SchoolsFirst™
FEDERAL CREDIT UNION

August 17, 2011

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: ANPR on Part 703 - Financial Derivatives Transactions to Offset Interest Rate Risk

Dear Ms. Rupp:

I am writing on behalf of SchoolsFirst Federal Credit Union, which serves school employees in Southern California. We have more than 480,000 Members and over $8.7 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on the NCUA Board's Advanced Notice of Proposed Rulemaking ("ANPR") relating to the use of financial derivatives transactions to offset interest rate risk ("IRR").

As stated in the ANPR, the power to engage in derivatives transactions for the purpose of offsetting IRR is an "incidental power" granted to federally-chartered credit unions ("FCUs") pursuant to Section 1757 of the Federal Credit Union Act. As such, and for the reasons expressed below, we believe that Federal Credit Union "FCU" boards should have discretion to approve the participation of their FCUs in derivative transactions for this approved purpose with limited NCUA oversight. We would recommend that if a credit union maintains a capital ratio in excess of 1% over the well-capitalize level, then no waiver or further restrictions would apply. For those credit unions that do not meet this standard, applying for a waiver from NCUA appears prudent.

The limitations on derivatives transactions prescribed by the NCUA in Part 703 are unwarranted given the new transparencies created in the derivatives process by Title VII of the Dodd-Frank Act. Under the proposal promulgated by the U.S. Commodities and Futures Trading Commission ("CFTC"), all derivatives will be required to clear either through a clearinghouse or, under an end-user exception, through a registered swap data repository. As a result, any previously existing concerns about the transparency of derivatives transactions are being remedied. Furthermore, FCUs have the same IRR as other financial institutions and need the same hedging financial instruments that are available to those institutions in order to be competitive in the marketplace as an effective risk manager.

The ANPR expresses three concerns, which the NCUA has in giving FCUs unfettered discretion to engage in derivatives transactions to hedge against IRR as follows:

a) Using derivatives for the unauthorized purpose of speculation
b) Perceived unusual volatility of the cash flow streams in derivatives
c) Lack of expertise and infrastructure to effectively manage a derivatives program

We believe that these three concerns can be easily addressed by the NCUA instituting guidelines related to derivatives similar to those currently used under the Investment Guidelines. We further believe that the administrative burden of examinations on the NCUA can be greatly diminished by providing guidance on permissive derivatives. For example, NCUA could state that swaps and caps are the two pre-approved types of permissible derivatives for FCUs. This would provide guidance for FCUs while at the same time minimizing the examination burden on NCUA examiners.

In response to the question in the ANPR, we do not believe that the end-user exception in the CFTC's proposed rule should be granted for credit unions, regardless of asset size. Requiring all derivative transactions to clear thorough a clearinghouse, with the accompanying administrative process, will serve to allay the fears of a lack of complete transparency in these transactions and will facilitate the oversight process for the NCUA.

On a final note, we would like to point out that FCUs are already allowed to hedge themselves against IRR by borrowing from Federal Home Loan Banks ("FHLBs") and putting long-term liabilities on their balance sheets. However, this results in an inflation of the balance sheet and impacts capital ratios. In contrast, properly managed derivatives allow FCUs to hedge without adversely affecting capital ratios.

We urge you to adopt this rule change as it is a critical tool in managing safety and soundness while meeting member needs for these reasons:

- Mortgage loans are an important product for the Membership.
- The future of GSEs is uncertain, and a limited secondary market will reduce Members' mortgage lending options.
- To effectively manage risk in a mortgage portfolio, hedging is a critical component of asset/liability management.

Thank you for the opportunity to comment on this ANPR and for considering our perspective on financial derivative transactions.

Sincerely,

Rudy Hanley
President and Chief Executive Officer
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)