

From: [Beverley Rutherford](#)
To: [Regulatory Comments](#)
Cc: [Beverley Rutherford](#)
Subject: VACU Comments on Proposed Rulemaking for Part 741
Date: Thursday, May 19, 2011 3:06:10 PM

Thank you for the opportunity to comment on your proposed rule addressing requirements for a written policy on interest rate risk (IRR) and an IRR management program. I am responding on behalf of a state-chartered credit union in Virginia with over 2 billion in assets and over 200,000 members.

While we understand NCUA's rationale in proposing these new rules, we believe current oversight over IRR is adequate and these rules unnecessary. For example, credit unions already have asset/liability (ALM) policies in place that address IRR management. IRR management is a focus of every regulatory exam we have undergone and with more frequent exams and more detailed call reports, there appears to be tools currently in place for NCUA to monitor and enforce IRR management. There was also joint guidance issued in January 2010 by all federal financial regulators on IRR. Further, we are not aware of banks being under, or plans to make them under, a similar requirement. This proposal appears to increase the regulatory compliance burden which is currently overwhelming and very expensive, while tools currently in place are sufficient. However, if NCUA chooses to adopt this proposed rule as final, we have the following comments:

- We do not support a separate written policy for those credit unions to which these requirements would apply; instead, we believe they could be covered within an ALM or investment policy. We also believe the requirement to review the policy every year seems unnecessary as things do not change every year. Further, net economic value (NEV) and income at risk under shocked scenarios seems to be the most prudent way to monitor IRR. The variables that calculate this may change from year to year, but the maximum risk one is willing to assume should not change frequently.
- We believe the information NCUA provided on IRR is useful and makes sense; however, we believe instead of a final rule, it should be issued as guidance, which would be much more welcome. NCUA has the authority to place additional requirements on credit unions as determined to be necessary during the examination process. Rather than finalizing a rule for all federally insured credit unions, NCUA can address IRR management issues with the credit unions that do not have written policies and/or an effective IRR management program.
- We do not believe compliance with this rule should be a requirement for federal share insurance. NCUA has other enforcement powers and practices to ensure credit unions have sound IRR policies and practices in place.
- One potential issue we see with the proposal being issued as an appendix to the rule is that it may create confusion as to what extent credit unions will be required to follow the guidance precisely. Again, it would help alleviate this if the rule is issued as guidance.
- We do not support the proposed standards for assessing an IRR Policy and Management Program. We believe a board needs to be aware of the level of IRR being taken and needs to determine with management's help what the risk appetite of the institution is in this, and all risk areas. However, requiring an annual board assessment of the IRR program seems excessive if a thorough review is done initially. The income and net worth at risk

measures should not need to change greatly every year even if new products and strategies are undertaken. These just need to be monitored closely and sound policies need to be in place from the beginning.

- We are concerned that this will become a one size fits all approach when it is carried out in the field. In order for examiners to assess a program as “in compliance,” they may want specific attributes of the program that are consistent across the industry instead of allowing credit unions to carry it out as they see fit like they are responsible for doing today. This contributes to overregulation with activities being performed simply for a regulatory purpose that do not add value to credit union decision making. In addition, risk tolerances as well as balance sheets are different at each credit union, but there may be a tendency to try to impose the same limits on everyone.

Please feel free to contact me should you have any questions on our comments.

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