

August 30, 2005

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

Re: Regulatory Flexibility Program

Dear Ms. Rupp,

Navy Federal Credit Union provides the following comments in response to the National Credit Union Administration's (NCUA) request for comments on the proposal to modify the minimum net worth and CAMEL criteria for eligibility for NCUA's Regulatory Flexibility Program (RegFlex). We commend the Board for its initiative to give healthy, highly capitalized credit unions additional flexibility. We believe the proposed modifications to the RegFlex program will encourage credit unions to remain healthy and avoid unmitigated risks.

Navy Federal agrees with NCUA's proposal to reduce the minimum net worth requirement for RegFlex eligibility to 7 percent. Although we agree that 7 percent under RegFlex is appropriate to demonstrate a credit union's financial health, we do not believe RegFlex should be automatically tied to the "well capitalized" net worth category under NCUA's system of prompt corrective action (PCA). Earlier this year, The Credit Union Regulatory Improvement Act of 2005 (CURIA) was sent to congress. This Act contains a section to update the capital structure of credit unions. If passed, this could lower the thresholds for Prompt Corrective Actions (PCA) net worth categories. Because of this, we believe that RegFlex should be judged independently of PCA and should not be reduced automatically if the new worth category of well capitalized is reduced.

Navy Federal agrees with the proposal's provision extending the minimum number of quarters that the minimum net worth must be maintained to qualify for RegFlex to six consecutive quarters. We believe six consecutive quarters is a better indicator of sustained superior performance and agree with Chairman Johnson that this extension is a "pretty fair trade-off" for lowering the capital requirement.

Navy Federal also agrees that the requirement for NCUA to notify credit unions that automatically qualify for RegFlex is redundant and unnecessary. In addition, Navy Federal believes that credit unions that become eligible for RegFlex relief should not be encumbered by having to apply for permission from their Regional Director. This is contrary to the purpose of the rule. A RegFlex-eligible credit union should be able to take advantage of the regulatory

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relief provisions immediately in order to fully reap the benefits of the rule. We support an eligibility process that allows a credit union to determine whether or not it is RegFlex-eligible based on information in its quarterly Call Report and past examination ratings.

Navy Federal believes RegFlex-eligible credit unions should not be subject to exams as frequently as RegFlex-ineligible credit unions. Accordingly, RegFlex-eligible credit unions should be charged a reduced operating fee because they would, effectively, reduce NCUA's operating requirements. The content of the examinations should remain the same for all credit unions. However, examiners should carefully consider the management expertise, financial strength, and internal control systems of RegFlex-eligible credit unions when evaluating their ability to manage risks, including additional risks associated with RegFlex activities.

Navy Federal Credit Union appreciates the opportunity to comment on the Nation Credit Union Administration's proposed modifications to the Regulatory Flexibility Program.

Sincerely,

A handwritten signature in black ink that reads "Cutler Dawson". The signature is written in a cursive, slightly slanted style.

Cutler Dawson
President/CEO

CD/tg