



MISSOURI CREDIT UNION ASSOCIATION

August 23, 2011

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street, Alexandria, Virginia 22314-3428
regcomments@ncua.org

**RE: Michael V. Beall, Esq., - Comments on Part 703 ANPR,
Financial Derivatives Transactions to Offset Interest Rate Risk**

Dear Ms. Rupp:

On behalf of the 136 Missouri credit unions, the Missouri Credit Union Association would like to take this opportunity to express our views on NCUA modifying its rules on investment and deposit activities to permit a natural person credit union to engage in the purchase and sale of financial derivatives for the purpose of offsetting interest rate risk (IRR). We believe that a properly managed derivatives program should be allowed as a usual and customary tool for managing interest rate risk.

In response to your request for input, we provide the following comments.

Existing Pilot Program

A.1. Should existing pilot programs for FCUs to engage in derivatives for IRR management continue?

While we could support a prudent investment pilot program, the existing program is too restrictive. The current standards only allow a limited number of FCUs, on a case-by-case basis, to engage in derivatives. These standards should be more inclusive as to the number of credit unions that would qualify for the program.

Also, the credit union requirements for participating in the pilot program contain a number of actions from the Board of Directors by transaction. Each of these should be evaluated for appropriateness of duty, expertise and burden of approving each transaction.

A.2. Should such pilot programs for FCUs be permitted to continue by “grandfathering” the previous approvals into Part 703?

We support grandfathering credit unions currently participating in the existing program.

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Third Party Derivative Authorization

B.1. These third party standards would require replacement of credit ratings. Are the third party standards currently in NUCA's pilot program generally appropriate on the use of derivatives by an FCU that uses a third party to use derivatives?

The existing pilot program requires counter-parties to be very highly rated at the time of any transaction. Currently, we speculate that there are very few financial institutions that qualify to be a counter-party under this standard. Please carefully consider this rating and its influence on attracting participants. Although we agree safety and soundness must be a priority, if the program does not attract qualified counter-parties, its effectiveness will be diminished.

In addition, if qualification is to remain on a case-by-case basis, setting the minimum capital and earnings history at a specific level (i.e. net worth) may be too narrow a criteria. Each credit union may need to request a variance, and the "real" testament as to who can manage derivatives properly may need to be determined by a more subjective view based on experience and expertise.

Independent Derivatives Authorization

C.1. Should the NCUA Board consider allowing credit unions to engage in derivatives activity independently?

Under prudent qualification, FCUs should be able to engage in independent derivative activity. The larger credit unions may have the necessary volume and negotiating power however, we suggest the regulation be broad enough to consider an aggregate derivative program for smaller credit unions. Without such a union, their negotiating power will be minimal or non-existent.

The Missouri Credit Union Association is supportive of a properly administered derivatives program. At the same time, we encourage NCUA to carefully define its standards.

Sincerely,



Michael V. Beall, Esq.
President/CEO