CU Financial Services

Strategic Planning and Implementation Services for Financial Institutions

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September 20, 2006

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: RIN 3064-AD09

Dear Mr. Feldman:

CU Financial Services is a strategic planning and implementation firm. Since 1984 it has helped credit unions grow and realize their full potential. We are advisor to the majority of credit unions converting (and seeking conversion) to the mutual savings bank charter and FDIC insurance of accounts.

The regulations of the National Credit Union Administration and federal laws place significant limits on the products and services credit unions may offer. Also, consumers are hesitant to make credit unions their primary financial institution since they are widely viewed as just car lenders and linked to employers, churches, and fraternal societies rather than full service community based financial institutions. Furthermore, congressionally imposed prompt corrective action rules and NCUA regulatory practices force credit unions to maintain capital levels higher than bank levels. Thus, many credit unions must limit growth and service to members. This, in turn, reduces the amount of funds that credit unions can devote to member loans that support the economy. So, many credit unions will fail to maximize their full potential without converting to FDIC insurance and gaining the powers of a community bank.

Therefore, allowing well managed credit unions to transfer to FDIC insurance is good public policy because in almost every instance the converted credit union will increase its services to the community *beyond* what would be possible as a credit union.

We believe that the FDIC should modify two aspects of the proposed regulations affecting former credit unions that recently converted to FDIC insurance and credit unions that may consider such a change. First, FDIC-insured institutions that are former credit unions should not automatically be considered "new institutions" such that they must pay the highest rate for Risk Category I institutions until they have been chartered as a bank or thrift for seven years. Second, until the OTS (or FDIC) conducts a formal examination of a former credit union in which CAMELS ratings are assigned, they should be assigned to Supervisory Group A and should be presumed to have CAMELS ratings not less favorable than 2 for each individual component. Former credit unions insured by the FDIC are not new; they are long-standing institutions that undergo a change of charter and deposit insurer.

Former credit unions are unlike other newly chartered banks and thrifts. Prior to conversion, they are "operating non-insured institutions," that is, operating institutions not insured by the FDIC. Unlike a true *de novo* bank or thrift, converting credit unions have long histories of successful operations under a credit union charter, during which they were regulated and examined by another federal deposit insurer, the National Credit Union Administration, and if chartered by a state, by a state regulator. Prior to approving a credit union's application, the FDIC and the OTS (or other chartering authority) conduct an in-depth entrance examination of the credit union, which provides ample opportunity to evaluate the credit union's operations and condition. Former credit unions generally operate under stable management that has a successful track record with the institution, which is well-established in its market.

As part of its application for a new charter and FDIC insurance, a credit union must submit a three-year business plan and the OTS (or in a few cases, other chartering authority) and the FDIC exercises the opportunity to review the plan in detail and where they deem appropriate, require changes. Following conversion, the former credit union must follow the business plan for three years, reporting quarterly on its performance relative to the plan, and obtain prior approval for a material change from the OTS or FDIC. Typically, a former credit union does not undertake major changes in its lines of business or activities following conversion except in some cases to increase its emphasis on home loans, which carry a lower risk-weight than the types of loans commonly emphasized by credit unions (such as auto loans and personal loans). Former credit unions typically grow at a measured pace, in accordance with their business plans, unlike true *de novo* institutions, which are subject to more volatility as they work to establish themselves in their markets.

We believe that the changes we propose above would result in fair treatment of former credit unions insured by the FDIC and those which would convert in the future without adding risk to the deposit insurance fund.

Sincerely,

Alan D Theriault

Alan D. Theriault,
President

ADT:pc

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