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July 15, 2005

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Proposed Interpretive Ruling and Policy Statement No. 05-1

Dear Ms. Rupp:

O.S.U. Federal Credit Union understands that the National Credit Union Administration ("NCUA") is proposing to adopt an Interpretive Ruling and Policy Statement ("IRPS") regarding Sales of Nondeposit Investments, which will replace the NCUA Letter to Credit Unions No. 150.

We are writing to provide general comments on the IRPS as follows:

1. **Regulatory Flexibility Act**

   According to the NCUA, the IRPS will not have a significant economic impact on the small credit union. We disagree based on the following.

   The IRPS proposes that the credit union must monitor compliance of the broker and salespeople by monitoring member complaints, tracking and reviewing broker audit examinations, contacting members to ensure they received and understood disclosures, and randomly sampling account activity for abuse such as churning and suitability.

   Meeting these additional audit components will require a significant amount of staff time to track and review the non-depository activity at this level of detail. The suggested level of compliance would be fully redundant of the level which a broker dealer is already required to provide. For a larger credit union the cost associated with hiring a knowledgeable staff person to comply with the IRPS would cause a negative impact. For small credit unions that struggle to afford the staff needed to provide basic customer service, this requirement would cause a significant economic impact. In addition to staffing costs, the cost to develop and implement a routine audit process would also be very expensive.

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2. **Paperwork Reduction Act**

According to the NCUA, the IRPS will not increase paperwork requirements. We disagree based on the following.

In order to meet the audit requirements laid out in the IRPS, additional tracking reports, audits, and correspondence would have to be put into place. It is very unlikely that it could be achieved without an increase in paperwork within the credit union, as well as for the member.

3. **Proposed Contract Provisions**

We believe that the proposed contract provisions discussed below may negatively affect and/or are not practical for credit unions.

The IRPS states that the credit union must conduct analysis of the level of complexity and volatility in the investments that the credit union will permit the broker to offer members. Since the broker dealer is the investment expert and more fully understands the suitability and appropriateness of investment offerings to the public, they would be in the best position to decide which investments are offered. Requiring the credit union to assume this responsibility would be redundant, and costly.

The IRPS also states that the credit union should contractually have the right to check the broker for compliance and should be able to access members' accounts for verification and oversight. Again, the credit union is contracting with the broker as the expert on compliance when it comes to suitability, churning and other representative/member activities. Requiring the credit union to assume that role lessens the effectiveness of a third party relationship and increases the cost of offering such a program to the members. Creating a situation where a credit union would not be able to afford to offer a non-depository investment program would place the credit union in a competitive disadvantage.

4. **Compliance with the requirements of the IRPS and applicable law and regulation.**

The proposed compliance requirements laid out in the IRPS would negatively affect the offering of non-depository investments as follows.

The IRPS requires the credit union to provide extensive compliance including contacting members to ensure that they received and understood the disclosures received from the representatives, monitor sales activity for inappropriate abuse such as churning and suitability and even monitoring the compliance process of the broker dealer.

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The personnel employed by a broker dealer to oversee sales activity of the representative are licensed and have had extensive industry experience. Credit unions cannot employ audit personnel that are actively licensed. With the complexity of investment products, it is unlikely that a credit union would be able to have a staff person well enough versed in the products to appropriately determine whether members understood the disclosures received.

Also, the additional correspondence with the members required in the IRPS might create more confusion for the members regarding the role the credit union has in offering non-depository investments. On one hand, the credit union must make it very clear that the non-deposit investments are being offered not by the credit union but by a broker dealer and yet the proposed requirement to have more direct involvement by the credit union in auditing disclosures with the members clouds the perception of that involvement. Also, in today's world of fraud and identity theft, unexpected communication can raise unnecessary fears especially if investment firms they have previously worked with did not employ these compliance measures.

5. **Dual Employees**

The below restrictions on dual employees may negatively affect and/or are not practical for credit unions as follows.

The IRPS states that the duties performed for the credit union should not bring the employee into contact with members that might also purchase non-deposit investments. Since the dual employee will be working with non-deposit investments and since the credit union does discuss the non-deposit investment programs with all members, it seems impractical to expect that a dual employee performing duties for the credit union be able to avoid interaction with members who might potentially want to have non-deposit investments.

The IRPS suggests that the dual employee should not mention that they are an employee or reference their position with the credit union. It is impractical to expect that the dual employee would be able to avoid acknowledgement of their relationship with the credit union under all circumstances.

The IRPS also suggests that the use of dual employees would increase the risk of liability to the credit union because the broker would be less likely to uphold their compliance duties. It is unlikely that the broker would receive a lesser penalty, restriction, or sanction if there were a failure to meet all compliance requirements of the SEC or NASD just because they are contracting with another organization such as a credit union. There are still strong enough enforcement tactics to encourage brokers to remain diligent in regards to compliance. Also, if the credit union were required by NCUA to implement a more detailed review of sales activity, the credit unions would then be more likely to be liable if they fail to comply effectively.

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6. **Non-Deposit Sales to Nonmembers**

   We disagree with the IRPS proposal on sales to non-members based on the following.

   The calculation suggested by the IRPS of allowing a de minimus amount of income and expense associated with non-member activity would be very difficult to implement.

   The requirement would also potentially make it very difficult to recruit and hire experienced sales representatives into the credit union marketplace, since they may depend on their prior clients, who may or may not be members, for most of their income immediately after their transition.

   Secondly, the IRPS does not address how the credit union can handle the potential need to require members who close their credit union relationship to divest of their investment relationship as well.

In summary, we believe that expecting the credit union to take on the additional burden of the independent audit outlined in the IRPS is: not effective since it is impractical for a credit union to have qualified staff to complete the audit; redundant since the broker dealer already is responsible to complete such oversight of the representatives; and is extremely costly to implement. We feel that Letter 150 provided an appropriate level of compliance oversight to be completed by the credit union.

Thank you for the opportunity to provide comment on this important issue. It is our hope that the IRPS will be reconsidered based on the negative impact this will have on the credit union industry and member service. Should you have any questions, please contact me at 541-714-4260.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
Executive Vice President/CFO

CC: Mary Dunn, CUNA
Pam Leavitt, Oregon Credit Union Association
Valorie Seyfert, CUSO Financial Services, LP