CORNING CREDIT UNION

Gary A. Grinnell, President and Chief Executive Officer

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June 20, 2007

Federal Express

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

Re: Member Inspection Rights Proposed Regulation; Request for Comments

Dear Ms. Rupp and Members of the NCUA Board:

I am writing on behalf of the management and Board of Directors at Corning Federal Credit Union which is headquartered in Corning, NY, and serves over 73,000 members throughout the country. I would like to take this opportunity to offer the following comments on NCUA's proposed regulation relating to member inspection rights of books, records, and minutes (12 C.F.R. § 701.3).

Based on our reading, the proposed regulation appears to be based on an underlying assumption that credit unions operate in the same manner as for-profit stock corporations, and therefore should be subject to similar obligations. Corning Federal Credit Union disagrees with such an assumption for a number of compelling reasons that include, among others, the following.

Our experience clearly demonstrates that members do not view their shares in Corning Federal Credit Union as capital investments with the potential for appreciation in the same manner as do the shareholders of for-profit businesses. Members purchase shares in Corning Federal Credit Union so they can deposit their money in a safe and sound financial institution and receive access to the competitive products and services we offer. While members do indeed receive dividends on their shares, these dividends are generally viewed as the equivalent of interest on deposits. More and more members are demonstrating behavior patterns that can be more closely identified with a consumer, in addition to being a member. Members who are dissatisfied with the products, services, or direction of the credit union can easily move their relationship and have their financial needs satisfied by a competing financial institution. Simply put, the underlying philosophy driving management and Board decisions is member satisfaction through excellent products and services, not capital appreciation.

In addition, unlike most for-profit corporations, federal credit unions themselves are highly regulated and supervised organizations. Credit unions are regulated not only with respect to the types of permitted activities they may engage in, but also with respect to the type and style

of communication they are permitted to have with members. We believe that the broad array of rights afforded to members under current regulations, including the right to be informed about and vote on major corporate changes, sufficiently protects the interest of the membership as recipients of financial products and services. Therefore, we would urge NCUA to withdraw the proposed regulation.

Should NCUA continue to feel it necessary to promulgate a final rule regarding member access to books and records, we would offer the following comments for the Board's consideration.

Proper Purpose for Inspection Rights

We strongly believe that the proposed definition of *proper purpose* needs to be more specifically stated in the body of the regulation and not in the preamble. The lack of a specific definition of *proper purpose* along with the burden of proof on the credit union makes it very difficult, in our view, for the credit union to legitimately challenge the purpose cited in a petition. We believe the proposal could be enhanced by mandating that the definition of *proper purpose* be tied to a specific, clearly defined, materially significant corporate event such as the election and removal of directors, mergers, conversions to a mutual savings bank, and voluntary liquidation. We believe the broad definition of *proper purpose* as currently written affords federal credit unions virtually no protection from a relatively small number of members conducting "fishing expeditions" regarding senior management compensation or other confidential corporate information not tied to a significant corporate event just to satisfy their curiosity.

Maximum Number of Petitioners

While the maximum signature requirement of 250 may be appropriate for some smaller institutions, it is extremely low for larger credit unions. The low threshold, combined with the broad scope of *proper purpose* as currently proposed, creates the potential for special interest groups to unreasonably and unnecessarily interfere with the normal business operations. A more reasonable and practical approach in our view would be to establish a threshold for signatures at 1% of members in good standing. In addition, we believe the signatures of employees should be excluded from the list of eligible petitioners. Employees already know the details of many of the business decisions made by the credit union. They do not, however, know the compensation and benefits paid to senior executives. Corning Federal Credit Union, like many other credit unions, has put in place many safeguards to ensure that the salary of all employees remains confidential. It has been our experience that, despite these safeguards, employees will still, from time to time, take steps to determine the salary of executives and other employees. We believe that disclosing senior executive compensation and benefits pursuant to a petition signed by employees would have an adverse impact on the operations of the credit union. Disclosures of compensation and benefits often lead to distrust and dissatisfaction.

The preamble to the proposed regulation states that the NCUA proposal closely tracks the OTS rule relating to stockholders in a federal stock association. However, under the OTS rule (12 C.F.R. § 522.11(b)), the minimum number of stockholders necessary to make a written demand is

much higher (holders of 1% or $100,000 worth of voting stock, who have owned their stock for at least six months, or holders of 5% of the voting stock). As described above, we believe the 1% threshold is more appropriate.

Minutes of Meetings and Confidentiality Issues

While Corning Federal Credit Union may not have "trade secrets" as historically defined, both the credit union and its Board generate a significant volume of sensitive and confidential information relating to its business strategies, plans, analysis, and investigations ("Plans"). Many of these plans are discussed openly in Board and committee meetings with the expectation that the discussions will remain confidential where appropriate. Obviously we do not want to share any of our strategic plans and goals with our competitors. However, allowing petitioners broad access to the minutes of meetings could potentially lead to the release of proprietary information that the Board and credit union deem sensitive and confidential. The very narrow definition of excludible confidential information in the proposed regulation does not offer any protection for sensitive business plans and strategies. Corning Federal Credit Union is headquartered in a relatively small, but very competitive, town in upstate New York with a relatively large field of membership in the communities surrounding our headquarters. We are a relatively large and visible organization in our region, and many other organizations are extremely interested in our internal operations. Plus, many of the leaders of other, competing, organizations are in the Corning Federal Credit Union field of membership. The proposed regulation, as drafted, would effectively allow competitors access to sensitive information and could put Corning Federal Credit Union at a significant competitive disadvantage.

