



National Association of Federal Credit Unions

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September 25, 2006

Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Comments on Proposed Rule Parts 703 and Part 704 Permissible Investments for Federal Credit Unions

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I am responding to the National Credit Union Administration's (NCUA) request for comment regarding proposed amendments to its rules on permissible investments for federal credit unions. Current regulations prohibit FCUs from investing in first-lien mortgages other than to complete a pool of loans to be sold on the secondary market. The proposed rule change would expand FCU permissible investments to include repurchase transactions in which the instrument consists of first-lien mortgage notes, if certain conditions are met. Overall, NAFCU supports the rule change. NAFCU offers the following suggestions to amend the proposed rule.

One condition in NCUA's proposed rule for a federal credit union wishing to invest in a mortgage note repurchase transaction prohibits counterparties from having outstanding debt with long-term and short-term debt ratings below certain thresholds. Because counterparties already have the highest short-term credit ratings, NAFCU believes that risk is already appropriately addressed.

Another condition limits investments to one counterparty to 25 percent of the credit union's net worth and 100 percent of its net worth with all counterparties. Currently, Part 703 requires credit unions to develop investment policies that show how a credit union will manage risk. NAFCU believes that it is appropriate for each credit union to address investment limitations through the risk-based policy and that a hard cap is unnecessary.

Finally, NAFCU has concerns that the mortgage note transaction term limitation of 30 days is not long enough. If market conditions were to change, it would be advisable to have the terms of the borrowing transaction and the reinvestment transaction be the same.

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NAFCU would like to thank you for this opportunity to share its views on these proposed amendments to the agency's investment rule. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Senior Counsel and Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

A handwritten signature in cursive script, reading "Fred R. Becker, Jr.", positioned to the left of a vertical red line.

Fred R. Becker, Jr.
President/CEO

FRB/crh