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Via Electronic Mail
regcomments@ncua.gov

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

Re: Comments on Advanced Notice of Proposed Rule (ANPR) for
Parts 703 and 704

Dear Ms. Rupp:

On behalf of the United Nations Federal Credit Union ("UNFCU"), I am pleased to respond to the National Credit Union Administration's (NCUA's) request for comment regarding permissible foreign currency investments. UNFCU is pleased by the progressive approach the agency is taking on this important issue and greatly appreciates NCUA's willingness to consider expanded investment authorities with the goal of allowing credit unions to offer foreign currency denominated products and services to its members. UNFCU recognizes that while all credit unions may not benefit from such authorities, many credit unions indeed do have an international aspect to their fields of membership, such as those credit unions located in border-states and those credit unions serving employee groups with an extensive overseas presence. The ability to provide products and services in foreign currencies will greatly enhance their ability to serve their members and is, in many cases, essential in their service ability. Certainly, such authorities will have a profoundly positive affect on UNFCU's ability to properly serve its members.

Unfortunately, it is our firm belief that the framework, as presently proposed in this ANPR, will not sufficiently provide the appropriate tools to enable credit unions to offer multicurrency products and services in a safe and sound manner to their members. Although certainly well-intentioned, we believe NCUA's efforts are not sufficiently thorough or complete with regards to the ANPR. In hopes of offering to the agency the benefit of UNFCU's unique historical experience in dealing with a field of membership in which multicurrency issues often arise, we are pleased to offer the following specific comments on the ANPR for the Board's consideration as they evaluate its provisions and the need for a rulemaking on this issue.

NCUA APPROVAL PROCESS (ANPR PAGE 10)

Over the past several years, NCUA has recognized the necessity to update the regulatory scheme enabling credit unions to better serve the international aspects of their membership. The agency is to be commended for the following very appropriate actions which have been taken previously in this regard.

Part 741¹ was amended in 2003 to permit credit unions to establish foreign branches. As early as 1999, NCUA recognized a credit union's ability to serve foreign nationals² and reaffirmed its position in the Field of Membership and Chartering Manual by stating: "Federal credit unions are permitted to serve foreign nationals within their fields of membership"³ The ability of a credit union to provide products and services in a foreign currency was clearly contemplated within the foreign branching regulation⁴ and galvanized just last year in an amendment to Part 745 specifically permitting credit unions to accept shares denominated in a foreign currency and providing insurance for those shares.⁵ However, to ensure safety and soundness, a credit union accepting foreign denominated shares must be able to properly hedge against the currency fluctuation risk and be able to produce a reasonable return on those shares.

NCUA recognized the importance of this within the Part 745 interim final rule where NCUA specifically directed credit unions to apply to NCUA for approval through a properly designed investment pilot program ("IPP") under Part 703.19 in order to establish a specific program to offer products and services in a multicurrency format. UNFCU supported the interim final rule and was in total agreement with the agency that an IPP was the appropriate method for providing credit unions the tools to properly manage the risks associated with a foreign currency book of business.

Although the agency has now determined to consider the possibility of a rulemaking on the foreign currency issue as specified in this ANPR, UNFCU maintains the belief, and strongly urges NCUA to continue as they had originally proposed within the Part 745 interim final rule, to have credit unions address matters associated with managing a foreign currency book of business through an approved IPP. Even if a rulemaking is ultimately determined to be appropriate, the experience of individual credit unions in a well structured pilot project could be invaluable in constructing a safe and sound rule on foreign currency transactions, products and services.

Such an IPP process would benefit any credit unions engaging in such a program by enabling them to structure the program to the specific needs of their field of membership. But, perhaps more importantly, the IPP process would benefit NCUA by better enabling it to appropriately assess various aspects of the proposed activities that, in the end, would greatly enhance the quality and value of any future rule making process. An IPP by a qualified credit union with an appropriate program would prevent the agency from entering into a rule making

¹ NCUA Rules and Regulations Part 741.11.

² NCUA Letter to Federal Credit Unions No.: 99-FCU-2, June 1999 at page 23.

