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VIA E-MAIL TRANSMISSION
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May 23, 2011

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

Re: Comments on Proposed Rulemaking for Part 741
Required Interest Rate Risk Policies

Dear Ms. Rupp:

The Illinois Credit Union League represents over 375 federal credit unions and federally insured state chartered credit union in Illinois. We are pleased to comment on the proposed amendments to Part 741 the NCUA's regulations to add a new rule on credit unions' policies and management of interest rate risk (IRR).

The NCUA proposes to amend its regulation on federal share insurance to include a requirement that federally insured credit unions must have a written interest rate risk policy and an effective interest rate risk management program, unless exempted as provided under the proposal. If an affected federally insured credit union fails to develop and maintain such a policy and program, it would risk losing National Credit Union Share Insurance Fund coverage for its members' accounts.

<u>NCUA Has Not Demonstrated the Need for an IRR Rule to be Adopted at this Time</u>

We searched the Supplementary Information accompanying the proposed rule in vain for any substantial justification for the imposition of an IRR rule at this time. The only justification offered by the NCUA is a statement that IRR risk "has risen at credit unions due to changes in balance sheet compositions and increased uncertainty in the financial markets."

The NCUA and other FFIEC members addressed the issue in January 2010 with the issuance of an Interagency Advisory on Interest Risk Management. There is no indication that the other members of the FFIEC feel the need to impose an additional and substantial regulation on their financial institutions. The stress on credit unions has never been greater, due to reduced income, increased expenses and the ever increasing regulatory burden due to both NCUA activities and to regulations issued pursuant to the Dodd-Frank Act.

New rules should only be added at this time if required by statute or there is a compelling need. The NCUA makes no attempt to provide sufficient evidence that a compelling need exists. As discussed below, it appears that evidence of the necessity for a rule mandating an IRR policy does not exist.

We refer the NCUA Board to the substantial discussion and statistics provided in CUNA's comment letter regarding credit unions' exemplary management of their interest rate exposure both recently, and in response to rising interest rates phase of in the last two interest rate cycles—February 1994 to March 1995 and July 2004 to June 2006.

This performance in recent and previous cycles is due to implementation of existing asset liability management policies by credit unions including the IRR components of the ALM policies.

As mentioned above, in January 2010 the FFIEC issued and NCUA adopted an interagency advisory on IRR management. We understand that examiners are utilizing the advisory now as a tool to help evaluate the adequacy of credit unions' IRR policies and management, including appropriately documenting, monitoring and updating their management and policies. Credit unions are also relying on the advisory as guidance, given such policies and management cannot be the same for all credit unions.

We have legitimate concerns and experience that if the advisory was replaced by a regulation the guidance contained proposed Appendix B would be utilized as a check list and would be rigidly enforced; thus unnecessarily restricting credit unions in their asset/liability management. We believe the NCUA Board should be mindful of Federal Reserve Chairman Bernanke's recent statement, "[r]egulators must aim to avoid stifling reasonable risk-staking and innovation in financial markets." The NCUA currently has all the tools needed to monitor adequate interest rate risk management. A separate regulation is not needed and a draconian interpretation of the guidance by some examiners could prove harmful to the economic interests of credit unions and their members.

Considerations if the NCUA Insists on Promulgating an IRR Regulation

If the NCUA were to adopt an IRR regulation, the substantial subjectivity that must necessarily be employed by an examiner in determining compliance makes it inappropriate to make such compliance a condition of NCUSIF coverage. The other restrictions in Part 741 concern whether or not a credit union has met objective lending or investment requirements that apply consistently and require little subjective analysis.

In addition, we believe that (a) adjustable rate first mortgages should be excluded in calculating the concentration trigger in order to more directly target the risks of a rising interest rate environment; and (b) the asset threshold for compliance should be increased to $50 million. The increase would have little impact on any safety and soundness considerations.

NCUA states it is contemplating a three month compliance date. We believe a phase in of one year is more appropriate, given the complexity of the guidance contained in proposed Appendix B and the likelihood that credit unions will be struggling to comply with substantial number of consumer protection regulations in the "pipeline."

We appreciate the opportunity to respond to NCUA's request for comment on the adding an IRR Policy requirement to Part 741. We are opposed to promulgation of proposed amendment. The NCUA has not provided sufficient evidence that a regulation is necessary and we believe that sufficient supervisory and advisory mechanisms already exist for the agency to monitor, assess and direct that corrections be made to any deficiencies in credit unions' IRR policies and management. We will be happy to respond to any questions regarding these comments.

Very truly yours,

ILLINOIS CREDIT UNION LEAGUE

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