

August 05, 2017

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

RE: Comments on Voluntary Mergers of Federally Insured Credit Unions

Dear Mr. Gerald Poliquin,

I am writing on behalf of Redwood Credit Union (RCU), which serves California's Northern Bay Area region. We have 250,000 Members and \$3.5 billion in assets. RCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule regarding voluntary mergers.

RCU shares the NCUA belief that mergers should be managed in as fair and transparent a manner as possible to ensure the best interests of Members are served. However, we must respectfully disagree with some proposed provisions which would significantly increase the challenges inherent with a merger as outlined below:

**Member to Member Communication:**

The NCUA has proposed creating a "Member to Member Communication" platform similar to that required for credit union to bank charter conversions with the goal of encouraging Member debate. RCU disagrees such a communication platform is necessary given that credit union mergers are qualitatively different from bank conversions. Whereas bank conversions involve dramatic changes to a for-profit, shareholder owned charter, credit union mergers ensure Members continue to be served under the not-for-profit, Member owned structure. Furthermore, RCU disagrees that the proposed communication process would achieve the NCUA's goal of increased Member debate. Debate, such as occurs at a Membership meeting requires give and take between participants. The proposed process would instead only allow for one-sided communication by those Members with the financial wherewithal to pay for it.

Above and beyond this overall concern, RCU has several specific concerns with the proposal:

- The proposed process for rejecting improper communication requests (e.g. communication unrelated to the merger, etc.) will create new burdens on both credit unions and NCUA Regional Directors. Given that the Member to Member communication process would allow for a public platform to voice views to potentially thousands of other Members, it is not difficult to envision dozens, if not hundreds of such improper requests, each of which would need to be evaluated by both the credit union and Regional Director.
- Compliance with the communication process is potentially impossible to achieve within the 60 days' credit unions are allotted to complete the vote following NCUA approval if Members use the maximum time allotted to them to provide a

communication.

- Member communication timing requirements are based on the date of receipt by the Member, a date the credit union does not know or control. RCU would instead encourage any timing requirements be based on the credit union's mailing date.
- While the proposed rule allows credit unions to require Members pay for publishing their communication, there is no provision allowing CUs to require upfront payment for communication costs. Depending on the number of Members involved and the delivery method, such communication can cost thousands in mailing expenses which could be extraordinarily difficult to collect after such communication is sent.

### **Disclosure of Merger Related Financial Arrangements to NCUA:**

RCU agrees with the NCUA's goal of preventing inappropriate merger-related financial arrangements and agrees with the revised definition of merger-related financial arrangements. RCU would encourage further refinement of the definition of covered persons to allow for limited exceptions for small credit unions to exclude coverage of employees who are not in a position of authority or influence over the merger. RCU notes the NCUA additionally sought comment on whether the disclosure should cover all increases in compensation for all employees of the merging CU. RCU disagrees with such a broad approach, which would require the disclosure of personal financial information of employees who are not in a position of authority and whose compensation increases may have nothing to do with a merger.

### **Submission of Merger Proposal to NCUA**

To further combat conflicts of interest, the NCUA proposes requiring disclosure of 24 months of merger related board minutes. RCU shares the NCUA desire to prevent such conflicts of interest but is concerned of the administrative burden of reviewing 48 months of board minutes. Given NCUA examiners are provided such minutes as part of regular exams, RCU encourages limiting the disclosure to 6 months.

### **Notice of Member Vote – Timing Requirement**

RCU agrees that the current 7-day notice requirement for a special meeting is insufficient to allow Members to respond to a Member vote. However, RCU is concerned that 45 days will further delay an already lengthy merger process. We would encourage the NCUA to consider a 30-day period, consistent with the annual meeting requirements.

### **Notice of Member Vote – Content:**

RCU agrees in principle with the NCUA that Members should have as much information as possible to make an informed choice regarding a merger. However, RCU has concerns with the proposed Member disclosure as follows:

- The additional disclosure on the Notice of Member Vote further exacerbates an existing challenge of information overload, which can discourage Members from reviewing merger communication. RCU encourages the NCUA to allow CUs greater flexibility to post portions of the information unrelated to the Membership meeting

on a public website and include directions to that site in the Notice.

- As previously stated, RCU agrees with the NCUA's goal of preventing inappropriate merger related financial arrangements, however, we disagree with the proposal to publish employees' personal financial information in a disclosure to the Membership. RCU believes the NCUA is in the best position to evaluate the appropriateness of such arrangements based on its knowledge of the credit union's financial condition and compensation levels for credit unions of similar size and complexity. RCU further recommends that, if such Member disclosure is required, it be limited solely to employees who are in a position of authority to influence the merger.

Thank you for the opportunity to comment on this Proposed Rule and for considering our views on mergers.

Sincerely,

Brett Martinez  
President and CEO  
Redwood CU

cc: CCUL