³ NCUA Chartering and Field of Membership Manual, Chapter 1 Section XII.

⁴ NCUA Rules and Regulations Part 741.11(c)(2); and (e).

⁵ NCUA Rules and Regulations Part 745.7.

that has potentially far reaching impact without empirical data from actual credit union experience.

Therefore, while UNFCU greatly appreciates and values the Board's positive intent and stated purpose in issuing this ANPR, UNFCU believes the IPP process already provides for the appropriate mechanism for an approval process. When originally introducing the framework for an IPP, the Board stated:

NCUA believes the investment pilot program is the most appropriate system for evaluating and granting expanded investment authority to FCUs. The pilot program's application and approval process gives an FCU the opportunity to demonstrate it has the ability to implement and administer safely an investment activity prohibited by regulation. Not only does the investment pilot program provide flexibility to FCUs, but it is also a useful tool for NCUA to evaluate whether granting additional investment authorities is appropriate. This approach allows NCUA to analyze an FCU's management's abilities and knowledge, and understand how an FCU plans to incorporate an investment activity into its overall investment and risk management strategies. . . .⁶

When put into practice regarding a different investment activity, the value of the IPP process was recognized by NCUA in stating: "[The] proposal evolved from the experience gained monitoring an investment pilot program. The pilot program enabled NCUA to review the demands and risks associated with such a program before developing a regulation."⁷

In addition, UNFCU's and NCUA's mutual experiences with the Foreign Branching Regulation have demonstrated that a period of evaluation for activities, which the credit union community has little practical experience in, is beneficial. Initially, the Foreign Branching Regulation was ambiguous regarding the National Credit Union Share Insurance Fund (NCUSIF) treatment of accounts denominated in a foreign currency. It was not until UNFCU attempted to apply its business model to the Regulation that the ambiguity was fully recognized. This ambiguity required a subsequent change to Part 745 to clarify the regulations. We believe the experiences gained by proceeding with an IPP will help obviate the need for additional regulatory clarifications after the rule making process, and will substantially decrease the risks associated with multicurrency activity.

The Board has stated in the ANPR that a regulation on foreign currency investments would likely include an approval process, and the Board has requested comments regarding an appropriate mechanism for such an approval process. UNFCU believes through its own experiences and based upon the statements previously issued by the Board, that the activities contemplated within this ANPR are extremely well suited for an IPP and that the IPP process would be the most appropriate mechanism for an approval process. Currently, credit unions wishing to engage in expanded investment activities similar to this are able to participate in an

⁶ Proposed rule with request for comment, Investment and Deposit Activities and Regulatory Flexibility Program, Friday, December 27, 2002 (67 FR 78996 at page 78998) (emphasis added).

⁷ Supplementary information of the final rule regarding Parts 703 and 742, June 3rd, 2003 (68 FR 32958 at page 32959) (emphasis added).

investment pilot program (IPP) under Part 703.19. In UNFCU's view, the Board should suspend this rulemaking and proceed with these activities through the IPP process with a view towards future rulemaking.

LIMITATIONS ON LENDING AND OTHER INVESTMENTS (ANPR PAGES 4 AND 5)

In order to properly manage the risk in a foreign currency book of business, a credit union must be able to hedge against the risk of currency fluctuations and be able to realize a reasonable return on the shares received through certain investment vehicles. There are three primary methods that, when used in combination with one another, can ensure prudent and fruitful management of a foreign currency book of business: (i) making loans to members in the same currency which the credit union accepts shares; (ii) investing in financial products denominated in foreign currencies; and (iii) utilizing derivative products. These three methods not only provide additional opportunities for investments, but are also essential to mitigate against unacceptable concentration risk. Unfortunately, as currently drafted, the ANPR only contemplates limited use of financial products denominated in a foreign currency and specifically excludes loans to members and derivative products. A program with such limited authorities misses an absolutely key ingredient that would leave it largely unworkable, in our opinion, and would not enable a credit union to effectively manage a foreign currency book of business in a safe and sound manner.

