



VIA E-MAIL

July 25, 2005

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

**RE: National Credit Union Administration Request for Comment Regarding
Sales of Non-deposit Investments**

Dear Ms. Rupp:

Digital Federal Credit Union appreciates the opportunity to comment on the National Credit Union Administration's proposal regarding sales of non-deposit investments.

We are commenting to voice our concerns that a number of provisions of the IRPS will expose credit unions to increased risk, undermine existing controls, and make credit unions less competitive.

Our concerns rest in three areas:

- Product Selection
- Compliance Oversight
- Non-Member business

Product Selection

We do not believe that our Members are best served by having the products that are made available to them filtered by individuals without expertise in this area. Broker/Dealers have research departments who are paid to analyze investments and other financial products. Those research analysts are in the business of evaluating investments and are well qualified to select and research investments. In addition to this, the experience and judgment of the Registered Representatives and their respective OSJ Manager help to provide appropriate investments to member/clients. We are not certain what value a credit union could add to this by creating a set of criteria of qualitative considerations. In many cases this could be to the detriment of the member/client exposing them to added costs and the possibility of sub par returns. This process, in our opinion, adds substantial risk to credit unions, as they are taking a substantial role in the selection of investments.

Further, this language does not address a growing trend towards investment advisory accounts. These are accounts where the product is the advice of the Registered Investment Advisory Associate, not the investments themselves. How would the IRPS address these accounts?

We believe it is best to let investment professionals utilize their judgment and experience.

Compliance Oversight

The IRPS states that the broker/dealer is primarily responsible for compliance and that the credit union has the right to verify compliance. Secondly, the IRPS requires someone not tied to the investment program complete this review. In our estimation, supervision of this magnitude would require someone qualified as a registered principal. To keep current, this person would need to complete substantial ongoing education. Once this person came on board, they would have to register with the broker/dealer to hold their securities registrations. This would make them part of the program and ineligible to work in this capacity.

Even if the above issue were resolved, this added staff represents substantial added expense and duplication of effort. These types of reviews are already done by OSJ Managers.

We feel that this function would in fact place the credit union at more risk. These steps would place an employee who is not part of the broker/dealer into the middle of the compliance process. In all likelihood, they would be a party to any arbitration that resulted from a member/client complaint. What would the impact of this function be on the indemnification clauses of networking agreements?

We believe this measure to be unnecessary given the broad scope of regulation and audit within the securities industry.

Dual Employees

We have hired an individual to manage the day to day operations of the non-deposit investment program and to provide advice and guidance on offering investments. We do not believe the IRPS takes this type of position into account. This individual is a registered principal with over ten years experience in the investment industry. We believe this person's job is to look out for the best interests of our membership. Who would be better than them to manage or set policies for our investment program and manage its compliance functions?

We believe the position of the IRPS on dual employees comes from a flawed assumption as to where their loyalties lay. Our dual employees were recruited from the outside to come and work here in our program. Their sole responsibility is within the investment program. They are paid by the credit union and are part of our team. They have limited exposure to the broker/dealer and have little or no loyalty to them. This provides us the flexibility of keeping our staff should we ever change broker/dealers and allows us to

impose our culture into the minds of the employees. Simple disclosures keep the member clear as to who they work for and who is offering securities.

Non-Members

We believe there are situations where credit union membership is impossible, but the actual benefits of investment services are provided to members. For example, in the offering of a 401K plan to a SEG group. The plan itself cannot be a member, but participants in the plan clearly can be. A second situation is a trust where one of the beneficiaries is a member and the others are not. The trust can not be a member of a credit union, but clearly one of the beneficiaries can be. It is unclear how the IRPS would apply in these situations.

To summarize, we appreciate the efforts taken to clarify the regulations regarding the sale of investments at credit union locations. We feel that some of the steps outlined in the IRPS, while designed to help the member, are operationally cumbersome and place the credit union and NCUA in the securities business.

Thank you for the opportunity to share our views regarding these issues. If you have any questions, please do not hesitate to contact me.

Sincerely,

Edward Crisci
Vice President