

May 20, 2011

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

Subject: Northwest Credit Union Association Comments Regarding Notice of Proposed Rulemaking, Interest Rate Risk; 12 CFR Part 741, RIN No. 3133-AD66

Ms. Rupp:

Thank you for the opportunity to comment on this proposal requiring the development of an interest rate risk (IRR) policy and program as a condition of being a federally insured credit union.

The Northwest Credit Union Association represents 193 credit unions across Oregon and Washington with 4.2 million members and \$46.3 billion in collective assets.

General Comments

The Association recognizes the importance of managing risk and maintaining safety and soundness and encourages such policies and practices. We also believe balance is key, allowing credit unions to take on smart risks and maintain the ability to serve members, thrive, and remain competitive while not jeopardizing sustainability. This proposed rule is meant to put into place a formal process for managing interest rate risk, however, credit unions overwhelmingly operate with such a policy - formal or informal - and deftly manage risk in the current economic climate. To that end we must take issue with NCUA promulgating such a requirement at this time as it does not do anything new to promote safety and soundness.

Credit unions are dealing with an ever-increasing regulatory burden. There are many growing threats to credit unions - arguably many of these are based on overregulation and its unintended consequences. While there has been significant fallout from the failure of corporate credit unions, for instance, it is not prudent to regulate based on fear and projection.

Credit unions are required to take very real time from providing services to their members to ensure compliance with constantly changing regulations, forms, and requirements. The Association wants to ensure that new rules merit that sort of time and commitment prior to implementation.

Already adequate guidance on IRR

On January 7, 2010 the Federal Financial Institutions Examination Council issued an advisory on IRR which was adopted by NCUA and other regulators¹. The advisory was developed to “remind institutions of supervisory expectations regarding sound practices for managing IRR” and reemphasized the need to have “sound risk management practices in place to measure, monitor, and control IRR exposures.” Credit unions have operated under this advisory for over a year.

Without a major change in failure rates or new concerns for safety and soundness, it is unclear why only NCUA now finds it necessary to issue a rule on the topic. Credit unions have clearly demonstrated the ability to withstand changing economic factors. Increasing the regulatory burden on credit unions without solid explanation of necessity is especially troubling as credit unions try to keep pace with changes promulgated by agencies across the board, many resulting from the Dodd-Frank Act.

Subjectivity of compliance

NCUA acknowledges that developing standard requirements that would apply to all credit unions in the same manner is impossible. This then puts individual examiners in the position of determining what is and is not an “effective” program or policy. With so much on the line - as such a policy would be a requirement of retaining NCUSIF coverage - credit unions would need the ability to challenge findings and appeal determinations expediently.

Additionally, what may be found to be adequate by one examiner may not be considered adequate by another. This could put a credit union into the position of editing policy and procedures after each exam based on very subjective factors rather than specific NCUA guidance.

Inaccurate formula for determination

The proposed parameters for those institutions required to develop an IRR policy seem somewhat arbitrary, not taking into account the complexity and true individuality of lending institutions. Complexity is not based on asset size but the makeup of a loan portfolio, lending practices, and investments.

Although “small” credit unions could be exempted from the requirements, in practice, this would likely not be the case. Credit unions - both small and large - often receive much the same exam. Implementing such a requirement would likely mean that smaller credit unions currently exempt from the requirement would develop similar formal policies based on examiner feedback.

Additionally, should NCUA move forward with this proposed regulation the Association would recommend that the determination of an exempt small credit union be changed from \$10 million to \$50 million and new factors for consideration be based on asset liability rather than just on asset size. Additionally, setting check-the-box standards may actually hide potential risk, not calling attention to issues that need to be addressed. If credit unions are going to be examined based on one-size-fits-all criteria then they should be as comprehensive and revealing as possible.

¹ The FFIEC advisory and proposal on IRR can be viewed here: <http://www.ffiec.gov/press/pr010710.htm>

It is also important to note that credit unions are independent institutions which serve diverse populations and play many different roles within their communities. Their tolerance for risk is often based on that role and member needs and they should not be regulated away from serving those needs and take away the drive for flexibility and strategic initiatives.

Conclusion

The Association supports the management of IRR and encourages credit unions to maintain a diverse and sustainable balance sheet. However, no two credit unions are alike and issuing a blanket policy or developing subjective guidance does not serve the purposes of NCUA or benefit credit unions. Current guidance is adequate in providing NCUA and its examiners with the tools necessary to examine IRR and address any areas of concern in individual credit unions.

Again, we appreciate the opportunity to weigh in on this proposal and would be pleased to answer any questions you may have.

Respectfully,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association