The background information in the ANPR states that the Board is not inclined to consider lending to members in foreign denominated currencies in conjunction with the ANPR. We feel strongly that the Board should also take up the issue of lending in foreign denominated currencies in conjunction with any proposed rule or program that would relate to foreign currency denominated investments. It is our view that for a credit union to offer products or services that are foreign currency denominated in a safe and sound manner, any authorities granted to invest in foreign currency must be complimented with the ability to lend in foreign currency. The reasoning behind the need for enhanced investment authorities is to enable a credit union to effectively hedge against the risk of currency fluctuation. The most natural hedge against such risk is the ability to match the book of business. In other words, a credit union with an equal amount of shares and loans in a given currency is naturally hedged against currency fluctuation risks. We are of the opinion that this natural hedge clearly provides the most effective first line of defense against currency fluctuation risks in these types of situations.

Moreover, it is generally accepted that the organic purpose of a credit union is to accept shares and make loans as well. NCUA has already recognized the providence of allowing credit unions to accept shares in a foreign currency as illustrated in the recently amended share insurance regulation found in Part 745.7. To promulgate a regulation that would not allow a credit union's ability to make loans to its members would be inconsistent with one of the primary purposes of a credit union, in our view.

Further, the Board has suggested in the ANPR that derivative type products would not be considered under any final rulemaking, as the agency feels that overriding safety and soundness concerns would outweigh their utility.

Derivative products are a primary tool of the financial community for addressing foreign currency fluctuation risk. When combined with appropriate checks and balances, these products have been successfully utilized within the financial community on a very regular basis. In our view, derivative products should be, at least on a limited trial basis, authorized for use within any rule or program addressing foreign currency matters.

The Board often views the importance of parity with the banking community as a reasonable consideration when evaluating its own regulatory framework. For example, in appearing before the Committee on Banking, Housing and Urban Affairs of the United States Senate regarding regulatory relief proposals and SEC registration, Chairman Johnson stated: "This exemption would not expand the types of security activities that credit unions are authorized to engage in. It simply serves to provide parity with banks and thrifts . . ."⁸

Additionally, in considering amendments made to the share insurance regulation, the Board stated: "NCUA believes federally insured credit unions can effectively manage the risks associated with accepting shares denominated in foreign currency and is issuing a rule similar to the FDIC. . ."⁹

In keeping with NCUA's stated desire to maintain parity with the banking regulations, UNFCU believes it is important to note that federally regulated depository institutions and their holding companies enjoy a broad range of authorities to engage in foreign-currency related transactions. For example:

Foreign Currency Denominated Loans - National banks have long-standing authority to make loans denominated in foreign currency to their U.S. and foreign customers. (See, e.g. Comptroller's Handbook – Foreign Exchange (March 1990), *passim*). Subject to applicable state law, state banks that are members of the Federal Reserve System are also permitted to make foreign-currency denominated loans. (Federal Reserve Board – Commercial Bank Examination Manual, § 2000.1 (foreign currency denominated loans must be treated as assets included in foreign currency positions)).

Foreign Currency Denominated Investments - National banks are permitted to invest in foreign currency denominated investment securities, subject to investment standards that apply to all national bank investments, including those denominated in U.S. dollars. (Banking Circular 216, September 11, 1986; Activities Permissible for a National Bank, Cumulative (2006) at 57). State member banks also may invest in foreign currency denominated securities. (Federal Reserve Board – Commercial Bank Examination Manual, § 7100.1 (banks' foreign exchange exposure includes all foreign currency denominated assets and liabilities, including "loans, investments, deposits and capital of foreign branches.")). The Office of Thrift Supervision has opined that federal savings associations have the authority to invest in securities of foreign governments, subject to the commercial lending limit, and safety and soundness. (12 U.S.C. § 1464(c)(2)(A); OTS Opinion of Acting Chief Counsel, June 18, 1993).

⁸ Statement of The Honorable Joann M. Johnson, Chairman, National Credit Union Administration "The Consideration of Regulatory Relief Proposals" before the Committee on Banking, Housing and Urban Affairs United States Senate (March 1, 2006).

⁹ Share Insurance and Appendix interim final rule with request for comments, March 23, 2006 (71 FR 14631 at page 14634) (emphasis added).

