



Pentagon Federal Credit Union

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Office of the President

July 25, 2005

Via Facsimile - (703) 518-6319

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

RE: Proposed Interpretive Ruling and Policy Statement
No. 05-1 (Sales of Nondeposit Investments)

Dear Ms. Rupp:

Pentagon Federal Credit Union (PFCU) is submitting requested comments to the proposed National Credit Union Administration Interpretive Ruling and Policy Statement (IRPS) regarding the Sales of Nondeposit Investments, which will replace NCUA Letter to Credit Unions No. 150. We appreciate the opportunity to express our views.

PFCU is in compliance with NCUA Letter No. 150 and has policies in place that would already comply for the most part with the agency's IRPS proposal.

Pentagon Federal Credit Union agrees with most of the elements within the proposal especially in the area of full disclosure to the member and continuing risk analysis and management of the third party broker.

To expedite NCUA's analysis of the many comments it will receive we offer the following observations:

1. Pentagon Federal Credit Union has a concern concerning the proposal's suggested unwarranted invasions of our member's privacy. In our view, a member would not want PFCU to access to their brokerage records. Indeed, we believe such an inspection would be violation of the privacy laws and regulations, and in particular, the Gramm-Leach-Bliley Act.
2. We do not believe it is either appropriate or permissible for PFCU's compliance personal to communicate with customers of the third party brokerage firms and question them on personnel financial matters that do not concern their status as members of Pentagon Federal Credit Union. Critically, in this regard, it is our view that such contacts would both confuse PFCU's members as to the arm's length relationship between the third party provider and PFCU as well as serve to erode the distinct corporate identities. We also believe if this section were adopted the costs of training, continuing education and time required to audit using not just one, but multiple compliance officers, may force PFCU to reassess the offering of nondeposit investment products to its members.
3. While PFCU offers multiple channels for its members to voice complaints about any of the institution's financial services, and our current third party broker regularly communicates on

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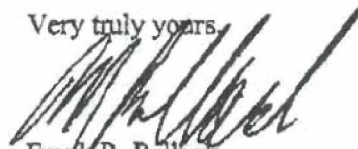
individual representative compliance procedures and examination results, in our estimation any compliance exceptions of the individual broker or the firm reported by the SEC or NASD should be furnished to credit union management and its supervisory committee or audit department.

- 4. In the commentary discussing due diligence, the brokerage firm's financial position is discussed. We would expand the annual requirements of the firm to furnish the credit union annually with audited financial statements, an annual report, accompanied with the organization's annual filings with the SEC and NASD.
- 5. We would also recommend that the brokerage firm be required to carry an error and omissions policy to cover damages arising from the sales of non-deposit investment products and other incidents that may happen. This minimum should be at least \$1 million per occurrence and \$1 million per representative with an unlimited aggregate for the duration of the contract.
- 6. Finally, while the third party brokerage firm enters into an agreement to furnish investment services to the credit union's members it is virtually impossible to gain knowledge of non-member sales that may occur. The credit union in almost all cases provides office space and services (computer, telephone, etc) to the brokerage firm's agents at the credit union's expense. Besides providing this service for our membership, the credit union expects to enjoy a fair financial return for its entire membership by providing this service. The recovery of costs does not afford the membership a fair return on resources. Accordingly, we would therefore prefer a regulatory provision that requires the brokerage firm to provide a majority of its revenues be earned from the credit union's membership.

We appreciate the NCUA's concern for our membership's protection in the ever-expanding investment market. We hope our comments give you some assistance.

Further questions can be directed to Christopher J. Flynn, Executive Vice President at (703) 838-1018.

Very truly yours,



Frank R. Pollack
President/CEO

FRP/kld