

September 6, 2006

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

Re: Permissible Investments for Federal  
Credit Unions

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to NCUA's proposed rule on permissible investments for federal credit unions.

Navy Federal supports allowing federal credit unions to invest in mortgage note repurchase transactions. We believe such investment authority will give federal credit unions more options to improve their net income and bolster their investment portfolios, thereby allowing them to return greater benefits to their members. Further, we support allowing federal credit unions to invest in these types of repurchase transactions involving nonmembers. We believe that this approach is consistent with the existing approach in the eligible obligations rule, which permits federal credit unions to purchase nonmember mortgage loans to complete pools for sale on the secondary market. We also believe that these types of investments involving nonmembers are particularly low risk, given their short durations. In addition, since federal credit unions would not be allowed to retain the underlying loans after the repurchase transaction terms expire, we agree that this change would not conflict with the existing field of membership rules for federal credit unions.

The proposal includes six conditions for federal credit unions wishing to invest in mortgage note repurchase transactions. One of the conditions would prohibit counterparties from having outstanding debt with long-term and short-term debt ratings below certain thresholds. Considering the short-term nature of these types of investment repurchase transactions, we oppose the restriction on long-term counterparty debt ratings. We do not believe that it is appropriate to condition such short-term investments on long-term debt ratings. Further, the proposal already would require the counterparties to have the highest short-term credit ratings, which we believe would appropriately address risk issues associated with the strength of the counterparties. Therefore, we encourage NCUA to remove the conditions regarding the long-term debt ratings of counterparties.

The proposal would limit a federal credit union's investments in mortgage repurchase transactions to 25 percent of its net worth with one counterparty and to 100 percent of its net worth with all counterparties. We believe that these net worth limits are too restrictive and could unnecessarily limit a federal credit union's ability to use these investment vehicles. We support

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simply requiring federal credit unions to comply with the existing restrictions contained in NCUA's investments rule. However, if NCUA prefers established investment limits for this type of activity, we believe that a federal credit union's Board of Directors should establish the appropriate limits for single party and aggregate investments.

The proposal also requires a maximum term for each repurchase transaction of 30 days. We believe that a 30-day term for these repurchase transactions would be inadequate. Investment repurchase transactions traditionally have a maximum term limit of 90 days. We believe that a 90 day maximum term for mortgage note repurchase transactions would be more appropriate and would allow federal credit unions to take full advantage of these investment opportunities without introducing any significant additional risk.

NCUA specifically requests comments on other conditions for federal credit union participation in the mortgage note repurchase transactions market, such as whether the rules should address minimum underwriting criteria, the quality of the mortgage notes, and mortgage note monitoring. Navy Federal does not believe that the rules should address these issues. The Federal Credit Union Act, by reference to the Secondary Mortgage Market Enhancement Act, already addresses minimum underwriting criteria, the quality of eligible mortgage notes, and monitoring. Further, we believe that any additional underwriting criteria or quality requirements would be specific to each credit union's unique financial position and objectives. Therefore, we believe that a federal credit union's Board of Directors and management would be better suited to establish any additional underwriting criteria or requirements for the quality of mortgage notes and monitoring.

NCUA also asks whether it is necessary to require more than a tri-party custodial agreement to allow the investing party to identify the underlying loans. It is our understanding that detailed loan schedules are routinely provided to the investing parties as part of the tri-party custodial statements. Therefore, we do not believe that it is necessary to require more than a tri-party custodial arrangement to identify the underlying loans.

We appreciate the opportunity to provide comments in response to NCUA's proposed rule on permissible investments for federal credit unions.

Sincerely,



Cutler Dawson  
President/CEO

CD/sb