has also performed surveys that are regularly used to advise employers and their employee benefit plans on implementing and improving their recordkeeping procedures, benefit valuations, and compliance systems. Ernst & Young concludes that the past experience of ABC will enable it to discern which services that may be performed by Pentegra are appropriate and in the best interests of the Fund and whether or not the fees for the services constitute reasonable compensation.

Following the initial review of the services to be provided by Pentegra, ABC will perform periodic reviews (at fixed intervals, at least quarterly as well as spot checks) to ensure that the services offered remain appropriate for the Fund. ABC not only will determine whether the services are beneficial for the Fund, but will also determine whether the fees charged by Pentegra represent reasonable compensation. ABC will use its own service and pricing structure experience as well as comparisons to similarly qualified firms in similar locales to determine if fees charged by Pentegra are those that would be charged in arm's-length transactions. Pentegra will establish written schedules for fees for different services it will provide that will be subject to review and approval or disapproval by ABC. An annual detailed review of approximately 10 percent of all completed service transactions undertaken by Pentegra will be made by ABC, selecting a reasonable crosssection of all the different services

Ernst & Young represents that ABC will take an active role in determining whether the services performed by Pentegra are economically pragmatic for the Fund and whether the services are in the best interests of the Fund and its participants and beneficiaries. ABC also will determine whether the services performed by Pentegra will enhance the services and product availability as well as afford economies of scale for the Fund and its respective programs.

An initial review by ABC of the services to be performed by Pentegra and the fees to be charged will involve an in-depth analysis of each service proposed by Pentegra and the fees to be charged to determine whether such services are reasonable and appropriate for Pentegra to perform and whether the fees represent reasonable compensation. ABC will review the qualifications of the personnel who will perform the services, interview selected individuals, review documentation and processes to assess administrative practices, systems, and controls employed by Pentegra as well as evaluate the overall capabilities

of Pentegra to deliver the proposed services. ABC will also assess the proposed pricing structure of Pentegra for reasonableness in relation to the market. No services will be rendered by Pentegra without prior review and approval by ABC.

As part of the initial review, ABC will explore with Pentegra the standardization of certain services by Pentegra to determine whether the services could have uniform pricing and marketing. If such standardization of services and fees by Pentegra are reasonable and competitive, then ABC would not need to approve every transaction involving such previously approved standardized service.

ABC will maintain for a period of 6 years records that document its determinations as to the services to be rendered and fees charged by Pentegra, and records of the process and rationale used by ABC to make its determinations. Such records will include the initial determinations as well as ABC's periodic and annual reviews and decisions for approving and disapproving the services and fees of Pentegra.

Ernst & Young further represents that ABC will take action to prohibit Pentegra from performing services that ABC deems inappropriate and not in the best interests of the Fund and its participants and beneficiaries. When ABC undertakes to prohibit Pentegra from offering a service, it will inform the President and Senior Vice President—Legal & Secretary of the Fund by facsimile and overnight mail to cease providing the service. Should such service continue, overnight letters containing ABC's findings and orders will be sent to each member of Pentegra's and the Fund's board of directors.

4. The applicant represents that the proposed transactions will permit Pentegra to operate in a for-profit environment and to develop new products and services which will inevitably inure to the benefit of Fund and its Employers by way of enhanced services and the attainment of greater expertise by the staff. Also, the applicant foresees that the proposed provision of services by Pentegra will expand the economic value of the Fund's plan administration services and create significant increased returns for such services. The applicant further represents that the potential returns to be derived from the use of the administration services provided by Pentegra will serve to maintain the present positive economies of scale available under the Fund, and thus facilitate both significant Employer

participation in the Fund and its continuing viability as a retirement benefit program, and thereby provide substantial benefits to individual participants and their beneficiaries.

Under the proposed transactions, the applicant represents that the rights of the participants and beneficiaries of the Fund will be protected. The staff of the Fund, in conjunction with a market research firm, has made a study of the current and projected market in which the Fund operates, and the staff performed an analysis of its services and the feasibility of offering its services to third-party employers. A special committee of the board of directors of the Fund reviewed in detail the findings of the staff of the Fund and an independent financial advisor (the Deloitte & Touche Valuation Group) provided an opinion as to the fairness of the proposed transactions from a financial perspective.

With respect to the setting of compensation for Fund and Pentegra employees, the applicant represents that on an annual basis the President and the human resources officer of the Fund draft a proposed salary budget for the Fund (including Pentegra), taking into account input from various management levels, and also, making an analysis of each described position, determining the relative worth and fair market value of each position, and reviewing the performance of each employee.

The proposed annual salary budget is then presented by the President of the Fund to the personnel committee of the board of directors of the Fund, which reports directly to the board of directors of the Fund on major personnel policies, including compensation matters. The personnel committee typically enters into executive session (without the President of the Fund in attendance) when it deliberates over the proposed salary budget and presents its recommendations to the board of directors of the Fund. The board of directors then makes the final decision regarding salary levels.

The personnel committee consists of 5 presidents of different financial institutions that participate in the Fund. No employees or officers of the Fund, Pentegra, or the Thrift Plan are members of the personnel committee. The applicant represents that, as a result of the make-up of the committee and the board of directors, there is assurance that compensation levels are appropriate and in accordance with the board of directors duty as fiduciaries of the Fund to act in the best interests of the participants and beneficiaries of the Fund.