



REDSTONE FEDERAL CREDIT UNION
220 Wynn Drive
Huntsville, Alabama 35893

JUL 25 '05 AM 10:41 BOARD

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July 14, 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:

Redstone Federal Credit Union is of the opinion that Letter 150 as currently published is more than adequate to protect both Members and the Credit Union in regards to the sale of uninsured non-deposit products. We wish to express our objections to the proposed changes specifically in the following areas:

1. The IRPS proposed changes would burden Credit Unions beyond the requirements for banks. The creation of extraordinary standards solely applicable to Credit Unions will place our industry at a significant disadvantage in the marketplace.
2. Rarely if ever would any credit union's group of volunteer Board of Directors have the experience or expertise to engage in directly supervising a regulated industry. Credit Unions are unlikely to attract board members qualified with the necessary skills and experience unless those individuals can be compensated, and such a supervisory burden will certainly reduce the number of persons willing to serve as a credit union official..
3. The IRPS proposes that compliance personnel, independent of any investment related functions should periodically check members' non-deposit accounts for suitability information as well as determining how complaints are handled. We believe this is the responsibility of the broker dealer's Registered Principal in the Office of Supervisory Jurisdiction, as well as the broker dealer's compliance department. In our situation, all client complaints are reported to both the broker dealer, as well as Redstone Federal Credit Union's Compliance Officer, who is completely independent of the investment program. However, the credit union employee is not and should not be responsible for resolving client complaints or determining the suitability of a registered product. These jobs are the responsibility of the broker dealer as mandated by the NASD. Any additional requirements duplicate processes already in place, would require employment of additional but non-essential personnel, and may ultimately cause more member confusion, which is inconsistent with Letter 150. We further maintain that using non-registered credit union personnel to oversee these activities actually places the credit union at greater legal risk than the current arms length structure.

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4. The IRPS proposes that a dual employee's credit union duties should be totally unrelated to brokerage activities, and would prohibit bringing such a dual employee into contact with members that might purchase nondeposit investments. The IRPS further states that these individuals should not have input in management or policy-making responsibilities. Redstone Federal Credit Union strongly disagrees with this proposed rule change. It could be argued that all members "may purchase" non-deposit investments at any given time. Many times a dual employee may have to recommend an insured product once a determination of the member's investment objective is determined. To not allow this would be detrimental to the member's best interests and potentially lead to possible unsuitable sales activities. The banks' interagency letter states that a registered bank employee should make a reasonable effort to ascertain that the investment products recommended are suitable and does not go as far as prohibiting customer contact because of a "by chance" exposure. Full disclosure of the broker dealer relationship and separation of insured products from non-insured products has always been the standard however mandating that a dual employee may not be in contact with members that might purchase nondeposit investments is unrealistic and extremely hard to control. As the proposed rule relates to the management and policy making activities of dual employees, we feel that no other employees are more qualified than a registered individual to have input in such policies. Our Registered Principal is a dual employee and acts as our Assistant Vice President of Investments and Insurance. Although the majority of his time is spent on broker dealer activities, he is extremely instrumental in the policymaking and management decisions for many other programs not related to the broker dealer operations. Not allowing him to act in this role would be detrimental to our institution. Our existing job descriptions clearly state each duty assigned to our dual employees and which duties are associated with the broker dealer and which are associated with the credit union. Requiring two separate job descriptions would be redundant and time consuming.
5. The IRPS proposes that the ratio of income from the sale of nondeposit investments to nonmembers not exceed 5% of gross commissions. We feel such a limitation will prove to be a barrier for smaller credit unions to offer non-deposit investment programs. Larger credit unions with successful non-deposit investment programs will be unable or unwilling to aid their smaller brethren without the possibility for sufficient volume and profit potential.
6. The IRPS proposes that the credit union supervise the broker dealer. It is unclear as to whether or not the proposed changes would include all products that are sold through a third party broker dealer or just products that are registered with the SEC. In absence of this clarification it continues to be our opinion that any additional requirements would essentially duplicate work already being done by the broker dealer. Non-registered personnel are simply not qualified to oversee regulated persons. Our credit union has long had an investment policy statement as required by Letter 150 which outlines the features of the nondeposit sales program including a description of the types of products to be offered, making the credit union responsible for the due diligence of all the products offered through the broker dealer is contrary to the relationship between the credit union and the broker dealer. The broker dealer is already responsible for due diligence of its products as well as monitoring the claims paying and credit ratings of the various companies that they maintain selling agreements with. With over 12,000 mutual funds alone, credit union employees are simply not knowledgeable enough to decide what specific companies are suitable for sale and which are not.

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In conclusion, Redstone Federal Credit Union believes that the existing guidance under Letter 150 is more than adequate to protect both Members and the Credit Union in regards to the sale of uninsured non-deposit products.

Sincerely,

A handwritten signature in black ink, appearing to read "A. McMullin", written over a light gray rectangular background.

Albert L. McMullin

Vice President / Service Groups