

Credit Union-to-Bank Conversion Principles

1. Conversions must ensure that members are fully compensated through the distribution of the retained earnings, either as cash or as stock.
2. Insiders should not be allowed to gain, neither at conversion nor in the future.
3. We value member ownership of financial assets through the creation and protection of not-for-profit financial cooperatives (credit unions).
4. We support members' right to exercise their democratic ownership rights, including the right to choose the charter option that provides the greatest benefit to all members.
5. We believe that directors and management owe an obligation to fully present fair and honest information to their members. This includes the economic benefits and costs of all options available to the members, such as remaining a credit union, liquidation or merger.
6. We propose that credit unions who propose conversion to a bank adopt the following policies to ensure that they are serving their members' fiduciary interests and to ensure that their own interests are not called into question:
 - *No insider benefit.* Directors, management and employees must disavow any private benefit available upon conversion, including stock and options.
 - *Retain one member, one vote.* Upon conversion to a mutual savings bank, credit union member voting rights should not be diminished. Therefore, the successor bank must retain the one member, one vote principle.
 - *Prohibit proxy voting.* Upon conversion to a mutual savings bank, proxy voting should be prohibited so that block voters do not dilute individual voting rights beyond that which existed in the predecessor credit union.
 - *Distribute retained earnings to credit union members.* In order to ensure that a conversion truly benefits the members, converting institutions must distribute their retained earnings to their members, either as cash or as stock in the successor bank, based on the fair liquidation value of the credit union at conversion. To ensure that directors, management and staff do not unduly benefit from conversion, distributions to directors, management and employees should be the lesser of the average distribution or their own individual liquidation entitlement.
7. To ensure that member-owners have the opportunity to engage in a complete discussion of the pros and cons of charter changes, we propose the following:
 - A special meeting should be held *prior to* the 90-day mandated disclosure period, so members can discuss their options prior to voting.
 - Members must retain the right to change their vote at any time during the balloting process, comparable to stockholders of public corporations and banks.
 - Members must have the right to communicate directly with each other. Therefore, the credit union should mail, unedited, any information that members wish to share with each other to the entire membership, comparable to the rights of stockholders of public corporations and banks.