DESERT SCHOOLS
FEDERAL CREDIT UNION

May 13, 2011

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

Dear Secretary Rupp:

We are writing in response to the proposed rule and guidance regarding interest rate risk that requires most credit unions to have an interest rate risk policy. In general, we applaud the NCUA's efforts in this area. That said, there are a few areas that we have concerns with. They include:

1. **First mortgage loans and investments with maturities greater than five years**- in determining whether smaller credit unions are required to have an interest rate risk policy, comparisons of first mortgage loans and longer-dated investments to net worth are made. However, no distinction is made to account differentiate between loans and investments with fixed rates, versus those with variable rates. Despite having little interest rate risk in rising environments, variable rate loans or investments would still be counted in the calculation to determine whether an interest rate risk policy is required. That could lead to some smaller, lower risk credit unions being unnecessarily judged as needing interest rate risk policies, and the associated measuring and reporting requirements.
2. **Non-maturity shares**- in the example of assumptions for non-maturity shares it is clear from the wording and tone that the NCUA would prefer that such deposits be valued at par. The phrases: "many credit unions adopt his approach because it keeps the measurement method simple," and "a credit union may attribute value to these shares...the underlying assumptions of the shares require scrutiny" are examples of such a preference. In our view, valuing such deposits at par will tend to overstate interest rate risk for most credit unions since no additional net economic value is given for deposits that, historically, have quite long average lives. In short, using this methodology credit unions will tend to overstate their interest rate risk profiles. This could cause them to make different loan or investment choices than would have occurred if overall interest rate risk had been assessed at lower levels, leading to lost opportunities on the asset side.
3. **Standards for assessing IRR policy and effectiveness of program**- The standards for determining whether adequate or inadequate policies, procedures, and practices are in place is excessively strict and does not readily distinguish between smaller and larger credit unions. Remember, the average credit union is relatively small with limited personnel. The <u>36</u> standards for evaluation would present a challenge for medium and larger sized credit unions and could place an inordinate burden on smaller credit unions.

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While the proposed rule has value and generally codifies much of what is already in use throughout the credit union industry, we feel that it is imperative that the agency resist the temptation to excessively regulate interest rate risk. Since credit unions as financial intermediaries derive much of their net income from the revenue earned on interest-bearing assets, less the expenses incurred on interest-bearing liabilities, they need to have some flexibility to manage the unique risks of their own balance sheets. Overregulation could force some credit unions to create overly restrictive policies and procedures, even though their interest rate risk is minimal; could generate excessive expenses in meeting the third party evaluation standards by others; and, in general, could lead to virtually all credit unions overstating their interest rate risk. This would clearly put credit unions in a competitively disadvantaged position, when compared with other insured depositories, since none of the other federal financial regulators have proposed similar rules since the issuance of the joint guidance in January of 2010. Sadly, credit union members would no doubt bear the weight of these unintended consequences.

Sincerely,

Susan C. Frank
President/CEO
Desert Schools Federal Credit Union