May 20, 2011

Mary Rupp
Secretary of the Board
NCUA
1775 Duke Street
Alexandria, VA 22314

RE: Proposed NCUA Regulation on Interest Rate Risk

I am writing in response to proposed regulation on interest rate risk. As a CFO of a credit union, I agree with the need for strong interest rate risk management including a written policy, but am concerned that the proposed regulation will go beyond the requirement of having an interest rate risk policy that is customized for a specific credit union and create forced adherence to a standard interest rate risk management program through the examination process.

Several times throughout the proposal the requirement to maintain an ***effective*** program to measure, monitor, and control interest rate risk is referenced. I appreciate that this is difficult to define if NCUA wants to allow credit unions to develop a unique policy that works well for each credit union. To allow a customized policy truly meets the goal of credit unions serving their membership's needs. The challenge lies in the measurement of ***effective.*** Each year an examiner will be faced with the determination of whether a program is ***effective***. Credit unions will be subjected to differing opinions and perceptions based solely on the examiner they are working with at the time.

As an examiner faced with the task of determining ***effectiveness***, the tendency would be to ask for guidance, to have a checklist which would be used to measure the effectiveness. Will the use of a checklist, push examiners to expect the same policy from each credit union? Will the checklist with sample limits for each measurement, push examiners to require specific measurements and specific limits? I feel that the risk of pushing all credit unions to a standard measurement set and specified limits is very possible. I could easily see an examiner expecting credit unions to begin providing a gap analysis now, years after we stopped using that measurement, or tout the value of the 17-4 asset valuation measure which excludes risk on a large portion of the balance sheet.

Even more of a concern to me would be the push to simplify assumptions. Potentially forcing credit unions back to the use of standard prepayment and decay assumptions. Or, to evaluate a static balance sheet rather than understand the impact of expected growth on net interest income. It is concerning to see the reference within the proposed rule of holding non-maturity shares at par. This fails to recognize the positive affect the credit union's pricing strategy over the long term as well as the value that many credit unions bring to their members has on interest rate risk. This value often translates into a long, stable, low cost deposit base. It would be inappropriate to discount that value (if documented) in the measurement of interest rate risk on the balance sheet.

NCUA states that overall the management of interest rate risk has been adequate and that they do not intend to change how they examine for interest rate risk. I would recommend that continued management through existing guidance and exam process would be a better direction than creating a regulation.

On a technical level, I have a concern in regard to the use of net worth in place of net economic valuation when discussing the results of Net Economic Value measurement. These terms are not interchangeable. The rule references **after shock change in book value of net worth** as a result of Net Economic Value measurement . Book value of net worth is not calculated from the Net Economic Valuation process and the change in Net Economic Value is a measure between the base Net Economic Value and the after shock Net Economic Value not compared to book value of net worth. If the use of net worth was used in reference to the asset valuation measurement, I would suggest that the discussion around the two measurements be separated into two paragraphs.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
EVP/Chief Financial Officer