulated mandate to be able to share their frustrations by opposing a merger will make voluntary mergers more controversial.

The proposal to require a "member to member communication" forum is unnecessary and potentially damaging and detrimental to institutions on both sides of the contemplated transaction. This concept, while well intentioned, has unlimited potential

for unintended consequences that creates an unnecessary burden and potentially creates reputation risk to both Credit Unions contemplating a merger. Forcing an unsolicited opinion of one member onto the entire membership base has the potential to aggravate many members and could also invite comments that are potentially harmful such as the misguided recommendation that members should liquidate the Credit Union and "cash out" instead of merge.

We urge NCUA to seriously consider removing this section of the proposed rule as it is potentially harmful.

Closing

Marketplace considerations that are bringing about voluntary mergers will not disappear by the enactment of this proposed rule. However, its provisions could discourage some voluntary mergers that should be consummated; which could ultimately result in an emergency or involuntary merger with potential impact to the NCUSIF.

Voluntary mergers are preferable to involuntary mergers. Allowing Credit Unions to negotiate a satisfactory set of merger terms that is within the best interest of the Credit Union involved is just good business.

To deny a Credit Union who has determined that they can no longer be relevant to their membership, is experiencing declining market share, experiencing low or negative ROA and declining Net Worth the ability to easily merger into a stable, growing credit union is not prudent regulatory oversight. These Credit Unions could easily become a "troubled Credit Union", be conserved and fall under an emergency or supervisory merger (which would then come under NCUA's purview without any disclosures or member vote of any kind whatsoever) all at a cost to the share insurance fund.

We would like to once again thank you for the opportunity to comment on this proposed regulation which we feel is very important to the entire Credit Union industry.

Very truly yours,

Michael J. Parsons
Chief Executive Officer