



September 22, 2008

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

Re: Notice of Proposed Rulemaking for Parts 702 and 704

Dear Ms. Rupp,

SchoolsFirst Federal Credit Union serves school employees in Southern California. We have more than 385,000 Members and \$8 billion in assets. SchoolsFirst FCU is pleased to have the opportunity to comment in support of the proposed rules regarding prompt corrective action and the amended definition of post-merger net worth.

SchoolsFirst FCU is in favor of any change to the definition of net worth than simulates the former accounting pooling effect and places credit unions in a stronger capital position post-merger than the current definition permits.

The current definition for purposes of the Credit Union Membership Access Act (CUMAA) of 1998 "expressly limits a credit union's net worth to the retained earnings balance of the credit union, as determined under generally accepted account principles (GAAP)." At the time of the CUMAA enactment, the common practice for financial reporting of a credit union merger was the "pooling method". This process allowed the pooling of retained earnings. However, since then, the Financial Accounting Standards Board (FASB) established a new GAAP to require the "acquisition method" (effective December 15 of this year). Under the acquisition method, the fair value of the net assets of a credit union acquired in a merger are to be classified as a direct addition to the acquirer's equity, not as additional retained earnings. Therefore, changing the net worth definition to include the acquirer's equity with retained earnings will simulate the former pooling method. Without the proposed change in the net worth definition (that would include acquirer equity), the capital ratio of the acquiring credit union would be reduced, (as the assets would increase but not the retained earnings used for net worth calculation by definition). Depending on size of the merger this could be significant. This most certainly will discourage, if not prohibit, credit union mergers in the future.

Serving School Employees as **OCTFCU** Since 1934

2115 N. Broadway • Santa Ana, California • 92706-2613
P.O. Box 11547 • Santa Ana, California • 92711-1547
800.462.8328 • 714.258.4000 • www.SchoolsFirstfcu.org

While the proposed definition is somewhat similar to the pooling method, it will nonetheless still result in some net worth ratio decline – as in the acquisition method, credit unions will still be required to mark-to-market the assets (if they have lost value, the acquirer's equity funds the mark down of the assets; if there is a deposit premium, the value of the premium would create an intangible asset on the books – adding to the asset total). However, the proposed change to the net worth definition would allow the acquirer's remaining equity to be combined for net worth purposes for the combined credit union. This will result in a more favorable net worth ratio than if the change of definition is not made.

Furthermore, since secondary capital is not available to all credit unions (only low-income designated credit unions), this redefinition and pooling of capital is critical to the stability and soundness of credit unions and the insurance fund.

Thank you again for the opportunity to express our views and support of the proposed rules regarding prompt corrective action and the amended definition of post-merger net worth.

Sincerely,

Erin Mendez, Sr. Vice President
IS and Finance
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)