May 18, 2011

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

Re: **Interest Rate Risk RIN 3133-AD66**

Dear Secretary Rupp,

On behalf of the Credit Union Association of New York, I would like to take this opportunity to comment on the NCUA's proposed amendments to12CFR Part 741, which would generally mandate that federally insured credit unions adopt and implement Interest Rate Risk policies (IRR) to guard against potential interest rate volatility. Specifically, the regulation would create a new §741(b)(3) to require that credit unions with $50 million or more in assets and those between $10 and $50 million in assets that hold a certain number of mortgage loans have IRR policies addressing eight components of interest rate management. The Association agrees that appropriate IRR management is a vital component of credit union management, and certainly agrees that NCUA should insure that credit unions are addressing potential risks appropriately. We, however, see no indication that the existing regulatory framework inadequately addresses interest rate risk, and therefore believe that any potential value of this proposal is more than outweighed by the burden of additional mandates at a time when the industry is already facing a flood of legislatively imposed mandates.

Interest rate risk management is, of course, a crucial component of any financial institution's operation. It is for this reason that the NCUA has the authority and credit unions have the responsibility to insure that they have the proper procedures in place to monitor and implement appropriate IRR practices. Since 1999, NCUA has required its examiners to evaluate the effectiveness of credit union Asset Liability Management policies (see NCUA letter to credit unions, letter # 00-CU-10 Nov 2000, which in part explained that examiners have the authority and obligation to evaluate a credit union's exposure to interest rate changes as part of an analysis of the credit union's asset Liability Management). In addition, Chapter 13 of NCUA's Credit Union Examiners guide addressing Asset Liability Management deals extensively with IRR (See 13-2-1 thru 13-3-1). For example, the guide states that "Credit Unions having a conservative, short- term structure of shares, loans and investments may only have to demonstrate a basic understanding of IRR….. For larger credit unions, or those with more complicated balance sheets they must

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have a more comprehensive IRR management process. This should include a more sophisticated analysis prepared and provided to the board on a regular basis, with measures of exposure to IRR." See 13-2-3.

Importantly , the guide recognizes that an examiner's evaluation of the procedures are qualitative in that they must ultimately assess whether a credit union's IRR policies and procedures correspond to the size and complexity of its operations. Consequently, while there is not a specific requirement for specific IRR policies, credit unions should clearly document their IRR practices with an understanding that "the scope of the policy will depend on the complexity of the credit union's balance sheet." See 13-2-4.

Since the authority of the NCUA to evaluate IRR management has never been questioned and since credit unions have been required to have appropriate IRR practices in place based on their size and complexity for at least two decades, the value of this regulation is minimal since it, at best since, amounts to a further codification of existing authority.

Furthermore, there is no indication that the existing framework is inadequate to address NCUA's concerns. NCUA believes that we are entering a period of particularly volatile interest rate shifts. Even assuming, for the sake of this comment letter, that NCUA's assumption is correct, there is nothing indicating that credit unions are ill prepared to deal with this challenge. In fact, credit unions have historically managed IRR in times of interest rate shifts better than financial institution counterparts.

While the benefits of this regulation are minimal, it will require extensive work on the part of credit unions. First, although NCUA is convinced that the vast majority will only have to tweak existing policies and procedures, those credit unions affected by this proposal will have no way of knowing if their tweaks are successful until examiners assess their compliance. Even those credit unions who already have polices in place similar to those outlined in this regulation will have to reassess and reassign staff, insure that the board of directors is aware of this new policy, and provide additional education and training to new members, as well as fear not having adequate models in place to adequately asses its own IRR. NCUA should not underestimate the concerns credit unions are raising about this proposal, particularly with regard to having to (1) reassess their commitment to mortgage lending and (2) invest in sophisticated monitoring software well beyond their budgets or the risk profile of their credit unions.

While no additional oversight is required in this area, if NCUA feels that credit unions should be more cognizant of IRR risk it should promulgate a guidance outlining the specific threats posed by the economy and stressing that credit unions are responsible for appropriate IRR management based on their size and sophistication. Such guidance would stress existing responsibilities without imposing additional mandates on the vast majority of credit unions that manage risk appropriately. At a time when credit unions are rushing to implement dozens of requirements imposed by Dodd- Frank, as well as changes to

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Regulations Z which have already made it increasingly difficult to offer mortgages, this is not the time for the NCUA to be imposing additional requirements absent proof that such regulations are needed to address a systemic deficiency in the industry. Since NCUA's own analysis indicates that the vast majority of credit unions have adequate IRR practices in place, this proposal should not be imposed at this time.

William Mellin
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