August 7, 2017

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

Submitted via email to: regcomments@ncua.gov

Re: Comments on Voluntary Mergers of Federally Insured Credit Unions
RIN 3133-AE73

Dear Mr. Poliquin:

Thank you for the opportunity to provide comment on the National Credit Union Administration's (NCUA) Notice of Proposed Rulemaking on Bylaws; Bank Conversions and Mergers; and Voluntary Mergers of Federally Insured Credit Unions, 12 CFR Parts 701, 708a, and 708b.

SECU provides cooperative financial services to over 245,000 member-owners across Maryland.

While SECU supports the spirit of the new rules in terms of greater transparency and member awareness, we have serious reservations about some specific provisions of the proposal.

DISCLOSURE OF MERGER-RELATED FINANCIAL ARRANGEMENTS

Definition of covered persons:

Our cooperative principles ensure members' interests are considered first and foremost when a merger is in play. We do support NCUA's proposal to expand the definition of a covered person from Senior Management and the Board of Directors to include the 4 most highly compensated employees other than the CEO or Manager and any member of the Board of Directors or Supervisory Committee.

The NPRM requests comment on further expansion of coverage to include coverage of the top ten most highly compensated employees, or additional employees with management responsibility or who are in a position of influence – or for all employees regardless of management responsibility or level of influence. We do not agree with this. We think the proposed definition of covered persons is sufficient to provide clarity to members and for many smaller credit unions, disclosing the ten highest paid employees would most likely be the entire staff of the credit union.

Merger-related financial arrangement:

We support the inclusion of a merger-related financial agreement that can provide greater transparency. However, under the proposed rule, the monetary thresholds would be eliminated (greater of 15% or $10,000) and replaced with the standard of "any increase in compensation or benefits that any covered person of a merging credit union has received during the 24 months prior to the date of the approval of the merger plan by the boards of directors of both credit unions." We do not have issue with the 24 month

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look back. In addition, this would include all future compensation or benefits that would not be received but for the merger taking place – regardless of the amount. While well intentioned, this provision of the proposal is too broad in scope, requiring the disclosure of compensation as small as $0.01. We do not believe the threshold should be eliminated, rather it should be increased.

The new rule should also avoid the unintended consequence of having a negative impact on a merger if the covered persons of the merging credit union receive an increased benefit package to align with what the continuing credit union offers as part of its regular salary and benefits package. While meeting the definition of an increase in compensation, but for the merger, in reality this disclosure does not provide members of the merging credit union with relevant information and creates confusion. What is needed is a well-defined trigger for when merger-related financial arrangements should be disclosed.

MEMBER-TO-MEMBER COMMUNICATION

We completely object to the concept of member-to-member communication procedures which require a credit union to share communications submitted in writing from other members in advance of a vote on a proposed merger. It is likely that a member choosing to communicate with other members is doing so to negatively impact the process. Simply put, the risk of misinformation from some members influencing the decisions of others and potentially unnecessarily derailing a merger that may in fact be in the members' best interests is high.

Under terms of the proposed rule, the credit union cannot address false, misleading or inflammatory remarks or information, as that is left to a regional director. The review process outlined is just not practical and is overly burdensome to both the credit union and the regional director, and may in fact have the unintended consequence of diminished awareness of the circumstances surrounding the merger on the part of the member. Credit unions must submit communications to the regional director within 7 days of receipt of the communication; the regional director would have 7 days to review.

When the various timelines for member notification are considered, in reality, the potential for a vote to be delayed is very likely. Notice of annual meeting-at least 30, but not more than 75 days; special meeting-at least 7 days, meeting to consider the merger – at least 45, but not more than 90 days; member-to-member communications-comments within 30 days of notice of meeting to merge; member communications distributed no later than 15 days before the vote. Integration of these timelines presents an administrative burden to credit unions, without any appreciable benefit to the members, and in many cases will prove to be unworkable.

In addition to the concerns about the practicality of the NCUA effort to increase transparency surrounding the merger process, NCUA should be careful not to write an overly complicated regulation that unnecessarily delays the process, to the financial detriment of both the involved credit unions as well as the National Credit Union Share Insurance Fund.

An unwarranted delay generated by an individual member or group of members, based on a factually incorrect or manufactured reason, could exacerbate any financial problems present in the credit union being merged, increase potential costs to NCUSIF, and generally create a more difficult merger situation for both the acquiring and merged institutions. While SECU is mindful that this proposed regulation would govern only voluntary mergers, we strongly encourage NCUA to consider a broad array of economic factors that drive merger decisions, among which could be declining, or stagnant financial condition of the prospective merged credit union.

Additionally, NCUA explained that this proposed change mirrors current rules for bank conversions and mergers. When a credit union merges with a bank, the merging credit union members stand to lose a great deal, becoming customers of the bank as opposed to being owners of a cooperative. Although facilitation of robust discussions for members to discuss drastic changes and loss of rights is warranted in a bank conversion or merger, it does not make sense for credit union mergers. Members of credit unions

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that merge with another credit union are not in jeopardy since credit union member rights will remain intact at the healthier continuing credit union. The burden associated with the member-to-member communication proposal will far outweigh any perceived benefits and will surely lead to delays and other unintended consequences that will negatively impact members.

SECU is in support of the NCUA's intent to bring greater transparency and clarity to the merger process. However, we cannot support the sections outlined above, as they will place undue and unnecessary burdens on the merger process for credit unions. The merger rule should provide a regulatory framework that does not add to the current regulatory burden that credit unions bear in their daily operations, as well as enhance the ability of members to exercise their legitimate rights of cooperative ownership in a common sense, practical manner.

Sincerely,

Rod Staatz
President/CEO
SECU of Maryland