

MID-MINNESOTA FEDERAL CREDIT UNION

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May 23, 2011

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

RE: Proposed Rulemaking for Part 741
Filed by email to regcomments@ncua.gov

Dear Ms. Rupp:

As stated in the summary of the proposed rulemaking, I wholeheartedly support the assertion that an effective interest rate risk program is important to successful management of any credit union operating in a safe and sound manner. Further, as a general best practice, effective programs are most certainly supported by written policies providing governance and accountability. As a Chief Financial Officer of a credit union for the last 15 years where we have grown from \$50 million to \$225 million in assets, I believe the latest proposal by the NCUA to regulate interest rate risk management by tying the requirements for a written policy and effective program evaluated by field examiners as a condition of access to share insurance is unnecessary. Below are some of my concerns:

What problem is NCUA attempting to solve with this proposed regulation? I don't believe the proposed rulemaking specifically identifies an overwhelming problem to the safety and soundness of credit unions. It states "IRR has risen at credit unions due to changes in balance sheet compositions and increased uncertainty in the financial markets." However, the proposal recognizes that "FICUs generally are managing IRR adequately." If risk is increasing yet credit unions have handled it "adequately" in the past...where is the problem which requires regulation? Many Letters have been issued by the NCUA providing guidance on ALM and IRR management, most specifically in Letter 10-CU-06 adopting the Interagency Advisory on IRR management. So what power does the NCUA gain that they don't already have? If the power lies in creating accountability by holding the share insurance coverage as a consequence for non-compliance, then the larger issue comes in determination of compliance.

How will the NCUA determine if the credit union has an 'effective' program in order to assess compliance? The proposal states the regulatory requirement is supported by clear and comprehensive guidance. Then follows 'clear and comprehensive' with recognizing it is impossible to establish specific, regulatory requirements appropriate for all FICUs avoiding a one-size-fits-all approach. Past experience dictates that many field examiners will treat the examples given in the proposed regulation as specific guidance. And often times, credit unions have found that one examiner can have a drastically different opinion from another examiner, even within their own regional offices. What is effective for one credit union will not be effective for another credit union. Each credit union has its own unique balance sheet that requires management skill and direction.

As an example, the proposal states that GAP analysis is an option for measuring risk. GAP analysis is not an effective measurement for assessing IRR in my credit union. Yet, if this regulation becomes reality, I would expect to be required to complete a GAP analysis to satisfy an examiners evaluation which is a waste of my valuable resources. I haven't completed a GAP analysis in years

let alone be criticized if it falls outside of 'less than +/- 10 percent change in any given period, or cumulatively over 12 months.' Even though the proposal specifically states that guidance should not be used as a checklist, it will be by both examiners and credit unions, diverting resources unnecessarily and putting the power of managing interest rate risk into the hands of individual examiners.

Why not focus on those credit unions that need assistance rather than issuing a new rule that applies to all? With over 7,300 federally-insured credit unions, the proposal readily admits that only 800 credit unions will be immediately affected by the regulation. With NCUA's Letter 10-CU-06, guidance has already been provided helping a credit union to create an effective program for the unique characteristics of its balance sheet. The tools necessary to monitor and examine are already in existence. There is no need for new regulation.

Overall, I don't believe the NCUA realizes what the unintended consequences of this regulation will be. To tie the determination of an effective program, decided by individual examiners based on checklists, as a condition of access to NCUSIF insurance coverage is excessive. The power of managing an interest rate risk program will be stripped from credit unions and handed to the examiners. If there is adequate concern in the industry, NCUA has not clearly demonstrated the problem in such a way that warrants the move from an advisory position to regulation. The answer lies within continued use of Letter 10-CU-06, thorough training of field examiners and renewed focus on those credit unions that are in need of an improved understanding of IRR and application of sound practice.

Thank you for the opportunity to comment on this proposed rulemaking.

Sincerely,

A handwritten signature in blue ink that reads "Pamela S. Finch". The signature is fluid and cursive, with the first name being the most prominent.

Pamela S. Finch, CPA
Chief Financial Officer
Mid-Minnesota Federal Credit Union