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# Federal CREDIT UNION

August 11, 2006

AUG 22 06 AM 8:10 BOARD

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

## Re: CP Federal Credit Union Comments on Proposed Rule Part 708a, MSB Conversions

Dear Ms. Rupp,

CP Federal Credit Union (CPFCU) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) concerning the proposed changes to NCUA's rules regarding the conversion of insured credit unions to mutual savings banks or mutual savings associations.

CP Federal Credit Union has been closely following conversion attempts in our state. Many of our comments are derived from our observations during these conversion attempts.

### Summary of Comments

CPFCU supports the intention of the proposed revisions to improve the information available to members and the Board of Directors as they consider a possible conversion. CPFCU also believes there needs to be regulator involvement in the process to ensure the integrity of the process.

### Specific Questions

#### Public Notice

We support the proposal to publish advance public notices of the pending board meeting where a conversion vote will be considered. Due to the complexity of the conversion process, advance notice is necessary to make an early determination on member response to a possible conversion. CPFCU supports the delivery channels recommended and also believes a mailing to all members should be sent at least 120 days before the meeting to ensure proper disclosure.

#### Disclosures Regarding Rates and Director Profiteering

We support the proposal's expanded disclosure to include a more definitive statement concerning the rates on loans and savings benefits. Lower rates on loans and higher rates on savings is one of the benefits of credit union membership and members need to be made aware they may lose that benefit in a conversion based on historical data. For example, a recent conversion resulted in members gaining anywhere from \$150 to over \$1000 based on undivided earnings being distributed to members in proportion to their shares. However, increases in loan rates (e.g. a 50 basis point increase on a typical mortgage loan) are usually far more costly than the meager benefits members' received up front.

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## Advance Payment for Member-to-member Communication Requests

CPFCU believes it is important for members to be able to communicate with each other concerning the pending conversion. It is necessary for both sides of the conversion to be able to communicate their opinions on the matter. We support the proposal that a member must agree to reimburse the credit union and provide an advance payment toward reimbursable costs when they request for information to be disseminated via one of the available delivery methods. CPFCU believes the cost to the member for a member mailing should be based on actual credit union experience with member mailing costs, not necessarily 50 cents times the number of eligible voting members. We feel the delivery methods proposed are sufficient for this special communication and should be utilized for all member communications. We would recommend the regulation clarify whether the requestor must select one method or the other, and if a combination is permitted, how the advance costs are to be calculated.

## Electronic Balloting

We support the concept of electronic balloting. Electronic receipt of ballots is now economically feasible and increases response rates. Credit Unions are moving with technology and as long as the process is fair, independent and legal, we should increase our use of electronic balloting. CPFCU also supports the proposal of including the ballot only in the 30-day notice. The purpose of the 90 – 60 – 30 day member notices is education and communication. We feel it is more beneficial for the credit union if the member has time to educate themselves on the conversion without feeling rushed to vote on the issue. We would also recommend an early disclosure that states the ballot will not be available until the 30-day notice.

## Incentives and Use of Prize Raffles

CPFCU wholeheartedly supports the position of the Michigan Credit Union League (MCUL) with regards to this issue. Please refer to the MCUL comments on this issue below:

“While credit unions oftentimes use raffles in other scenarios as incentive for greater participation in events, we believe their use in a conversion setting undermines the serious nature of what is taking place. While conversion consultants will point to their common use to encourage participation in these other kinds of activities, we have observed in Michigan the use of expensive prize automobiles sitting outside of branches, the use of extensive cash prizes, and the use of glossy promotional material, all of which in our view gives members and the public all the outward appearances of attempting to “buy” votes. We do not deny the legal status of raffles in states that permit them, and would support their use in other situations, but believe it is inappropriate in a conversion setting and strongly oppose their use.

Current NCUA regulation, Part 708a.7, gives oversight authority of the membership vote to the Regional Director regarding the “methods and procedures” used. It provides a standard of review, which we believe should be amended to incorporate a requirement that no raffles were used to entice participation in the vote. Because the legality of raffles differs among the states, NCUA can put all states on the same footing by banning them entirely in a conversion setting. Further, we recommend Part 708a.7 be written in tandem with the earlier Notice to NCUA requirement found in Part 708a.5(b)(1), wherein “material features” of the conversion are to be disclosed. We believe a raffle is a material feature with respect to the voting process, and the initial disclosure to NCUA of its intended use would permit the NCUA to immediately advise the credit union a raffle is not permitted under the standard in Part 708a.7. This would benefit the credit union by avoiding ahead of the time the unnecessary time and expense in setting up such a raffle.”

CPFCU also supports the MCUL position on Bylaw Enforcement. We also believe the NCUA, as a matter of safety and soundness, should take steps to ensure the democratic process is upheld and honored by all federally-insured credit unions.

We appreciate the opportunity to comment.

Sincerely,



Chrissy Siders

Vice President of Risk Management