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May 16, 2011

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

Re: Managing Interest Rate Risk; 12 C.F.R. Parts 741; March 23, 2011

Dear Ms. Rupp:

I am writing in response to the National Credit Union Administration's (NCUA) proposal requiring federally insured credit unions to draft and implement an Interest Rate Risk (IRR) policy and program. While the credit union does not disagree with the importance of managing interest rate risk we disagree with the proposal.

Several provisions of the proposal are ambiguous, leading to subjectivity in the implementation of the proposed regulation and in the review of the adequacy of the policy and program by regulators. The ultimate result of the aforementioned policy would be unduly burdensome and would not provide any additional protection to the credit union or the share insurance fund.

Ambiguity - While we agree with the premise that ambiguity is necessary due to the differences in financial institutions, we recognize the flaw in an ambiguous regulation as it will lead to subjectivity in implementation of the regulation. The proposal requires a credit union to draft a policy and program to manage interest rate risk; however the proposal does not provide measurements for acceptable risk. This omission would leave the decision to determine the adequacy of the limits and effectiveness of the program addressing IRR to the credit union's most recent examiner. This is an obvious concern as the examiners change and may have different opinions as to the "effectiveness" of the credit union's IRR policy.

Unintended Consequences – As written, there are several unintended consequences of the proposal; of primary concern are the one-size fits all approach to examinations as well as an overly burdensome reliance on "peer" data.

As credit union examiners are faced with the pressure of making sure an institution is "in compliance," there is the possibility, and likelihood, of a one-size-fits-all approach to evaluating a credit union's Interest Rate Risk ("IRR") policy and program. Without definition and measurement it is likely examiners will expect a credit union to include everything included in the proposed list, regardless of the benefit and relevance to a credit union resulting in unnecessary expense to the credit union.

Increased reliance on "peer" data could be another unintended consequence as examiners are trying to determine the adequacy of IRR policies and programs. This would likely lead to each credit union having to use a standard set of assumption so that it is easy for field examiners to compare credit unions. There are several potential hazards in a standard set of assumptions. An example of the risk of simplifying assumptions could be a static balance sheet analysis (which assumes that deposits have no rate sensitivity as rates go up) which can lead to a false sense of security regarding risk to earnings and net worth. Another example is non-maturity deposits at par in NEV simulations (which ignores the credit unions pricing strategy). In this example it would not matter if a credit union shifted from having thirty

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percent (30%) of assets in regular shares and ten percent (10%) in money markets to ten percent (10%) in regular shares and thirty percent (30%) in money markets but this obviously could have a material impact on the safety and soundness of the credit union.

Net Worth Ratio Not At Risk - NEV and net worth are not the same thing, and therefore should not be used interchangeably within the proposal. NEV does not indicate positive or negative net income and does not include the credit unions' unique net operating expense structure, or other operating income, which does directly impact the net worth ratio. Focusing on NEV when making decisions, an assumption driven calculation which is *not* the primary measure used by many large (assets of $500 million dollars or more) credit unions, could lead to decisions which are not in the best interest of the credit union or the share insurance fund. A measure of net worth not at risk seems like a more appropriate measure.

Appropriate Policy Limits - Policies could focus on the percent change rather than the actual risk. A credit union could be at high risk as long as they are within the percent change they identified. A percent decline approach would never allow a credit union to make the business decision to allow for negative earnings even when negative earnings in the short-term might be the best decision for the credit union in the long-term. Clearly, informed business decisions and not policy limits are in the best interest of both the credit union and the share insurance fund.

As credit unions and the credit union movement strive to survive in these trying economic times legislation should not be introduced which would increase the regulatory burden faced to the credit unions without a corresponding, and significant benefit to the share insurance fund. As proposed, we are confident the regulation has the potential to negatively impact credit unions and the share insurance fund through a false sense of confidence in measures without true value.

Sincerely,

Michelle Tygart
Staff Attorney