NAVY FEDERAL Credit Union

Office of the President

April 20, 2007

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

Re: RIN 3064-AD15; Industrial Bank Subsidiaries of Financial Companies

Dear Mr. Feldman:

Navy Federal Credit Union provides the following comments in response to the Federal Deposit Insurance Corporation's (FDIC) proposal on financial company ownership of industrial banks. Navy Federal is the nation's largest natural person credit union with over $28 billion in assets and nearly 3 million members.

Navy Federal supports FDIC's efforts to ensure the safety and soundness of industrial banks and limit risks to the Deposit Insurance Fund. In the face of exponential growth and consolidation in the industrial bank industry, we agree that imposing certain conditions and restrictions on unregulated financial company ownership of industrial banks is prudent.

This proposal would impose certain conditions and restrictions on the activities of industrial banks and their consolidated financial companies, if those companies are not regulated by the Federal Reserve Board (FRB) or the Office of Thrift Supervision (OTS) (i.e., non-federal consolidated bank supervisors, or non-FCBS). In instances where the consolidated financial company is not subject to a federal examining authority, the proposed approach appears to be appropriate to ensure proper oversight and supervision. However, in instances where the consolidated financial company is subject to a federal examining authority other than FRB or OTS (e.g., the National Credit Union Administration or NCUA), we believe the proposed conditions and restrictions are inappropriate and unnecessary.

While we acknowledge that both FRB and OTS have the authority to examine holding companies, we do not believe that this authority makes them better-suited than other federal financial industry regulatory agencies to examine the safety and soundness of a consolidated financial company. For example, Navy Federal strongly believes that other federal financial industry regulatory agencies, such as NCUA and the Securities and Exchange Commission

(SEC), should have authority comparable to that afforded FRB and OTS under this proposal. NCUA, SEC, and other federal financial industry regulators supervise their institutions for safety and soundness and compliance with laws and regulations in much the same manner as FRB and OTS. We urge FDIC to place other federal financial industry regulatory agencies on a par with FRB and OTS for purposes of this proposal. We believe this would lessen the compliance burden on already heavily-regulated financial companies without jeopardizing the safety and soundness of the industrial bank industry or the Deposit Insurance Fund.

The eight conditions in the proposed written agreement between the non-FCBS company and FDIC generally seem appropriate to safeguard risks posed by a non-FCBS company, particularly given the recent substantial growth in the industrial bank industry. However, we do not support proposed section 354.4(b), which would require all non-FCBS companies to consent to examination from FDIC for each of their subsidiaries. We do not believe it is appropriate or necessary for FDIC to examine subsidiaries of organizations if such entities are regulated by other federal examining authorities, e.g., NCUA. Copies of annual reports and independent audits required elsewhere in proposed section 354.4, as well as examination reports prepared by the primary federal regulator, which we expect would be available to FDIC, should suffice for purposes of satisfying this requirement.

Proposed section 354.4(f) would require each subsidiary industrial bank to obtain an independent annual audit during the first three years of its existence as a subsidiary of the non-FCBS company. We believe independent annual audits are crucial to ensuring an organization's safety and soundness. Further, we believe information contained in the audit reports is useful to FDIC in its examination of the industrial bank. Given the substantial growth of the industrial bank industry and its untested ability to withstand adverse economic conditions, we believe these audits are critical to the stability of industrial banks. We encourage FDIC to amend section 354.4(f) to require independent annual audits as long as the industrial bank exists.

This proposal also imposes five restrictions on industrial bank activities. We believe that some of these proposed restrictions are unnecessary and could impede safe and sound growth at industrial banks. For example, the proposed restrictions in sections 354.5(a)-(c) would require the industrial bank to gain FDIC's prior written approval before materially changing its business plan, changing a member of its board, or changing a member of its senior executive team. We believe prior approval is unnecessary because the results of these changes will be reflected during FDIC exams, independent annual audits, and other reports required by FDIC under this proposal. Further, requiring prior written approval could impede an industrial bank's ability to adjust quickly to changing economic and market conditions. New companies must be agile as they establish themselves in the marketplace, and requiring prior written approval would make these companies less flexible and less responsive to change. We encourage FDIC to remove sections 354.5(a)-(c) from this proposal.

We support the proposed restrictions in sections 354.5(d)-(e) requiring an industrial bank to obtain prior approval before employing a senior executive officer who is associated with an affiliate of the industrial bank or entering into a contract for essential services with its parent company or subsidiary thereof. These actions may signal significant changes in the parent company's underlying corporate strategy or even potential conflicts of interest. We believe requiring prior written approval is prudent in these cases.

FDIC specifically requests comment on whether a financial company that enters into commercial activities should be required to divest itself of the subsidiary industrial bank. As long as commercial companies are allowed to own industrial banks, we do not believe that divestiture should be required for such financial companies. Harsh remedies, like divestiture, for financial companies that venture into commercial activities are unfair at this time. If the moratorium on commercial companies owning industrial banks becomes permanent and commercial companies are no longer allowed to own industrial banks, we believe that divestiture for financial companies entering into commercial activities should be considered, based on criteria similar to that found in section 4(m) of the Bank Holding Company Act for financial holding companies engaged in impermissible activities.

Lastly, we urge FDIC to work with Congress to close the legal loophole that permits the combination of financial and commercial activities. We are particularly concerned that unfettered growth of affiliated conglomerates, spurred by combining financial and commercial activities, could bring enormous concentrations of power and unintended results, such as highly controlled credit plans, destabilized payments systems, monopolistic market practices, and strained deposit insurance resources. If the moratorium on commercial company ownership of industrial banks expires without action from Congress, we urge FDIC to propose regulations for such commercial companies to ensure industrial banks' safety and soundness.

We appreciate the opportunity to provide comments in response to FDIC's proposal on financial company ownership of industrial banks. If you have any questions, please contact Shannon Burt, Senior Policy Analyst, at (757) 234-4073.

Sincerely,

Cutler Dawson
President/CEO

CD/sb