

CORPORATE CREDIT UNION GUIDANCE LETTER

No. 2007-01

DATE: March 19, 2007

SUBJ: Payout of Retained Earnings in Conjunction with Corporate Credit Union Mergers

TO: The Corporate Credit Union Addressed

The purpose of this letter is to inform corporate credit unions of the Office of Corporate Credit Union's (OCCU) position regarding either the partial or full payout of retained earnings in conjunction with mergers. Simply, OCCU will be reluctant to recommend the National Credit Union Administration (NCUA) Board approve corporate credit union mergers if the merger application contains a provision for the payout of the merging corporate credit union's retained earnings in any form (e.g., direct payout or indirect payout via reduced service fees or increased returns on deposit/investment products not available to all members of the continuing corporate).

Since 1984, NCUA has made a concerted effort to encourage corporate credit unions to build retained earnings as reflected in Part 704 rule changes. In the mid-1990s, several studies of the corporate system (e.g., Black Study, General Accountability Office, and Treasury) concluded NCUA should require corporate credit unions to maintain a minimum leverage ratio comparable to other types of financial institutions. The recent trend in several merger negotiations, to include a payout of the merging corporate credit union's retained earnings, does not promote the objective of increasing retained earnings in the corporate system.

Collectively, we want the corporate credit union system to be financially and strategically positioned to ensure it remains competitive and viable in the years to come. The retention of the corporate system's retained earnings is paramount to attaining this goal.

This information is provided to assist corporate credit unions in responding to and deliberating on requests for merger proposals. If you have any questions, please contact this office.

Sincerely,

/S/

Kent Buckham
Director
Office of Corporate Credit Unions

cc: State Supervisory Authorities
NASCUS
NAFCU
ACCU