



**New York State  
Credit Union League, Inc.  
and Affiliates**

"Serving and supporting credit unions since 1917."

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August 24, 2006

Ms. Mary Rupp  
Secretary to the Board  
National Credit Union League Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

Dear Secretary Rupp:

I am writing this letter to express the support of the New York State Credit Union League (hereinafter "the League") for NCUA's important proposal to amend Part 708a of the NCUA's rules and regulations to improve and clarify the credit union conversion procedure. Clarification in this area is important both to credit union members and to all consumers who have so much at stake in the continued vitality of the credit union movement, which continues to provide the public with a consumer friendly alternative to traditional banking institutions.

The League understands the importance of the conversion issue. Consequently its Board has articulated guiding principles regarding credit union conversions. These principles are the foundation of our advocacy in this area. I am pleased to see how consistent this proposal is with our guidelines.

**(1) As democratically controlled cooperatives, a determination of whether or not to convert should be based solely on what is in the best interest of the members.** We strongly support amendments to section to 708a(3) that would codify that the board of directors of a credit union may put a conversion vote before the members only after a majority of such board has concluded that it is in the best interest of credit union members. The members supporting conversion must also certify to their respective Regional Director that the conversion is in the best interest of the members. Furthermore, by improving notice requirements related to a pending board conversion vote and providing that a conversion vote can take place "only after reviewing and considering all member comments," the proposal creates a framework for member input at the earliest possible time and insures that board members analyze all views as to what actions are best for the cooperative.

**(2)The League supports full and plain language proposals and this proposed rule makes several important improvements in this area.** The proposal decreases the likelihood that there will be confusion among the voters by providing a definition of "clear and conspicuous" for ballots and requiring precise language to make it clear that a vote for the proposal is a vote for bank conversion. The proposal amends 708a.4(a) to mandate that a ballot on a conversion proposition can only be mailed to members when providing 30 days notice of the vote. As currently promulgated there is nothing to prevent members from receiving ballots long before they are due and before they have had time to consider arguments for and against conversion. As noted by NCUA this proposal is consistent with New York State Banking Law 487-A.

**(3) We support credit union managers and directors providing objective, honest information to members.** This is why the League supports the retention, with slight modification, of boxed information sent with the conversion notices, informing members, among other things, that, on average, credit unions charge lower loan rates than banks and that conversion from a credit union to a mutual savings bank is often the first step in a two-step process leading to a stock issuing bank, where directors may receive stock in excess of that available to other members.

While the League is generally very supportive of NCUA's efforts regarding this proposal, we believe that improvements could be made in the following areas.

(4) **We believe that the net worth of the credit union belongs to the members and should remain with the members.** In order to further this aim, NCUA should consider amending the existing notice requirements to mandate that a board proposing conversion include in its mandated disclosure requirements an estimate of the credit union's net worth, as well its asset size. Such a proposal would allow members to weigh the current value of their mutual shares against the potential value of a stock form corporation.

Proposed 708a.4(f) is an attempt to facilitate member discussion relating to a proposed merger. It would require a credit union to, upon member request, e-mail or mail "conversion related material" among members within seven days. Credit unions would have to get permission from the Regional Director before refusing to send material it concludes is not "proper conversion related material."

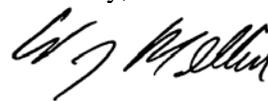
Though well intentioned, this proposal has several flaws. In the middle of preparing for a conversion, the credit union would have to prepare a list of who wants to receive e-mail and who does not; make assessments as to what material should be sent and effectively appeal its own decisions to the Regional Director absent any showing that it has acted unreasonably in refusing to submit material for member consideration. All this would have to be done at a time when credit unions are already required to maintain an increasingly large number of "opt-out" lists as evidenced by the recently finalized FTC "Junk Fax" regulations.

In contrast, the proposed amendment to 708a(3) simply requires credit unions to maintain all proposed conversion comments at its office and to post such comments on its website until the conversion process is complete. This requirement is more than sufficient to achieve the goals of openness sought by NCUA and supported by the League.

The overriding goal of any conversion process should be to insure that the decision made reflects a majority consensus among members as to the course of action that is in the best interests of the institution. Currently 708a(6) provides that conversion requires approval of the majority of members who vote on the proposal. This flies in the face of not only democratic principles but also bedrock parliamentary principles. Roberts Rules generally provides that a quorum is a number that must be present in order that business can legally be transacted and provides that business should not be transacted until a quorum is present. On an issue as important as the continuation of the credit union, a quorum should have voted on any conversion proposal. Ideally a quorum would equal at least half the members of a credit union but this number may be impracticable. Therefore, NCUA should instead consider a quorum number that reflects at least a substantial percentage of the membership. Without defining a quorum for purposes of a valid vote, a credit union could decide to convert based on a plurality vote of its members who represent a fraction of the composite membership.

Again, thank you for giving the League the opportunity to express our views on this important subject.

Sincerely,



William Mellin  
President and Chief Executive Officer