

Jordan, Sheron

From: _Regulatory Comments
Sent: Tuesday, May 29, 2007 8:06 AM
To: Jordan, Sheron
Subject: FW: Roger Michaelis Comments on Proposed Rule on the Disclosure of Merger Related Compensation Arrangements

-----Original Message-----

From: Roger Michaelis [mailto:rogerm@iqcu.com]
Sent: Friday, May 25, 2007 2:12 PM
To: _Regulatory Comments
Subject: Roger Michaelis Comments on Proposed Rule on the Disclosure of Merger Related Compensation Arrangements

May 25, 2007

Delivered via e-mail regcommentgs@ncua.gov <mailto:regcommentgs@ncua.gov>
Roger Michaelis Comments on Proposed Rule on the
Disclosure of Merger Related Compensation Arrangements

I would like to comment on the proposed rule that will require the disclosure of any arrangements that provide a material increase in compensation or benefits to senior management officials in connection with a merger transaction.

I continue to be mystified at NCUA's propensity to produce regulatory requests in areas of no importance to the ultimate goals of making credit unions successful.

I view the regulatory landscape one in which it will be virtually impossible for small credit unions to survive. To protect the public image of credit unions mergers of credit unions should be allowed and encouraged. Past economic trends have proven out the reduction in the number of credit unions nationally and I believe they will support a further reduction in the future.

The compensation of a senior executive of a credit union is certainly a point of consideration in any credit union merger. Mergers typically occur due to a retirement or vacancy in the senior position; financial distress of a credit union; and the inability to compete and grow. A non-typical merger is one where there is truly service benefits to be derived from the combination of two credit unions.

The compensation flexibility is a tool to facilitates a merger. Once the existence and public knowledge of a proposed merger occurs, delays in the completion of the merger causes deterioration in membership and sometimes asset quality of the merging credit union. These compensation agreements can help prevent some of the deterioration and maintain a positive approach to the completion of the complexity of merging a credit union.

Mergers should be viewed in a forward light. If a merger completely combines the operation expenses of two credit unions for a long period of time there is no apparent validity in a merger. Where back office expense reductions occur, a merger is a very positive financial transaction. To maintain or enhance a senior executives compensation for a short period will still prove to be a financial gain for the combination of the two credit unions over a long timeframe.

I do not believe the NCUA's approach to "material" is consistent with the complexity of today's credit unions. To define an increase of 15% above the current level of compensation or \$10,000, whichever is greater does not accurately reflect an accepted business practice to "soften" an executive transition. I think a better approach is one where "reasonable" is the standard. This can easily be justified according to the

complexity and other justifiable reasons.

Replacement executives could easily exceed these costs on a going forward basis rather than on a short-term basis of a merger. There can also be agreements that are in place that can be triggered by a merger.

As a senior executive leaves a credit union through a merger they are also faced with additional considerations. There could be relocating expenses with a new position, the length of time one might be unemployed and without any form of compensation, a possible change in working hours, different patterns or mechanisms for compensation, reporting changes from an existing relationship to a new one and the risks associated with making a job change. These are just a few of the reasons where increased compensation is justified.

I see no value in disclosing an agreement to the membership to consider in their vote to merge. Compensation issues are part of a merger proposal delivered to the regulator and should be viewed on a reasonable basis. To present this as a part of a merger vote is to be more concerned about disclosure than board judgment.

I do not think we need to put our tools under greater scrutiny than they are. We are not companies that are traded on a public basis. We need to keep our unique nature. We have been able to "police" ourselves (i.e. Wings take-over). Take the high road and look for a reasonable standard.

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