In addition, the proposed regulation would allow petitioners to copy the information reviewed. Such a provision would make it very easy for a petitioner to efficiently disclose and distribute sensitive information to a mass audience, including competitors through a variety of delivery channels that could include email or the internet. Furthermore, the proposed regulation does not even impose any confidentiality requirements on the petitioners. However, in our view, merely imposing confidentiality obligations on the petitioners would probably not cure the defect or mitigate the damage if the proprietary information were disseminated. If confidential information was improperly distributed by a petitioner, it would be almost impossible for a credit union to determine the identity or hold accountable the person who distributed the information. Moreover, once sensitive or confidential information has been distributed and viewed by competitors, the damage is irreversible. It is our belief the proposed regulation will likely lead to an increase in the amount of "off the record" discussions and decision making, thereby making it more difficult to direct the operations of a credit union and making a credit union potentially more difficult for NCUA to supervise.

As alluded to above, Corning Federal Credit Union is steadfastly opposed to the provision of the proposed regulation permitting petitioners to have access to the compensation and benefits of senior executives. Not only would this violate the privacy of senior executives, it could potentially lead to employee dissatisfaction and ultimately disrupt the operations of a credit union. Corning Federal Credit Union is generally supportive of the principle underlying the compensation and benefits disclosure rule in the related proposed regulation, 12 C.F.R. § 708b (although we believe the

thresholds are low and do not take into account the unique characteristics of individual credit unions). We concur that it is a reasonable assumption that some members may be legitimately interested in whether an executive is getting a significant bonus in connection with a proposed merger. To that end, we believe that the rule in 12 C.F.R. § 708b is sufficient to satisfy reasonable and appropriate compensation related inquiries and any potential benefit achieved by permitting petitioner access under 12 C.F.R. § 701.3 is outweighed by the likely harm to the credit union operations.

Corning Federal Credit Union also believes that communications between a credit union and its attorneys should be kept confidential and protected under the attorney client privilege even if such information is recorded in meeting minutes. Attorney-client privilege is a firmly entrenched doctrine of law that should be closely protected. Generally, privileged information is only subject to disclosure in very rare circumstances (usually involving the threat of bodily harm). The financial well being of a member's individual investment in a federally insured institution does not rise to the level of other exceptions to the attorney-client privilege that have been recognized. Management and Boards have operated for years under the very reasonable belief that all attorney-client communications would be privileged. No doubt many of the minutes and records of Board meetings were memorialized under the assumption that they were fully protected by the normally unassailable confidentiality afforded under attorney-client privilege. It would be manifestly unfair to credit unions to allow these minutes and records to now be exposed.

To be perfectly clear, Corning Federal Credit Union does not dispute that members, as shareholders and part owners, should have additional access to the books and records of credit unions where appropriate and within clearly established parameters. For example, we believe it would be proper for an individual member to review, without copying, certain records and minutes (excluding those items described above) of a credit union for certain, well defined purposes, so long as that member executed and adhered to a strict confidentiality agreement. A rule such as this, in combination with the existing rules related to member rights, would allow sincerely interested members to review relevant information while helping to protect the competitive plans of a credit union and the privacy of its executive staff.

Other Matters

It is already extremely difficult for credit unions to find talented and dedicated people willing to serve on the Supervisory Committee and Board of Directors on a volunteer basis. It would be almost impossible to recruit qualified people to volunteer for these positions without compensation if they understood that so many of their decisions could be so easily scrutinized and challenged publicly by people who may not understand the relevant issues facing a complex financial institution. In addition, the Board and committee members we currently have would certainly be less inclined to run for reelection if this proposed regulation is finalized as written.

We also believe that the 14 day response time is too short. Credit unions will need time to review and verify the signatures on the petition, time to gather the information, and time to exclude properly excludable information. Corning Federal Credit Union, like most credit unions, has a fairly

lean staff without a lot of administrative support positions. Fulfilling a petitioner's request would require removing people from their normal operations. A 30 day response period would permit credit unions to mitigate the burden by spreading it over a longer time period.

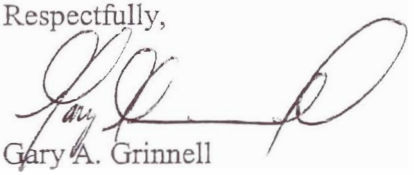
We believe that there should be an appeal process. As described above, the release of some of the information could have an adverse effect on a credit union. NCUA Regional Directors are experts in the area of credit union operations and supervision but may lack the experience required for fair and efficient dispute resolution. Failure to provide an administrative appeal process could force credit unions to turn to the courts for relief. Litigation would certainly slow down the record inspection process and would no doubt interfere with the normal operations of the credit unions. For these reasons, we believe credit unions should have the right to appeal a Regional Director's decision.

Conclusion

For all the reasons stated above, we urge NCUA to withdraw the proposed regulation due to the potentially unreasonable burden that may be placed on credit unions. In the alternative, we would sincerely hope that the proposal is revised to include some of the changes described in this letter.

We appreciate the opportunity to extend our formal comments on this proposed regulation for the official record and would be happy to discuss any of our positions and concerns at your convenience.

Respectfully,



Gary A. Grinnell
President and Chief Executive Officer
Corning Federal Credit Union

cc: JoAnn Johnson, NCUA Chairman
Rodney E. Hood, NCUA Vice Chairman
Gigi Hyland, NCUA Board Member