182

PSECU
PENNSYLVANIA
STATE EMPLOYEES
CREDIT UNION

July 20, 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:

The Pennsylvania State Employees 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 and are of the opinion that this would have an economic impact on all credit unions. There are costs associated with hiring additional expertise, technology and staff to comply with the additional oversight as outlined in the IRPS. Considering the compliance and regulatory guidelines that all registered broker/dealers must adhere to, it would be redundant to require the same compliance from credit unions as well.

2. **Paperwork Reduction Act**

   According to the NCUA, the IRPS will not increase paperwork requirements. We disagree and are of the opinion that the proposed compliance and oversight would certainly increase paperwork and duplicate efforts currently required of brokerage firms. The documentation generated from member correspondence, audits and other necessary trade documentation would need to be retained. In our opinion, this would be a duplication of work currently handled by the brokerage firms and their compliance departments.

Main Address: 1 Credit Union Place, Harrisburg, PA 17110-2990, (717) 234-8484 • (800) 237-7328
Mailing Address: P.O. Box 67013, Harrisburg, PA 17106-7013 • (717) 777-2100 (TDD) • (800) 472-1967 (TDD)

183

3. **Proposed Contract Provisions**

The proposed contract provisions will negatively affect and are not practical for credit unions due to the level of expertise and knowledge required to know what types of investment products to offer. The credit union may do more harm than good by limiting its investment options or selecting investments that may not be suitable. Ultimately, these types of decisions are best left to the broker/dealer who would have the experienced staff to determine what would be appropriate.

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

The proposed compliance requirements of the IRPS would require a credit union compliance staff to contact members who purchased non-deposit investments to determine whether they received and understood the required disclosures. We are of the opinion that this contact may further confuse the member and diminish the requirement to maintain the distinction between non-deposit and credit union deposit functions. In addition, it may provide room for error if the credit union staff is unable to sufficiently explain the disclosures, which can be rather complex. We feel that the burden placed upon the credit union to comply would outweigh any benefit, considering these tasks are already performed by brokerage firms.

5. **Dual Employees**

The proposed requirements of the IRPS would have credit union staff perform distinct duties for both the credit union and the brokerage firm while maintaining a separateness. We are of the opinion that this type of arrangement would create an additional risk for the credit union, not to mention the degree of difficulty in designing, operating and monitoring as required by the proposal.

In addition, we do not agree with the additional provision that the dual employee should have no management nor policy setting responsibilities within the credit union related to non-deposit investments. The complexity of such investment products would require someone with experience and knowledge, and in our opinion essential to providing correct information to guide the member. It would be impossible and impractical to consider someone without this level of expertise.

6. **Non Deposit Sales to Nonmembers**

We disagree with the IRPS proposal on sales to non-members and are of the opinion that credit unions would be burdened with the administration and monitoring of non-member business and revenue.

184

In summary, we believe that the requirement for credit unions to have an independent compliance function would not be practical considering most credit unions may not have staff qualified to perform such a function, in addition to the redundancy it would create. The costs associated with such a function would cause an additional and unnecessary expense to credit unions, and most likely increase, not reduce the credit union's liability for investment activities.

We appreciate the opportunity to comment and look forward to reviewing the NCUA's final opinion on the matter. Should you have any questions, please contact me directly at 717-777-2300.

Sincerely,

Gregory A. Smith
President
PSECU