✓

VyStar Credit Union

P.O. Box 45085 • Jacksonville, Florida 32232-5085 • (904) 777-6000 or 1-800-445-6289 • www.vystarcu.org

May 20, 2011

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

Re: VyStar Credit Union's Comments on Proposed Rule Making for Part 741

Dear Ms. Rupp:

Thank you for providing us an opportunity to respond to NCUA's proposed rule-making as referenced above. On behalf of the Board of Directors and Senior Management of VyStar Credit Union, headquartered in Jacksonville, Florida we offer the following comments, perspectives and suggestions.

In general we concur with the proposed rule and believe it is a good idea to require that federally insured credit unions have a written interest rate risk (IRR) policy. We have had a written policy for many years and as we have increased in size and complexity we have regularly reviewed it for enhancements, and changes in the metrics as well as who monitors, evaluates and provides oversight to interest rate risk. NCUA has provided flexibility in the rule that enables and encourages federally insured credit unions to establish and maintain a written interest rate risk policy commensurate with the credit union's complexity and overall risk profile. The appendix provides good guidance on how to establish an appropriate written policy and one that fits the profile of the credit union's complexity and risk.

As we reviewed the proposed rule, we developed the following suggestions that we believe would further enhance it.

First, we understand why smaller credit unions do not need and should not be expected to create and maintain a complex interest rate risk policy. However, we do believe that all federally insured credit unions, regardless of size but especially those over $10 million should have some form of written interest rate risk policy. We reviewed the metrics used to evaluate whether a credit union with assets in the $10 million to $50 million range should have a written interest rate risk policy and certainly understand why holding mortgage loans should be part of the evaluation. However, credit unions that do not hold mortgage loans could have unacceptable levels of interest rate risk depending upon the interest rate environment and how they have managed their balance sheet. Thus, we recommend that all credit unions over $10 million in assets be required to have a written IRR policy, which of course would be designed commensurate with their interest rate risk profile.

78

While the appendix provides good examples of how to construct an interest rate risk policy, we suggest that the appendix be further enhanced with examples that might be important for credit unions with more complex balance sheets to consider. We understand why measurements such as GAP analysis and Net Economic Value (NEV) were included; however, we suggest that examples of additional metrics and analysis be added to the appendix. This would help provide further guidance to Boards and Management of credit unions with more complex balance sheets. Of course, a credit union does not have to be extremely large to have a complex balance sheet.

Examples of where we think the appendix could be further enhanced to discuss additional metrics and measurements for credit unions with more complex balance sheets follow:

First, the appendix suggests that the modeling be commensurate with the level of complexity in the balance sheet. The first metric suggested as a risk measure is GAP analysis, which is somewhat rudimentary and a bit outdated as a risk metric. GAP analysis alone would not be an effective tool to manage complexity that would exist in a balance sheet with long term fixed rate mortgages or bonds. Such an analysis would fail to capture the optionality (primarily prepayment risk) in mortgage products and could unintentionally provide a misleading measure of risk. Similarly, the proposed rule advocates the use of NEV, which provides a somewhat myopic view of the true market risk that is inherent in the market value of assets with embedded options. NEV would help provide the regulators with a view of the risk of a credit union in the event of liquation of the institution. However, it would not truly measure market risk as would measures such as duration or convexity. (Duration measures the price sensitivity of a financial asset to changes in interest rates, and convexity measures how the price of a financial asset behaves differently in a rising or falling interest rates environment.) A credit union may have an acceptable level of NEV but excessive risk as measured by duration and convexity. Convexity is particularly critical in products with embedded options such as mortgages and duration would be a more appropriate measure of the risk of long term bonds and mortgages than would just the NEV of the balance sheet. While we think the appendix as offered is good, we suggest it be expanded to provide additional guidance and thought for credit unions that might have such risks but may not be considering them.

Second, the proposed rule provides very broad guidelines for risk measures, components of Interest Rate Risk (IRR) measurement methods, internal controls, and decision-making informed by IRR measurement systems. Some of the guidelines could be considered rudimentary and stop short of helping even the smallest credit unions to develop more sound interest rate risk practices and systems. The joint policy statement released by NCUA, the office of the Comptroller of the Currency and the Office of Thrift Supervision in March 2010 was more comprehensive and helpful to the management of interest rate risk at credit unions. That policy statement addressed specific types of interest rate risk, identified best practices such as a 24 month forecast horizon and back testing models. It also suggested that the sophistication of the model used for interest rate risk should be commensurate with the level of risk in the balance sheet. We suggest enhancing the appendix with some or all of the language included in the joint policy statement reference above.

Again, thank you for providing credit unions an opportunity to comment on this proposed rule. As stated we generally concur with it and its intent and appreciate the NCUA listening to our suggestions to further enhance the appendix. If you have any questions about our comments, please contact our President/CEO, Terry West at 904-908-2500.

Sincerely,

Ted Hewitt

Ted Hewitt
Chairman, Board of Directors
VyStar Credit Union

C: Board of Directors
Terry West, President/CEO
John Turpish, EVP/Chief Financial Officer
Rich Alfirevic, EVP/Chief Operations Officer
Daniel Mashevsky, Vice President Finance