Use of Derivatives to Hedge Foreign Currency Risk - National banks have the legal authority to advise, structure, arrange and execute transactions, as agent or principal, in connection with currency and currency coupon swaps and related derivative products such as caps, collars, floors, swaptions, forward rate agreements, and other derivatives. (Activities Permissible for a National Bank, Cumulative (2006) at 36). The "laundry list" of activities permissible for bank holding companies, on the basis that they are "closely related to banking" and a proper incident to banking, includes engaging as principal in foreign exchange and forward contracts, options, futures, options on futures, based on any rate price, or financial asset in which a state member bank is permitted to invest. (12 C.F.R. § 225.28(b)(8)(ii)). (See, also Federal Reserve Board Commercial Bank Examination Manual, § 7100.1; BHC Supervision Manual, § 3260.0 (description of broad range of banks' permitted foreign exchange activities as principal)).

UNFCU recognizes and supports the Board's concern regarding safety and soundness considerations as it evaluates a potential rule making on the issue of foreign currency transactions. We certainly share the Board's goal in this regard as safety and soundness is likewise paramount and always a priority of ongoing importance to UNFCU. However, it is our view that any framework allowing for the influx of shares into the credit union without the corresponding ability to manage the loan side, as the ANPR proposes in its original language, is inconsistent with safe and sound practices.

As it relates to restrictions on the ability to lend in foreign currencies that can be accepted on the other side of the balance sheet as deposits, the savings and loan (thrift) crisis of the 1980s had its root cause in a similar framework, albeit a domestic one. Beginning in the late 1970s, thrifts began to experience a large influx in deposits. However, these institutions were extremely limited by regulation in the types of lending they could participate in. It was the inability to hedge risk under this framework that helped spark what is known as the S & L crisis resulting in a large number of thrift failures. Therefore in keeping with solid principles of safety and soundness and a primary purpose of credit unions to provide loans for necessary and provident purposes, we would strongly encourage the Board to also consider granting a credit union the ability to lend to its members in foreign currency as well as to accept deposits.

COMPETITIVE DISADVANTAGE (ANPR PAGE 4)

Contained in the background information, the Board has stated that "...for some credit unions, the ability to accept member shares denominated in foreign currency – without the authority to make investments in foreign denominated currencies – may place them at a competitive disadvantage." While this is true, it is not the dominant issue. It is our view that the ability to be able to make investments in foreign denominated currencies is primarily centered around matters of safety and soundness. Specifically, any program should not only provide a credit union with the ability to hedge against currency risk but must also provide the credit union with the ability to manage its balance sheet. While the Board's comment is not incorrect, we believe it is important to place the emphasis on safety and soundness rather than the competitive aspects vis-à-vis other financial institutions with regards to foreign currency activities.

U.S. DOMICILED ISSUERS (ANPR PAGE 5)

The Board has requested for comment on whether FCUs or corporates should be permitted to invest foreign currency in vehicles other than deposits and instruments issued by federally insured banks, corporates, and GSEs domiciled in the U.S. or its territories as permissible under the Federal Credit Union Act. Such a limitation is extremely limiting and unnecessary. There are very few vehicles and instruments denominated in foreign currency issued by federally insured institutions domiciled in the U.S. This would place a severe restriction on the ability of a credit union to effectively manage currency fluctuation. In our view, any final rule or investment pilot program should include foreign subsidiaries of U.S. financial institutions to allow for the appropriate availability of investment products that would help mitigate the risk associated with foreign currency shares.

In addition, we believe that a credit union should limit their foreign currency book of business to countries that have demonstrated a history of political stability and whose currencies are also considered stable. As part of any approval process with NCUA, a credit union should indicate which currencies it intends to conduct business in and demonstrate the appropriate stability with that currency. We feel it is important to note that many foreign countries have shown exemplary stability in political climate, as well as financial and currency stability. There is a very limited increase of risk to credit union accepting shares in currencies from these countries and investing in deposits and instruments issued by foreign subsidiaries of U.S. financial institutions domiciled in these countries.

