

May 19, 2011

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

**Re: Comments on Proposed Rule 741, Interest Rate Risk**

VIA ELECTRONIC MAIL: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Dear Ms. Rupp:

The Michigan Credit Union League (MCUL) appreciates the opportunity to comment on the NCUA Board's proposed rule regarding the proposed revisions to Part 741, which would require certain credit unions to develop and maintain an interest rate risk (IRR) policy. MCUL is a statewide trade association representing 95% of the credit unions located in Michigan. MCUL respectfully requests that the NCUA Board takes the following letter into serious consideration when deliberating the passage of a final rule.

MCUL supports the goal of promoting sound interest rate risk management. However, MCUL believes the mechanisms to monitor and assess federally insured credit unions' (FICUs) interest rate risk policies and management already exist, without there being a need to create yet another regulation.

Credit unions have been overwhelmed by regulatory mandates and amendments over the course of the past two years: the myriad of changes to credit card programs as a result of the Credit Card Act; the new limitations on paying overdrafts under Regulation E; the various changes made to the way closed-end and open-end loan programs are disclosed under Regulation Z; the multitude of regulatory changes as a result of the Dodd-Frank Wall Street Reform Act of 2010 (Dodd-Frank Act), many of which have yet to be introduced; as well as the new requirements to re-design ATMs to comply with the accessibility standards under the ADA. MCUL strongly urges the NCUA Board to reconsider its desire to add to this ever-increasing regulatory burden.

Existing Guidance is Sufficient to Address Interest Rate Risk

As NCUA stated in its proposed rule, NCUA has issued guidance on asset liability management (ALM) and IRR management in various Letters to Credit Unions. Specifically, NCUA Letter to Credit Unions 10-CU-06 outlines the Interagency Advisory on Interest Rate Risk Management (Advisory), and mirrors much of what is contained in this proposed rule. While not a regulatory mandate, the Advisory states:

"The regulators [including NCUA] expect all institutions to manage their IRR exposures using processes and systems commensurate with their earnings and capital levels,

complexity, business model, risk profile, and scope of operations...The adequacy and effectiveness of an institution's IRR management process and the level of its IRR exposure are critical factors in the regulators' evaluation of an institution's sensitivity to changes in interest rates and capital adequacy."

MCUL believes that this Interagency Advisory is being used by NCUA examiners to evaluate the adequacy of credit unions' IRR policies and management. Credit unions have apparently been effectively operating under the NCUA's expectation that IRR exposures be appropriately managed, as indicated by NCUA in this proposed rule that it "believes FICUs generally are managing IRR adequately."

MCUL does not believe that a regulatory mandate for IRR policies is necessary, as credit unions currently expect corrective action from examiners under the Interagency Advisory in the event their respective IRR management contains material weaknesses. As provided in the Advisory:

"Material weaknesses in risk management processes or high levels of IRR exposure relative to capital will require corrective action. Such actions could include recommendations or directives to:

- Raise additional capital;
- Reduce levels of IRR exposure;
- Strengthen IRR management expertise;
- Improve IRR management information and measurement systems; or
- Take other measures or some combination of actions, depending on the facts and circumstances of the individual institution."

Additionally, NCUA has published a four-part AIRE IRR Questionnaire to be used by examiners when reviewing a credit union's ALM program. MCUL does not believe that credit unions are operating under the assumption that without a regulation, examiners do not have the ability to cite IRR weaknesses or call for corrective action.

As recommended corrective actions are already expected when weaknesses are found, MCUL believes the existing structure to address IRR is sufficient, without the need for an additional regulatory requirement.

#### Regulatory Mandate Not Sufficiently Justified

MCUL believes the justification for this proposal has more to do with the unstable market conditions and nothing to do with how individual credit unions are performing with respect to the IRR function. As the NCUA stated in the proposed rule:

"...IRR has risen at credit unions due to changes in balance sheet compositions and increased uncertainty in the financial markets. The Board therefore believes it is appropriate to create a regulatory requirement addressing the policy and practice of interest rate risk management at FICUs supported by clear and comprehensive guidance. The Board believes the proposed regulatory requirement and guidance will

assist FICUs in understanding and meeting NCUA's expectations regarding IRR policy and implementing an effective program."

MCUL does not believe that credit unions have failed to understand NCUA's expectations regarding IRR policies and implementing an effective IRR program. Credit unions understand exactly what NCUA examiners will be addressing through the use of the AIRES IRR Questionnaires, as well as the Interagency Advisory.

#### Regulatory Requirements Not Sufficiently Specific

The proposed rule contains the following thresholds for compliance:

- FICUs with assets over \$50 million must meet the requirement for a written policy.
- FICUs with assets \$10 million or over and less than or equal to \$50 million must meet the requirement for a written policy if the total of first mortgage loans held plus total investments with maturities greater than five years is equal to or greater than 100% of its net worth.
- FICUs with assets \$10 million or over and less than or equal to \$50 million are not required to have a written policy if the total of first mortgage loans held plus total investments with maturities greater than five years is less than 100% of its net worth.
- FICUs less than \$10 million in assets are not required by the rule to have a written policy even if the total of first mortgage loans held plus total investments with maturities greater than five years is greater than 100% of its net worth.

While MCUL does not support this proposed rule, MCUL believes that, in the event the NCUA were to finalize it, the language included in the asset threshold requirements is insufficient. MCUL is not certain whether "first mortgage loans" include first-lien home equity loans, and believes that only first mortgage loans with fixed-rates should be included. Additionally, total investments maturities greater than five years should be stated as "...total investments with *final* maturities greater than five years..." [Emphasis added]

NCUA admits in the proposal that it "recognizes it is impossible to establish specific, regulatory requirements for IRR that would be appropriate for all FICUs." Without such specificity, MCUL is not certain how the application of such a regulation would be adequately administered.

MCUL finds it troubling that examiners would be able to cite regulatory violations without specific references in response to specific issues, and does not see how a subjective assessment of regulatory language addresses potential problems any differently than how ineffective IRR management is handled under the current supervisory scheme.

#### Conclusion

While MCUL supports the promotion of sound IRR management, MCUL does not believe that NCUA has provided sufficient evidence of specific credit union IRR management concerns to support transforming regulatory guidance into a regulatory mandate; nor does MCUL believe that such a rule will provide sufficient assistance for FICUs in understanding and meeting NCUA's expectations regarding IRR policy and implementing an effective IRR program.

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MCUL urges the NCUA Board to withdraw this proposal and operate under the existing supervisory structure to correct IRR management deficiencies.

Sincerely,

A handwritten signature in black ink, appearing to be "DA", with a long horizontal flourish extending to the right.

Dave Adams  
Chief Executive Officer