GEORGIA FEDERAL CREDIT UNION

October 31, 2005

Technical Director
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 135
File Reference: 1204-001

RE: File Reference – 1204-001

To Whom It May Concern:

Georgia Federal Credit Union (**"GFCU"**) appreciates the opportunity to comment on Financial Accounting Standards Board's (**"FASB"**) Exposure Draft for Business Combinations.

Georgia Federal Credit Union is a $385 million institution chartered in 1958 serving more than 78,000 members. We feel that the proposed statement is especially important to credit unions because of the adverse impact it will have on credit union mergers.

<u>Executive Summary</u>:

FASB, along with the International Accounting Standards Board, has released its Exposure Draft (**"the proposal"**) that would significantly change accounting practice for mergers of credit unions and mutual institutions (including thrifts and mutual banks). The proposal would implement the FASB merger rule that eliminates the pooling-of- interests method of accounting for business combinations (simple combination of the balance sheets of the merging entities), the approach presently used in the majority of credit union mergers. Instead, the proposal requires the use of the purchase method of accounting (which FASB terms the acquisition method).

<u>Summary of GFCU's Position:</u>

While we understand FASB is committed to requiring the use of the acquisition method approach to accounting for credit union mergers, we remain steadfast in our position that the acquisition method is not the best representation of what occurs in a typical credit union merger.

A credit union merger represents the joining of the credit union fields of membership. This is quite different from other industries whereby one entity acquires, or purchases, another. By eliminating the pooling-of-interests method, in our view, FASB will be applying non-mutual entity guidelines to the combinations of mutual entities. In doing so, this will 1) create substantial regulatory burdens on credit unions that desire to merge, 2) cause unnecessary expenses to be incurred by the merging credit unions, and 3) prevent many credit unions desiring to merge from doing so. By not using the pooling-of-interest method, two smaller, but financially sound credit unions could become one larger, financially 'unsound' credit union because they are not able to add or "pool" reserves/capital together. This would create an inaccurate reflection of the financial position of the new, combined institution as a result of the flawed proposed methodology. The proposed accounting method ***artificially*** creates the appearance of a weakened surviving entity and therefore is in contravention of the basic philosophical precepts of Generally Accepted Accounting Principles.

Additionally, in cases where a credit union becomes financially unsound, it is common practice for a stronger credit union to merge the weakened credit union. This eliminates the risk to the National Credit Union Share Insurance Fund (**"NCUSIF"**). Because of the proposed change in the accounting method, such practices would certainly be reconsidered and a reduction of these types of mergers would occur. As a result, the potential increase in risk to the NCUSIF would, in our opinion, be unacceptable.

We would like to see reconsideration by FASB of a potential exception in the case of credit union mergers.

Thank you for the opportunity to comment on the Exposure Draft for Business Combinations. If you have questions about our comments, please contact me at (770) 476-6402.

Respectfully submitted,

J. Kevin Durrance

J. Kevin Durrance
Executive Vice President / Chief Financial Officer
Georgia Federal Credit Union