



Chevron Federal Credit Union
P.O. Box 2069
Oakland, CA 94604-2069
510-627-5000 • 800-232-8101
jmooney@chevronfcu.org

August 7, 2017

James E. Mooney
President & CEO

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

RE: Notice of Proposed Rulemaking on Voluntary Mergers of Federally Insured Credit Unions

Dear Mr. Poliquin:

On behalf of Chevron Federal Credit Union, I wish to thank you for the opportunity to comment on NCUA's proposed rules pertaining to voluntary mergers.

Over the past twenty years, Chevron FCU has completed 14 voluntary mergers of various sizes. These mergers garnered support on average from over 90% of the voting members. Each of the mergers was invariably followed by sharply improved growth in memberships, loans and/or deposits within the merged credit union. Drawing on this extensive and favorable experience, we believe we can offer some informed observations regarding the proposed rules.

First, we strongly support the intent of the proposed rules to promote transparency in the merger process. In particular, we believe that the proposal to expand the content and enhance the clarity of the member notice would be very beneficial to voting members. We wish to offer suggested additional improvements to the notice.

Second, we seriously question whether certain other portions of the proposed rules are an effective means to achieving greater transparency. Indeed, we believe that two broad provisions may bring more confusion than enlightenment. We contend that these provisions, pertaining to merger-related financial arrangements and member-to-member communications, do not meet the test of improved transparency.

Merger-Related Financial Arrangement

The proposed rules require a merging credit union to disclose to members any increase in compensation or benefits that a "covered person" has received or will receive as a result of the merger. A covered person, under the proposed rules, would include the chief executive officer, the next four most highly compensated employees and any member of the board or supervisory committee.

In the 14 mergers that Chevron FCU has completed, not one dime has been paid to the merging credit union board or management as an incentive or reward for merging with us. However, under the proposed rules, each of these merging credit unions would have been required to furnish data pertaining to any pay increases occurring in the 24 months prior to the merger as well as prospective changes subsequent to the merger. Since most of our mergers have involved relatively small credit unions, covered persons for whom this extensive compensation data would be disclosed would often have included loan officers and tellers. It is challenging to think of a less informative display of data for the average member.

In our experience, we have found few members who are inclined to spend their time analyzing data to determine whether a credit union employee's change in compensation is appropriate or suspect. Even for the most committed novice, however, making such a determination will likely become increasingly difficult. Why? Because particularly when compensation is involved, history teaches that promulgating broad disclosure rules intended to expose questionable financial arrangements will only serve to inspire the creativity of those intent on making such arrangements. Fortunately, NCUA has the expertise to identify potential conflicts of interest and, under existing rules, the necessary authority to compel additional disclosures by the merging credit union. We believe this is the most effective and least burdensome approach to address this issue.

Member-to-Member Communications

The proposed rules provide procedures to enable member-to-member communications in advance of a merger vote. Specifically, a member may submit a comment in writing within 30 calendar days of receipt of the merger notice, and any comments not deemed "improper" must be made available to members no less than 15 days before the merger vote.

The member-to-member communication timeline is intended to fit within the proposed new 45-day minimum notice period for merger-related member meetings. However, factoring in the proposed procedures for determining whether a member comment is improper, the dissemination of member comments could easily extend beyond the notice period, leading to postponement of a merger vote. In NCUA's supplemental information, it is helpfully noted that "the [NCUA] Board encourages members desiring to communicate with other members about the merger to submit their communication as soon as possible..." With all due respect to the NCUA Board, I have encountered few credit union members who manage their personal schedules in accordance with Board guidance.

We find the inherent conflicts within the proposed rule's timeline to be troubling. More fundamentally, we question the rule's underlying assumption that member-to-member communications will advance a "compelling objective of ensuring that members vote... with all information reasonably available to them." First, we believe that most members will elect to have their comments sent via email only rather than incurring the costs for

postage. As a result, only a segment of the voting members will see the comments. Second, the "information" transmitted in the member comments is likely to be, as characterized by NCUA, "opinions" rather than objective analysis. Based on our own merger experience, we would anticipate two possible outcomes: (1) a significant portion of comments coming from a vocal but not necessarily representative segment of the membership that is opposed to the merger, and (2) a counter response organized by the merging credit union to ensure that a majority of disseminated comments favor the merger. Neither outcome, in our view, provides members with helpful information; instead, the member-to-member communication would become little more than a spamming exercise that would not likely be appreciated by the broader membership.

We believe there are other more efficient means to deliver meaningful information to voting members. We present one such approach below.

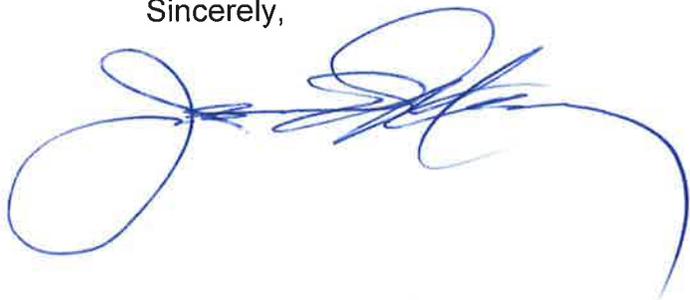
Member Notice

With the exception of the items discussed above, the proposed rules providing for an expanded member notice appear consistent with NCUA's objective of transparency. We believe that, in at least one area, the rules could go even further in ensuring that members receive information essential to an informed vote. Specifically, the current rules require in the member notice an explanation of changes to insurance programs that, in our experience, are rarely offered. We suggest instead that the notice be required to disclose *any* product or service that will be discontinued as a result of the merger. The notice could, at the discretion of the merging credit union, also disclose new products and services that would be made available to the membership post-merger.

We believe that a carefully designed member notice, focusing on matters that are meaningful to the members, is the most effective means of increasing transparency around a merger vote.

Thank you very much for the opportunity to comment on the proposed rules and for considering our input.

Sincerely,

A handwritten signature in blue ink, consisting of a large, stylized initial 'G' followed by a series of loops and a long, sweeping tail that extends to the right.