



October 16, 2007

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

RE: Permissible Foreign Currency Investments for Federal Credit Unions

Dear, Mary

As you know, ESL has for many years provided its members with foreign currency exchange services. This service dates back to our predecessor Eastman Savings and Loan Association, which provided the service to accommodate Kodak employees traveling to the many overseas Kodak offices. We now provide all our members with foreign currency exchange services.

In order to effect these transactions, ESL has bank accounts in Canada and the United Kingdom, as well as a credit union account in Australia (the credit union is a sister Kodak institution). We also maintain a supply of currency ... in five different denominations... (pounds, euros, yen, Australian dollars and Canadian dollars). Members needing other currencies can order them in advance. Our members who live overseas often deposit funds with us which are denominated in foreign currencies. Thus, ESL has a substantial history...and considerable expertise... in the practice of providing foreign currency services to members. This volume of currency exchange does involve an element of risk, which ESL has learned to manage.

As a result, ESL is very concerned about NCUA's proposal, which would allow ESL to keep foreign currencies only in US banks. In fact we may keep currencies overseas, primarily for check cashing purposes. The proposal would remove one of the tools we have available to manage exchange risk, and would not necessarily resolve the actual risk inherent in holding foreign currency.

We agree with NCUA's observation that "changes in the political and economic environment may adversely affect the exchange rate for that currency." Indeed, the primary risk of holding foreign currencies is fluctuation in the value of the currency relative to the dollar. However, the risk is the same whether the investment is held in a domestic bank or a foreign bank. We are less inclined to endorse NCUA's proposition that there is a high risk of "political and economic changes" affecting the "ability of a

foreign domiciled entity to repay that obligation.” Certainly, there is a risk. But the risk of having funds with the banks ESL uses in Canada and the United Kingdom and the credit union in Australia is in fact no different than the risk of having uninsured funds in any domestic bank. Banks in parts of South America, Africa or Asia may, of course, pose larger risks. The risk is not having money in foreign banks. The risk is in having money in banks located in high risk markets. In fact, we are as likely to lose dollars deposited in the Bank of Darfur as we are to lose Shekels held at home.

In short, we think the NCUA proposal would not necessarily address the actual risks associated with foreign currency investment, and it would impose an unnecessary burden on those credit unions offering limited foreign currency services.

ESL has no interest in expanding its foreign currency services beyond current operations. We suspect the number of credit unions offering similar foreign currency services is few, and the number of credit unions wishing to establish broad-based foreign currency investment programs is even fewer. A broad regulation which attempts to cover the field will tie up NCUA resources in an area in which the agency has little or no expertise, and may unnecessarily burden those few institutions that have offered these services for many years with little risk.

For those credit unions that do need to expand their foreign transaction offerings, NCUA should consider an alternative, such as the pilot program, available under Part 703. This would make it possible for NCUA to monitor the foreign currency investment activities and ensure that they are being handled in a safe and sound manner. At the same time, NCUA would be able to use the program to gain greater knowledge of the risks that can be associated with a broad-based foreign investment program.

Sincerely,



William T. Pryor
Senior Vice President and General Counsel