We would also like to comment that, given dynamic international markets, any final rule or investment pilot program might best be structured in a flexible manner to allow for the addition of newly developed foreign currency denominated investments that would otherwise be permissible had they been available at the time of the granted authorities.

The Board has stated that by limiting investments to shares and deposits in U.S. domiciled depositories or the debt obligations of GSEs, a credit union could avoid settlement risks arising from international payment systems. The Board has also stated that by limiting investments to shares and deposits in U.S. domiciled depositories or the debt obligations of GSEs, a credit union could avoid settlement risks arising from international payment systems.

While there have been some historic concerns over international payments systems in the past decades, these systems have become highly evolved and today pose no more risk than payment systems in the United States. There is no evidence to suggest that there is a greater risk to a credit union for "trade fails" in other developed countries than in the United States. To mitigate the risks, a credit union would most likely utilize the services of a custody agent to safe keep the assets and effectuate the accurate and proper settlement. There are many large and very reputable United States based custodians providing international settlement. A credit union should be expected to conduct due diligence in choosing a custodian pursuant to existing NCUA guidance.¹⁰ The international services these custodians provide and the payment systems they operate in, are highly integrated among the most developed nations. In any event, it is our view that the utility of having a greater palette of international investment

¹⁰ See NCUA Letter to Credit Unions 04CU-04 (2004); and NCUA Rules and Regulations Part 703.9.

opportunities to best mitigate currency fluctuation risk will provide for higher levels of safety and soundness and consequently far outweigh any perceived risk associated with international payment systems. Moreover, there are a limited number federally insured financial institutions domiciled in the U.S. that would be in a position or desire to facilitate such investments. This potentially creates an unacceptable level of concentration risk that could further affect a credit union's ability to invest in a safe and sound manner.

In a related matter to settlement risk, we would like to also express our view that experience demonstrates there is also no greater risk of counterparty failure in developed countries than in the United States provided a credit union conducts the appropriate due diligence. Any risks present can be mitigated by requiring collateral and/or conducting business with reputable bond issuers. Credit unions are no strangers to evaluating these risks. Risk management and due diligence are conducted regularly with respect to United States investments and are contemplated and contained within a credit union's investment and ALM policies.

EXCHANGE RATE RISK (ANPR PAGE 6)

The Board has requested comment on the appropriate limits per a specific foreign currency and aggregate limits across all foreign currencies that a credit union could maintain. It is our view that there should be no limits regarding any particular currency or on the aggregate to the extent a balance is maintained between assets denominated in a foreign currency and member shares denominated in the like currency. We do concur with the Board that limits should apply, but only to the extent there are amounts out-of-balance.

The Board has requested comments on whether it should limit the currencies in which investments may be denominated. In our view, in the initial framework of a final rule or an investment pilot program, the Board should limit authorities to the strongest and most stable currencies, such as the Group of Seven (G-7) currencies and the Swiss franc in order to mitigate risk and provide an opportunity for the credit union and NCUA to gain more experience and additional comfort with the ability of credit unions to manage such risk. However, we would encourage the Board to structure any final rule or investment pilot program in a flexible manner to allow for the addition of other such acceptable currencies in the future.

Regarding limits on any one foreign currency or an aggregate amount of foreign currency investments, it is our opinion that there is no greater inherent risk in dealing with strong and stable currencies than there is dealing in the U.S. dollar. Each credit union is unique and has differing needs to serve their members. Part 745 does not limit the amount of shares a credit union can accept in foreign currency nor does the Federal Credit Union Act (or the implementing regulations) limit the asset size of any particular credit union provided credit unions are managed in a safe and sound manner. In addition, as discussed earlier in this letter, there is no limitation placed upon banks in this regard. Accordingly, it is our view that there should be no limitation as to the foreign currency book of business a credit union can maintain in order to serve its members.

