

October 10, 2003

Mr. Stephen M. Vajs
Director, Risk Management Division
Financial Management Service
U.S. Department of the Treasury
Room 423
401 14th Street, SW
Washington, DC 20227

Re: 31 CFR Part 210

Dear Mr. Galligan:

Navy Federal Credit Union provides the following comments in response to the Department of Treasury's (Treasury) proposal to amend 31 CFR Part 210, which governs the use of the Automated Clearing House (ACH) by Federal agencies. Navy Federal is the world's largest natural person credit union with over \$19 billion in assets and 2.4 million members. We serve Department of Navy personnel, dependents, and family members in every state and many locations overseas.

Navy Federal opposes regulatory changes that unnecessarily increase operational burdens for ACH participants. Therefore, we oppose Treasury's proposal to expand its definition of "business check" to include credit card checks, travelers checks, cashiers checks, official checks, money orders, and checks drawn on state or local governments. Due to system limitations, these items cannot be processed as ACH items by most Receiving Depository Financial Institutions (RDFI) at this time. By permitting these items to be processed as ACH items, regardless of whether the receiving entity can process them, Treasury would worsen rather than improve operational efficiencies for itself and other ACH participants.

In its summary of the proposal, Treasury acknowledges the likelihood that business checks will be presented by individuals who are not authorized to approve their conversion to ACH items. Treasury further notes that in these cases its rules provide an adequate framework for a Receiver to pursue recovery of an unauthorized debit to the Receiver's account. We are deeply concerned that Treasury's comments disregard the importance of obtaining proper authorization from a Receiver and, instead, sanction a practice of accepting unauthorized ACH payments. Practices that result in unauthorized payments will ultimately undermine the integrity and efficiency of the ACH payment system.

Treasury proposes to permit Federal agencies to convert checks to ACH items under applicable ACH Accounts Receivable Check rules instead of ACH Point of Purchase rules when the check is delivered in person to the agency and the agency cannot contemporaneously image and return the check. We agree with this proposal as long as the converting agency provides the Receiver the authorization notice set forth in Appendix C of the rule.

Mr. Stephen M. Vajs
Page 2
October 10, 2003

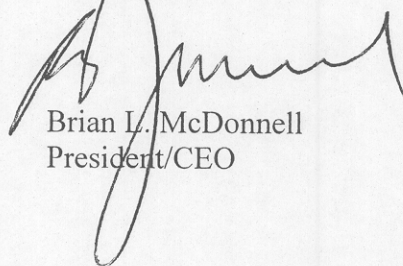
We strongly support Treasury's proposal to amend its rules to clarify that financial institutions are not liable for post-death benefit payments to which a recipient was entitled. The proposed amendments would eliminate inconveniences currently experienced by recipients or their beneficiaries when a payment is properly made, but returned to the paying agency because of the current liability provisions.

Treasury proposes to require an RDFI to notify an agency if it becomes aware that the agency has originated an ACH credit entry to an account that is not owned by the payee whose name appears in the ACH payment information. We support this proposed notification requirement provided RDFIs are permitted to notify the paying agency through the ACH payments system. Specifically, RDFIs should be permitted to notify agencies of misdirected ACH payments by returning the ACH entry using reason code R04, Invalid Account Number, or by sending a Notification of Change entry informing the paying agency of a correct account number. It would be extremely burdensome and inefficient to notify a paying agency by phone, fax, or mail.

Navy Federal agrees with Treasury's proposal to change the reclamation period from six to seven years. However, in conjunction with this change, we recommend that Treasury encourage the National Automated Clearinghouse Association (NACHA) to change its record retention requirement for government ACH items from six years to seven years. We believe consistency between NACHA's and Treasury's ACH rules reduces confusion among ACH participants.

Navy Federal Credit Union appreciates the opportunity to respond to Treasury's request for comments regarding changes to its ACH rules.

Sincerely,



Brian L. McDonnell
President/CEO

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