



Office of the President

September 3, 2008

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

Re: Post-Merger Net Worth

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to the National Credit Union Administration's (NCUA) proposed changes that impact the prompt corrective action (PCA) definition of "net worth."

Navy Federal supports amending the computation of net worth for PCA purposes to include the retained earnings of an acquired credit union in a merger. Consistent with the definition of net worth in the Financial Services Regulatory Relief Act of 2006, such a change will ensure that an acquiring credit union does not experience a reduction in its net worth ratio solely due to a prescribed accounting methodology. Further, the proposed amendment will enable credit unions to comply with Financial Accounting Statement No. 141(R), while approximating the post-merger net worth that would have resulted under the pooling method. We also urge NCUA to update the Form 5300 PCA Net Worth Calculation Worksheet to include an acquired credit union's retained earnings in the net worth ratio.

Although we support amending the post-merger net worth computation, Navy Federal is concerned about the following language in the proposed definition of mutual combination:

"A mutual combination is a transaction in which a credit union acquires another credit union, or acquires an integrated set of activities and assets that is capable of being conducted and managed as a credit union *for the purpose of providing a return in the form of economic benefits directly to owner members.*"
(emphasis added)

We believe the italicized clause is irrelevant to determining net worth. Previously, the PCA rule did not include language on the purpose of mergers, and we do not believe it is appropriate or necessary to include such language now as part of a proposed rule-making solely meant to solve an accounting dilemma. Further, it is illogical to introduce such a standard on the

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purpose of mergers in the PCA rules, especially when NCUA's existing merger rules in Part 708b do not require such an exact purpose as a prerequisite to merge. In fact, this clause would add another layer of complexity and compliance burden to credit union mergers that is not required by any statute or existing regulation. Currently, NCUA's *Merger Manual* simply states that credit unions should take into consideration whether a merger would be in the members' "best interests." We believe this limited guidance is adequate, given the inherent incentives democratically-owned and cooperatively-organized credit unions have to act in their members' best interests in mergers. We are also unaware of a demonstrated need for additional guidance or regulation in this area. In addition, if a credit union was ever called upon to prove that a merger was performed for the purpose of providing an *economically-beneficial* return *directly* to its owner members, it would be a difficult and ill-defined task, especially in situations with involuntary or emergency mergers of troubled credit unions. We strongly urge NCUA to remove this clause from the definition.

In regard to the proposed definition discussed above, we also ask for clarification of the language describing a mutual combination. As written, we believe the words "is capable" technically limit mergers involving integrated sets of activities and assets to those having the capacity to be stand-alone credit unions at the time of merger. However, merger plans may sometimes include integrated sets of activities and assets that are capable of being conducted and managed as viable credit unions only in combination with existing credit unions. Therefore, we suggest the definition be clarified as follows:

"A mutual combination is a transaction in which a credit union acquires another credit union or an integrated set of activities and assets that, upon combination, is capable of being conducted and managed as a credit union."

We appreciate the opportunity to provide comments in response to NCUA's proposed changes in the computation of net worth for PCA purposes. If you have any questions, please contact Shannon Burt, Senior Policy Analyst, at (757) 234-4073.

Sincerely,



Cutler Dawson
President

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