Having said that, we do concur with the Board that a limit should be placed on out-of-balance amounts. The Board has aptly noted that foreign exchange risk may be mitigated, for example, by maintaining a balance between foreign currency denominated assets and the

member shares denominated in a foreign currency. In most instances, a credit union would strive to maintain that balance. As discussed earlier in this letter, the most natural hedge is to maintain that balance, ideally by making loans to members. The Board has suggested an out-of-balance limit of 10 percent of a credit union's net worth. In our view, a ten percent limitation would be adequate in certain circumstances, but we believe twenty-five percent would be more appropriate. In most circumstances, the ten percent limit would be workable; however, it is not unreasonable to expect that there could be times when a spike in activity could cause a credit union to be out-of-balance beyond ten percent of net worth for a short period of time. For example, there may be circumstances where members may be transferring funds within the credit union between their U.S. dollar account and their foreign currency account. A large number of these transfers coupled with deposits could result in an out-of-balance percentage exceeding ten percent. A credit union would not want to place itself in the unenviable position of having to reject transfer requests or deposits from members because of a short-term imbalance. A credit union would work to rectify the imbalance, but such remedy will lag slightly. Such a managed lag time poses very little, if any, risk as long as it is properly addressed in a timely manner. This would be a circumstance that should be addressed in the credit union's investment policy.

In the alternative, a sliding scale approach could be utilized whereby a credit union could remain out-of-balance for a larger percentage but for a limited duration. Such an approach would enable a credit union to effectively and efficiently manage the inevitable spikes in a way that would allow them to serve their members without posing any undue risks to safety and soundness.

Credit and Other Risks (ANPR page 7)

The Board has invited comments on certain general risks associated with credit union operations such as credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, and reputation risk. These are risks that credit unions address and manage on a daily basis as part of their overall management obligations. Each of these risks is handled through established policies and procedures within the credit union regardless of currency denomination. Regulations and best practices to address these inherent risks are already in place with regards to U.S. dollar operations. There is no question that, as these risks increase, so should a credit union's attention and awareness to them. However, maintaining operations in a foreign currency does not inherently increase these risks. Accordingly, we agree that these risks should be addressed through whatever approval process NCUA envisages but, in our view, additional regulations or requirements are not necessary to ensure safe and sound operations.

EXIT STRATEGY (ANPR PAGE 8)

The Board has stated that it may require credit unions to develop an exit strategy to facilitate divestiture of foreign currency investments. In our view, there should be no requirement for a specialized divestiture plan. While foreign currency investments have certain unique characteristics, they can be managed as any other line of business within the credit union on a risk based level utilizing existing modeling methods. There are no such requirements for a separate and formal divestiture plan with regards to any other credit union

investments, products or services. As such, we do not believe that a specific exit strategy should be part of any rule or program with respect for foreign currency investments.

However, even with the aforementioned belief that existing modeling methods are sufficient to determine if stepping back from foreign currency transactions might be prudent at some future point in time, UNFCU believes that in the event a credit union chose to (or it became necessary to) divest itself of a foreign currency book of business, it could be accomplished without devastating repercussions. At the time of the account opening, the account agreement could specify that the credit union has the right to convert the foreign denominated shares into shares denominated in U.S. dollars based upon the same formula used in Part 745.7. Moreover, in the event foreign currency lending was approved through a final rule or an investment pilot program, to the extent a credit union has made such loans to members, those loans could be left to attrition or if more aggressive remedies were warranted, the loans could be sold.

INFORMATION SYSTEMS AND TECHNOLOGY RISKS (ANPR PAGE 8)

The Board has stated it is likely that a regulation would need to address information and technology risks and has emphasized the concern of a credit union running multiple balance sheets. While these systems do pose some unique challenges, they are readily available in the market place and are in common use throughout the financial community. Clearly a credit union should exercise appropriate due diligence and take appropriate care when implementing these systems as they would with any new mission-critical technology; however, we do not see where the need to promulgate specific requirements in a proposed rule or program are necessary.

The Board has requested comments regarding data collection and reporting requirements. We concur that the call reports would likely need to be revised to capture data regarding foreign currency activities and are supportive of the agency making necessary changes to the call reports. We also believe that credit unions operating in multiple currencies should be required to provide supplementary information, such as an asset liability report, for each additional currency. However, we do not believe any interim reporting for supervision purposes should be required in the normal course of business.

