

July 25, 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 #05-1: Sales of Nondeposit
Investments

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to the National Credit Union Administration's (NCUA's) proposal to adopt an Interpretive Ruling and Policy Statement (IRPS) to update and replace Letter to Credit Unions #150. It offers guidance to federally-insured credit unions on the establishment and operation of third party brokerage arrangements.

Navy Federal supports the disclosure provisions of the proposed IRPS. We believe reasonable disclosures are appropriate to inform credit union members of the differences between deposit products and nondeposit investments. Credit union members should have no misunderstandings that nondeposit investments are not federally insured, they are not guaranteed by the credit union, and they involve risks including the possible loss of principal.

We believe the agency should clarify its proposal regarding the use of dual employees. Language in the proposed IRPS under the section *The Use of Dual Employees*, states "The duties performed for the credit union should not bring the employee into contact with members that might also purchase nondeposit investments." Many credit unions use dual employees which include Member Service Representatives and/or Branch Managers. These are positions that routinely bring credit union employees into contact with members that may also own or be interested in nondeposit investments. We suggest the following to replace the sentence above:

"The duties performed as a credit union employee should not be related to the sale of nondeposit investments. Conversely, duties performed as a brokerage employee should not be related to credit union business activity."

We also ask the agency to clarify its position on nonmember income under the section *Sales of Nondeposit Investments to Nonmembers*. The agency writes "... NCUA will allow a credit union in a third party brokerage arrangement to accept a *de minimus* amount of income

Ms. Mary Rupp
Page 2
July 25, 2005

that is not directly attributable to sales to its members.” “Income” as used in this sentence, does not appear to distinguish between nonmember business that originated prior to the employment relationship and business that may have continued after the employment relationship was established. To make this distinction, we suggest the agency replace “income” with “revenues generated by new business,” where “new business” is defined as “business originated after the investment representative enters an employment relationship with the credit union.” We believe that measuring “new business” revenue, and distinguishing member versus nonmember income, will provide a more accurate measure of whether or not a credit union is serving its members.

Navy Federal appreciates the opportunity to comment on NCUA’s proposal to update its guidance to federally-insured credit unions on the establishment and operation of third party brokerage arrangements,

Sincerely,


Cutler Dawson
President/CEO

CD/pm