



■ FEDERAL CREDIT UNION ■

www.ghsfcu.com

Main Office | 910 Front Street, P.O. Box 1490
Binghamton, NY 13902-1490
607.723.7962 or 800.732.4447

105 Court Street
Binghamton, NY 13901
607.723.7962 or 800.732.4447

54 East Main Street, P.O. Box 528
Norwich, NY 13815
607.334.6461

Filed via: regcomments@ncua.gov

May 23, 2011

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

Re: NCUA Proposed Rulemaking for Part 741, Interest Rate Risk Proposal

Dear Ms. Rupp:

As the CEO of a credit union with 44 employees, 3 branches which serves over 15,000 members, I often look to my “toolbox” and select the appropriate tool to address any given situation. The same goes for our regulatory agency, the NCUA. While I applaud the Board for recognizing the potential for rising interest rate risk present in credit unions, the need for another tool is not there.

In 2010, you issued Letters 10-CU-03, Concentration Risk and 10-CU-06, Interagency Advisory on Interest Rate Risk Management. The combination of these two letters provides the NCUA all the authority needed to ensure credit unions are well developed, well managed and actively using the proper tools and techniques needed to effectively manage interest rate risk.

The current proposed regulation is very punitive for non-compliance. If an Examiner feels the level of interest risk management and the policy is not sufficient, the credit union is at risk of losing share insurance. The proposed rule states that this will only impact 800 credit unions – this is 11% of all credit unions. Why create such a drastic regulation to address only 11% of credit unions? Has the Board or Staff reviewed how many of these 800 have a significant amount of interest rate risk? If so, why cannot the Examiners in charge of the credit unions address them on an individual basis citing Letters 10-CU-03 and 10-CU-06?

Interest Rate Risk management is not one size fits all. The examples outlined in the proposal do not take into account the amount of Net Worth at risk due to a change in interest rates. By setting examples in the Appendix, and using past experience with Examiners, this will become the standard. Similar examples are listed in the Examiner’s Guide, more specifically, Chapter 13 – ALM, Part 2 – Interest Rate Risk. On page 13/2-21 of this Guide, Table 2 outlines “*how the examiner can use the credit unions’ IRR measurement tool*”





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to determine if IRR exposure is low, moderate, or high". As I have stated before, the letters issued in 2010 coupled with the Examiner's Guide provides enough guidance for credit unions to ensure they are appropriately measuring and monitoring interest rate risk. There is no need for a new regulation.

In reviewing the Board Action Memorandum to the NCUA Board from the Director Office of Capital Markets dated March 11, 2011 in regards to the Proposed Rule Part 741, the case is made for the need for a regulation requiring credit unions to have a specific interest rate risk policy. In the memorandum, Page 3 includes a Figure (chart) comparing the residential real estate loans as a percentage of total loans between federally insured credit unions versus commercial banks. The Figure shows credit union's mortgage holdings as a percentage of total loans increasing while commercial banks decreased their percentage. It should be pointed out, and it is not, that credit unions have continued to make sound, safe and responsible mortgages at a time when banks tightened their lending. Credit unions continued to serve their membership and consumers by making safe and sound mortgages. This is true to the purpose of the Federal Credit Union Act, banks were not serving a market and credit unions stepped in and did so, in a safe and sound manner. This should not be used against credit unions, but rather credit unions should be applauded for filling the need.

Again, let me be very clear, I do not agree with the need to have a new regulation requiring credit unions to have an interest rate risk policy. With only 800 credit unions to address, the NCUA and State Regulatory agencies have several methods to help create and implement sound interest rate risk practices. By utilizing Letter 10-CU-03, which suggests that credit unions identify how much concentration in any area they will have, plus complete appropriate analysis to support any risk and Letter 10-CU-06 provides excellent guidance on how to setup and manage an effective interest rate risk management program. There is no need for any additional regulation.

Thank you for the opportunity to share my thoughts on the proposed rulemaking.

Sincerely,

Daniel N. Leclerc
President/CEO
GHS Federal Credit Union

Cc: Fred Becker, President – NAFCU
Bill Cheney, President - CUNA

