Missoula Federal
Credit Union
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National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

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

Missoula Federal Credit Union submits the following comments on the proposed Interest Rate Risk Policy.

While we support the need for all credit unions to monitor and manage Interest Rate Risk (IRR), we do not support the above proposal. Not only would this place undue burden on the credit union industry, but it also forces credit unions to monitor this risk based on the required standards rather than the parameters appropriate for each individual credit union. We strongly believe in NCUA helping educate and guide credit unions in managing their IRR, but feel this can be done more effectively through the existing examination process.

Please see our comments below to the list of suggested questions provided by CUNA. Thank you for the opportunity to comment on this proposed rule.

Sincerely,

Kathy A Guderian

Kathy A Guderian
Missoula Federal Credit Union
SVP/CFO

Questions to Consider

1. Do you agree credit unions need a new rule on interest rate risk?

Yes__X__ No____

Why do you agree or disagree with NCUA?

We do agree it is critical that credit unions are monitoring IRR by analyzing the change in their Net Income, Net Interest Income, and NEV. We disagree that there should be a "one size fits all" rule for all credit unions to abide.

2. Has NCUA provided sufficient rationale for the new rule?

Yes____ No__X__

While we all agree on the importance for all credit unions to manage IRR, we feel that NCUA already has sufficient controls in place through the current examination process and does not need to establish a separate regulation. It is more important that credit unions be evaluated on their IRR process, based on their individual risk tolerances, capital, and balance sheet complexity.

3. If this rule is adopted, do you support the triggers for how the written policy requirements would apply?

Yes____ No__X__

Please explain your response.

We do not believe the rationale for asset-sized triggers is logical. All credit unions, not just those with assets over $50 million, should be monitoring IRR according to their own needs, structure and inherent risk involved in their portfolios.

4. Do you agree with the requirements for the written policy (for those CUs to which these requirements would apply)?
Yes____ No__X__
Please explain your response.

We believe the items listed are good guidelines which should be reviewed, monitored and reported to the decision makers of the credit union, as well as monitored by the Board of Directors. We do not agree that they need to be written requirements and policy. We feel the current controls are adequate and NCUA already monitors this through the examination process.

5. NCUA estimates that only 800 credit unions will have regulatory burdens associated with the written policy requirements and the burden for each of them will be 16 hours. Do you agree with that?
Yes____ No__X__
What do you think the burden will be for your credit union?

In the past several years, NCUA has already significantly increased the burden on credit unions from increased regulatory requirements. We disagree with the 16 hours and estimate at least 40 hours or more by the time the staff identifies industry-standard policies, customizes them, reviews with management, revises, and reviews with the Board of Directors. We also believe that while it may not apply to credit unions with assets under $50 million, it will still increase their burden as examiners will be looking to streamline the process of reviewing IRR for all credit unions, even if a specific policy is not required for the smaller institutions.

6. Will your credit union have to create or modify its written policy to conform to the proposal's requirements?
Yes__X_ No____
How much time will that take and what other resources of the credit union will be used to comply?

We estimate that it will take our credit union approximately 40 hours to modify our current policy. It takes time to scan and incorporate regulatory documents, interpret the proposed standards, apply changes, and then go through the necessary review and approval process.
Also, we feel we would be structuring our IRR monitoring to meet examiner requirements rather than truly monitoring the actual risks of the credit union.

7. Is the guidance on the IRR management program useful?
Yes_X__ No____
Please explain your response

The information is useful in that it gives a baseline to work from, but we still feel it does not need to be mandated as a regulation. The examiners are perfectly capable of making sure credit unions are monitoring their risk appropriately.

8. Should compliance with the proposal be a requirement for federal share insurance?
Yes____ No__X_
Please explain your response.

While we agree that managing interest rate risk is a vital part of determining safety and soundness, it should only be one of the many areas considered.

9. Since the proposed guidance is included as an appendix to the rule, does that create confusion as to what extent credit unions will be required to follow the guidance precisely?
Yes__X__ No____
Please explain your response.

Guidance is supposed to be a guideline or baseline, not standards specified for a regulation. Examiners may interpret that guidance differently than we do at the credit union. Our interpretation is that we should look to guidance in how it will benefit our credit union, not in what we need to do to meet the specific requirements of the regulation.

10. The proposal states that IRR policies and management programs must be individualized. Yet, does this proposal and guidance leave sufficient flexibility to credit unions to adopt IRR policies and management programs that reflect this individuals risk profile?
Yes____ No__X_
Please explain your response.

It depends on how much flexibility examiners will allow the individual credit unions. We are concerned that the appendix is so detailed that most credit unions will choose to comply with the specific standards to satisfy examiners, rather than more appropriately customize their program to reflect their risk profile.

11. Should credit unions be singled out for a new rule in this area when banks have not been? Is the joint guidance that NCUA issued with the other federal financial regulators in January 2010 sufficient?
Yes____ No__X__
Please explain your response

This goes back to the question of whether or not we really need the regulation when examiners already require credit unions to have ALM policies and committees, in accordance with their level of risk. Through these, interest rate risk is managed. With greater risk, examiners require more detailed analysis including stress testing, back testing, scenario analysis, 3rd party model and process validations, as well as significant review of assumptions.

12. Instead of a new rule for all federally insured credit unions, would it be preferable to address IRR management issues with credit unions that do not have written polices and/or effective IRR management programs?
Yes__X_ No____
Please explain your response.

We feel it is important that all credit unions monitor and manage their IRR in accordance with the corresponding level of risk. Education for those credit unions would be much more valuable than forcing everyone to have a policy that doesn't necessarily meet the individual needs of the specific credit union.

13. Do you agree with the proposal's allocation of responsibilities between a credit union's board and management on IRR management?
Yes____ No__X__
Please explain your response.

One of the suggestions is that the Board is responsible for evaluating staffs' understanding of IRR, using professional advice. This is another expense (in addition to validation, continued training, etc.) Boards should only have an oversight obligation as it requires too much time dedication and education/training for them to have a thorough understanding of how the IRR process works. The amount of responsibility being placed on Boards is beginning to restrict the level of Board members which credit unions can attract and recruit as volunteers. The Board should not be responsible for testing an understanding of IRR, any more than they should verify that loan officers know how to underwrite. They have to rely on management, who has the expertise, to provide them with information and reports to effectively oversee this level of risk. The management team and ALCO should be responsible for managing the risk, while keeping the Board well-apprised of all risk levels.

14. Do you agree with the proposal's discussion of IRR measurement and monitoring?
Yes____ No__X__
Please explain your response

We agree with most of the guidelines for measurement and monitoring of IRR, but we do not feel this should be a regulation. We also believe that our process for IRR measurement/monitoring and our compliance with that process should be tailored to meet our credit union's needs, rather than the needs of every credit union.

15. Do you agree with the standards for assessing an IRR Policy and Management Program?
Yes____ No__X_
Please explain your response.

Although the standards appear to be comprehensive and clear, they are so detailed that we are concerned that they may not allow enough flexibility to customize them to meet the risk metrics of individual credit unions.