

Office of the President

June 2, 2008

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Docket No. OP-1309; Policy on  
Payments System Risk

Dear Ms. Johnson:

Navy Federal Credit Union provides the following comments in response to the Federal Reserve Board's (Board) proposed changes to its Payments System Risk (PSR) Policy. Navy Federal is the nation's largest natural person credit union with over \$35 billion in assets and 3 million members.

In general, Navy Federal whole-heartedly supports the Board's continuing efforts that effectively reduce systemic risk in the payments system. We believe the Board's monitoring and reduction of systemic risk is critical to the daily operation of the financial markets in the United States and abroad. The incentives and constraints integral to the payments system directly affect the availability of credit to borrowing financial institutions, which impacts financial market liquidity and, ultimately, consumer confidence in the banking system. Without such a fine-tuned system, financial transactions would be unable to flow.

While Navy Federal appreciates the Board's efforts to decrease financial institution reliance on intraday credit, we strongly oppose these proposed changes to the PSR policy. We believe that financially sound institutions should not be penalized for uncollateralized daylight overdrafts within their net debit caps. In fact, it is our understanding that the purpose of the net debit caps is to control risk associated with uncollateralized overdrafts by limiting the amount of overdrafts institutions can incur. We do not believe that fees to "encourage" institutions to collateralize their overdrafts are necessary, given the existence of the net debit caps. Further, the avoidance of such fees will require near constant monitoring by financial institution staffs.

We do not believe that the Board has presented compelling evidence in its supplementary information to the proposal to support changes to the current system. It seems that the Board's rationales for these changes are simply based on the increased reliance by financial institutions

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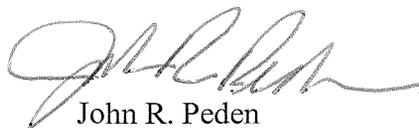
on daylight overdrafts. We do not necessarily see this, by itself, as such a threat to the payments system that it warrants the imposition of fees for uncollateralized daylight overdrafts.

Navy Federal believes that the proposed changes will increase liquidity pressures on financial institutions by, in effect, requiring them to hold funds until late each day to mitigate any potential overdraft situations and the corresponding fees. This will result in "overcollateralization" by many institutions that will want to post collateral to cover their highest possible overdraft. Based on the information in the proposal, we estimate that such overcollateralization would cost our institution approximately \$48,000 per month. Funds being held for the sole purpose of avoiding overdraft fees at the Federal Reserve Banks represent inefficient use of financial institution resources as they will not be available for lending and investing

If these changes result in the unintended consequence of decreasing the funds institutions have to invest, which we believe they will, it will worsen the already gloomy state of the economy. According to the supplementary information to the proposal, the Board requested comments on a payments system risk consultation paper in 2006 that discussed some of these changes. Although we understand that the Board received some positive feedback at that time, we believe the economic situation in the United States has deteriorated in the two years since. The time is not right to make changes to the PSR policy that effectively require healthy financial institutions to hold back funds that could otherwise be used for borrowing or investment.

We appreciate the opportunity to provide comments in response to the Board's proposed changes to the PSR Policy. If you have any questions, please contact Shannon Burt, Senior Policy Analyst, at (757) 234-4073.

Sincerely,



John R. Peden  
Acting President/CEO

CD/sb