INTERNAL CONTROLS (ANPR PAGE 9)

The Board has indicated that a regulation would likely address the need to establish certain internal controls, policies, and procedures to manage investments denominated in foreign currency as well as staff qualifications and potential conflict of interest issues. UNFCU believes that internal controls and procedures should be managed by the credit union as other such risks are managed and does not believe that any specific requirements need to be mandated and established by regulation within the rule or any program. Similarly, staff qualifications are normally left to the credit union's management to establish the appropriate criteria. However, if the Board believes staff qualifications should be included within the rule or program, UNFCU believes that the criteria set forth in Part 723.5 provides a good framework to establish appropriate standards. Part 723.5 also adequately addresses conflicts of interest matters and the ability for a credit union to utilize third parties to satisfy the qualifications criteria.

As such, UNFCU supports applying the framework set forth in Part 723.5 to foreign currency matters contemplated with the ANPR.

CONCLUSION

In our view, a credit union's primary purpose is to best serve the financial needs of its member-owners while maintaining safe and sound practices as they do so. The United Nations Federal Credit Union serves the needs of the United Nations community which is located throughout the world. In fact, over one half of UNFCU's members are located overseas at any given moment. Our members often change duty stations several times during their international civil service careers and sometimes are redeployed with little or no notice maintaining financial obligations in several countries. For many years UNFCU's members, whether based here in the United States or overseas, have been pleading with their credit union to make foreign currency denominated products and services more readily available to them internationally. Such requests have also been made by UNFCU's sponsor organization(s).

In addition to this obvious need for meeting the needs of our members, UNFCU also believes that other credit unions would benefit from additional authorities to enable them to accept shares and make loans in a foreign currency. Many credit unions serve fields of membership or SEGs that have offices and employees outside of the United States. Also, those credit unions with immigrant based fields of membership, and especially those located in border-states to Canada and Mexico, would potentially benefit from such expanded authorities.

Immigrant populations are often in search of ways to engage in cross-border financial interaction with their families. According to industry publications¹¹, over 40% of all adult, foreign-born Latinos living in the United States regularly send remittances to family living in their home country. On average these remittances are between US \$100 and US \$300 per month which overwhelmingly go to health care and other basic needs. Unfortunately, the transaction costs imposed by many money remitters often exceed 20% and have been reported to be as high as 50%. Over 83% of all such remittances are conducted through international money transfer companies; not mainstream financial institutions such as credit unions.

A major component of the transactions fees paid is not on disclosed fees but on exchange rate fees. One way to combat this is to enable credit unions to purchase or otherwise invest in foreign currency at the favorable "wholesale" rate and passing along such favorable rates to those in their field of membership. The ability to accept shares and make loans in foreign denominated currencies would enable these credit unions to explore opportunities to better provide mainstream financial services to these immigrant populations.

In conclusion, UNFCU greatly appreciates NCUA's efforts with regards to the ANPR and the opportunity to share its views. We readily recognize, at this time, there are a limited number of credit unions who will take advantage of the ability to offer foreign currency denominated products and services to their members; however, we are convinced that the authorities to provide multicurrency products and services to members will have a profoundly

¹¹ See Beatriz Ibarra, Reforming the Remittance Transfer Market, NCLR Publication (www.nclr.org); and Jeffrey N. Cruz, U.S. Remittance Policy and the Western Hemisphere, CHCI Policy Brief (www.chci.org).

positive affect enabling credit unions to better serve the financial needs of their members without compromising safety and soundness.

We reiterate our strong belief that these authorities would be better addressed through an IPP pursuant to Part 703.19 and that any authorities granted should also include the ability for credit unions to make loans to their members.

Once again, thank you for your efforts and consideration of our comments. Should you have any questions or require additional information, please feel free to contact me directly via telephone at +1 347 686 6610 or by email to mjconnery@unfcu.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Connery, Jr.", with a stylized, cursive script.

Michael J. Connery, Jr.
President/CEO

cc: Chairman JoAnn Johnson
Vice Chairman Rodney Hood
Board Member Gigi Hyland