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May 20, 2011

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

Re: Comments on Proposed Rule on Interest Rate Risk – 12 CFR Part 741

Dear Ms. Rupp and Members of the NCUA Board:

I am writing on behalf of Spokane Teachers Credit Union, which serves 96,000 members in Eastern Washington and Northern Idaho to share our concerns raised by your proposed rule requiring credit unions to adopt an Interest Rate Risk Policy and Program.

We agree with the objective that all credit unions should actively manage, monitor and understand their interest rate risk positions as part of their basic and fundamental strategic and operational management. As stated in the proposed regulation, IRR management involves judgment by a FICU based on its own individual mission, structure, and circumstances. Any rule must take into account the diversity of FICUs and avoid a one-size-fits-all approach. Accordingly FICUs should devise a policy and risk management program appropriate to their own situation.

However, we believe that if the proposed rule passes as written, it will create a "one-size-fits-all" rule and remove all flexibility and judgment that individual credit union boards of directors and management have with regard to determining their risk tolerance, business strategy, risk management tools, and member needs.

- The Interagency Advisory on Interest Rate Risk Management issued on January 6, 2010 outlines the risks, governance and policy considerations that boards of directors and management of credit unions should consider, as well as a comprehensive discussion of the tools to monitor and measure interest rate risk. This guidance provides sufficient direction for credit unions to manage their financial institutions in a safe and sound manner.
- The proposed rule, as written, with the inclusion of **Appendix B: Guidance for IRR Policy and Program** and the numerous sample policy limits and other specific standards to follow, will likely become an examiner checklist for compliance, leaving no room for credit union management to exercise their judgment or account for facts and circumstances that may mitigate or manage risk levels.
- The NCUA currently has the ability to assess whether a credit union's ALM policies are safe and sound and operating effectively to mitigate risk. Through the current examination process, examiners have much flexibility in assessing the effectiveness of credit union management. The proposed rule does not increase the ability of the examination process to identify unsound

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practices but rather creates a "compliance" checklist approach, which is more likely to fail to identify issues of concern and risk.

We feel that the current controls, regulations, and rules already effectively set forth adequate direction and enforcement authority for the NCUA, while giving credit union boards of directors and management the ability to develop sound business strategies and risk management tools to effectively compete and most importantly, meet their members' needs.

If the proposed rule is adopted, we recommend the following:

1. *The guidance in **Appendix B Part VII: Standards for Assessment of IRR Policy and Effectiveness of Program** be removed from the proposal so that it does not give it more authority or weight than is intended.*
2. *Also, please remove any specific examples of policies limits (example: **Appendix B, Part II** contains Examples of limits as follows: GAP: Less the +/-10% change in any given period, or cumulatively over 12 months. Income Simulation: Net interest income after shock change less than 20% over any 12 month period. Asset Valuation or Net Economic Value: After shock change in book value net worth less than 25 % or after shock value of net worth greater than 6%)., so as to continue to give individual credit unions the ability to set their risk tolerance according to their specific circumstances of financial strength, membership, competitive environment, and risk management programs.*
3. *Please avoid the interchangeable use of <u>Net Worth</u> and <u>Net Economic Value</u>. These two measurements represent different concepts and are not equivalent for measuring interest rate risk or other financial strength. As written, this creates confusion in setting and measuring interest rate risk under industry best practice models.*

Thank you for your consideration.

Respectfully submitted,

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Marlis Petersen Spawn
Director of Accounting and Finance
Spokane Teachers Credit Union