From:	Beverley Rutherford
To:	_Regulatory Comments
Subject:	VACU Comments on Proposed Interagency Guidance--Funding and Liquidity Risk Management
Date:	Wednesday, August 26, 2009 12:53:03 PM

Thank you for the opportunity to comment on your proposed regulation relating to liquidity and risk management. I am responding on behalf of the largest state-chartered credit union in Virginia. We have reviewed the proposed guidance and have the following comments:

- *Corporate Governance.* We believe the proposed responsibilities of the board of directors and senior management is appropriate. Managing liquidity risk is a key part of operating a financial institution in a safe and sound manner.
- *Diversified Funding.* The proposed guidance regarding diversified funding appears manageable. We feel a strong and viable FHLB system is a critical need. We also believe the discount window must continue to be available. No matter how many sources of funding you may have, many if not most may prove unreliable during periods of severe financial system strain.
- *Contingency Funding Plan.* The proposed Contingency Funding Plan appears manageable as well. It serves as a good exercise in identifying and addressing potential liquidity concerns. We do have concerns that extreme stress situations cannot be completely prepared for, while the implication is that they can be.
- *Stress Testing.* One area where we find compliance with the Guidance to be somewhat problematic is creating the stress-testing. This could be overwhelming depending on the scenarios considered. Perhaps additional guidance on this would be helpful.
- *Cushion of Liquid Assets*. Also the "cushion of liquid assets" is a good concept, but this must be balanced with the earnings pressure it will create. It is difficult to manage for a worst case scenario on an ongoing basis and generate sufficient earnings to sustain the institution.
- *Internal Controls.* For larger institutions, the guidance suggests an independent party review the various components of the institution's liquidity risk management process. We feel this review by a third party is an excessive/unnecessary added expense considering the level of regulatory oversight of the industry.
- *Other overall comments.* We believe effective use of leverage can enhance the earnings capacity of a given institution. Concerns regarding adhering to this Guidance could dampen the willingness of an institution to utilize a leverage strategy (when appropriate) and therefore reduce the earnings potential of that institution. Is it the intention of financial institution regulators to greatly reduce the use of leverage for interest rate risk management and earnings enhancement? If that is the case some guidance related to appropriate maximum or target use of borrowings is needed. We have concerns that excessive resources of the credit union will be needed to create and maintain the level of documentation being proposed and cost/benefit must be a consideration. While the proposed guidance addresses virtually all financial institutions of varying sizes and complexities, we believe an individual institution's regulator should have the discretion to determine the degree of the institution's adherence to the Guidance based on the institution's complexity and risk profile.

Should you have any questions about our comments, please feel free to contact me.

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