

State Employees' Credit Union



Administrative Offices

August 4, 2017

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

Re: Comments on NPRM on Bylaws, Bank Conversions and Mergers and Voluntary Mergers of Federally Insured Credit Unions; RIN 3133-AE73

Dear Mr. Poliquin:

Thank you for the opportunity to provide comments on the rulemaking proposal regarding Bylaws, Bank Conversions and Mergers and Voluntary Mergers of Federally Insured Credit Unions. State Employees' Credit Union of Raleigh North Carolina is the nation's second largest credit union with more than \$36 billion in assets and 2.2 million members who are provided services through 258 branches, nearly 1,100 ATMs, 24/7 services via phone and an interactive website, www.ncsecu.org. We strongly support full transparency and disclosure in the merger or conversion process which can only benefit the member-owners of credit union cooperatives.

Transparency, Disclosure, Member-Owners, Found Money and Do the Right Thing

The need for full transparency and disclosure has grown as the erosion in the number of credit unions continues at a furious pace. Growth through merger is now a strategy for some credit unions. The credit union movement is poorer for it and is disappearing faster because of it. It would appear that the current process does not afford members adequate and timely information to make fully informed decisions regarding the benefits, beneficiaries and ramifications of a merger or conversion.

There are a variety of reasons for the decline in the number of credit unions--some legitimate and some specious. We can agree, however, that in a merger member equity which may have been built up over decades by one credit union becomes contributed capital or net earnings for another credit union. The members who slowly built the capital over time frequently do not directly share in its distribution through the current merger process. Having a deliberate, fully transparent and fully disclosed merger process with adequate time for consideration of such a significant decision allows credit union member-owners to have a say in how their ownership capital can and should be distributed through a merger. Member participation and voting is one of the fundamental principles on which our member-owned cooperative credit union structure was formed.

Members can only arrive at a fully informed decision if given all of the facts surrounding the potential merger or conversion. Excessive payouts to management and/or board members or others from the collective capital earned by members might be tempered if full transparency is part of the merger process. Members might vote to participate in a distribution of “excess” capital prior to a merger being completed so that all members benefit from the merger rather than a select few beneficiaries including management, the board or others and the members of the credit union into which the target credit union capital is flowing. Incentives considered for or paid to management, the board or others should be fully disclosed well before the membership vote. Information regarding such measures should be provided to the membership at least 45 to 90 days prior to an Annual Meeting or a Special Meeting in which a merger or conversion is to be voted on. If feasible, the idea of paying out a special dividend to members prior to the merger should be discussed and explored. A dividend could possibly be structured so as to not eliminate the viability of the merger while benefitting the members who contributed the capital.

A minimum voter participation threshold of the membership could be considered in order to approve a merger or conversion—e.g. 35% of members over a certain age must be required to approve a merger or conversion since this is a vote to dissolve the cooperative. Members should be afforded their vote and a minimum number of members should be required to effect such a serious consideration.

Finally, regarding setting up a member communication platform it would likely be unworkable and impractical and would not likely benefit the process. Social media vehicles currently provide ample opportunities for members to voice their opinions and concerns and would certainly spring up quickly if members were adequately apprised of the merger or conversion possibility. For those members who don’t have access to such media they could express and discuss their concerns through other vehicles and at Annual or Special meetings. The key is that they be given complete information regarding the pros and cons of the transaction, potential other options which could be considered (a special dividend or a full liquidation, for example) and whether and how management, the board and the acquiring credit union might benefit in the contemplated transaction. The built up capital is not unclaimed—the member-owners of the cooperative credit union created it and should have a major voice in whether and how it is distributed and what benefits they might receive through the transaction.

We heartily endorse full transparency and timely disclosure and communication with the member-owners of credit unions which might consider a merger or conversion. We recommend you accommodate such considerations as you move forward in the rulemaking process.

Thank you for the opportunity to provide input as you consider improvements to the existing merger and conversion process.

Sincerely,



Michael J. Lord
President