FROM THE DESK OF
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National Credit Union Administration
Ms. Mary Rupp

Dear Ms. Rupp,

The board and management of our small credit union is very concerned about the impact of the proposed regulations concerning interest rate risk policies. By submitting our comments we hope that consideration will be given to the impact of these proposed policies particularly on very small credit unions.

The proposed policy does not have the intended effect of improving the evaluation or mitigation of interest rate risk at a credit union. Interest rate risk is a function of the mix of assets and liabilities at an institution, not the characteristics of a single segment of the portfolio. This policy misses the mark if the intent is to evaluate or manage risk and forces credit unions to manage one product without regard to their overall ALM policies or goals.

The proposed policy is so onerous for very small credit unions that it will have the effect of shutting down first mortgage loans entirely. Credit unions with an average of 2-5 employees simply do not have the resources to implement a policy as comprehensive as this proposal contemplates. The time and cost required to develop, implement and monitor loans per this policy would certainly not allow credit unions like ours to continue to offer this product. The requirement for stress testing this tiny segment of our portfolio alone is an additional cost that would make continuing to offer these loans impossible. According to the proposed policy these additional costs and requirements would be necessary for our credit union to the same degree and complexity as for a credit union carrying a large portfolio of 30 year fixed rate mortgages.

For very small credit unions like ours and the others to whom I have spoken, our first mortgage portfolios were merely culled from our second mortgage loans. In fact, it has only been within the last 6 months that our examiner required us to segregate the loans made under our second mortgage policy by lien type. Even our policy states that these are NOT purchase money loans but rather loans that would have been made under our second mortgage policy except that no other liens encumbered the property. Clearly, it does not make sense to segregate these more secure loans for such onerous regulation with the effect of taking them out of our product mix.

Please consider the following example:

A member with a home appraised at $100,000 needs a new well pump for $8,000. If they come to the credit union with an existing first mortgage and a combined LTV of 78% we would be able to make that loan and not be required to meet the demands of the proposed policy. However, if that same member brought that same $8,000 loan request to us and owned their property free and clear - resulting in an 8% LTV we would need to turn that loan away.

I do not think that is the desired intent of this policy. Nor do I believe it is an accurate risk representation to set the trigger term at 5 years. Typical home equity and new car loans exceed 5 years routinely.

Our first mortgage loan portfolio exactly mimics our second mortgage loan portfolio - it is well laddered, is mostly made up of very low LTVs and excellent credit scores, and has a moderate average loan size. We have helped over 40 members by offering this product, which is good for the member and great for our small credit union. The WAC of our portfolio is over 5.71%. The median term is 9 years. Current data reflects a PSA of over 300. Our first mortgage loan portfolio amounts to 154% of our total net worth, and 15.3% of total assets. Nothing about these facts should single these loans out for such rigorous and limiting treatment. And nothing about the proposed method of managing risk by hyper-managing one segment of assets in isolation as though they always carried the same characteristics, makes good sense, either.

Thank you for the opportunity to voice our concerns and opinions.

Sincerely yours,

Nadine Vichich