National Association
of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201-2149

May 23, 2011

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

RE: Proposed Rule on Interest Rate Risk

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCUs), I am writing to you regarding the National Credit Union Administration's (NCUA) proposed rule on interest rate risk policy and management program for federally-insured credit unions (FICUs). *See* 76 Fed. Reg. 16571 (March 24, 2011).

Under the proposed rule, almost half of our nation's FICUs must adopt and implement an interest rate risk (IRR) policy and management program. This requirement would apply to FICUs with over $50 million in assets and those with assets between $10 million and $50 million if the total of first mortgage loans held plus total investments with greater than 5 years maturities is equal to or greater than 100% of net worth. *See* 76 Fed. Reg. at 16572.

NAFCU believes IRR management is an important component of overall asset liability management. Like NCUA, we recognize that changing interest rate environments pose a special challenge both to the safety and soundness of individual credit unions as well as the National Credit Union Share Insurance Fund (NCUSIF). Accordingly, we believe NCUA's proposed rule and the attached appendix containing the specific requirements and expectations are appropriate and could prove useful to credit unions.

Before we provide our specific comments, NAFCU would like to highlight that, despite not being required to have an IRR policy as part of their lending and asset management policies, approximately 75 percent of credit unions that would be required to adopt and implement an IRR policy already have such policies in place. We believe this fact speaks volumes to how seriously the credit union industry overall already takes risk management and is clearly attributable to the fact that credit unions are, by in large, conservative and do not take undue risk.

With respect to specific aspects of the proposed rule, we ask the NCUA to consider the following comments.

First, NAFCU believes the effective date of the proposed rule or the compliance date should be delayed. In the preamble of the proposed rule, the agency states that it anticipates that it would set a compliance date three months after the rule becomes effective. As NCUA is aware, credit unions are subject to an ever-growing list of new and changing regulations and many have already stretched their resources to the fullest to ensure they are in compliance. Thus, adding regulations with a short window for compliance will either not be feasible or prove too difficult.

Secondly, NAFCU requests that NCUA explicitly state that a credit union may rely on third-party IRR models in establishing its IRR policy. While we acknowledge the importance of credit unions to understand IRR and IRR management, we believe that it would be both effective and less costly to implement the requirements of the proposed rule if the NCUA allows credit unions to rely on third-party models in establishing their own. In this regard, we urge the agency to consider that the Interagency Advisory on Interest Rate Risk, issued as guidance early in 2010, states:

> Although institutions may rely on third-party IRR models, they are expected to fully understand the underlying analytics, assumptions, and methodologies and ensure such systems and processes are incorporated appropriately in the strategic (long-term) and tactical (short-term) management of IRR exposures.

See Interagency Advisory on Interest Rate Risk, January 6, 2010 (attached to Letter to Credit Unions No. 10-CU-06).

Third, we urge the NCUA to clarify one aspect of the calculation used to determine whether a credit union is exempt from the policy requirement. Specifically, the written policy requirement applies to FICUs with assets between $10 million and $50 million if the total of first mortgage loans held plus total investments with greater than 5 years maturities is equal to or greater than 100% of net worth. We ask that the agency clearly excludes from the calculation of the "total of first mortgage loans" mortgage loans that reset in 5 years or less, such as adjustable rate mortgages.

Next, NAFCU believes that, with the adoption of the proposed rule, credit unions should expect that examinations and assessments of their IRR policy and management are objective and examiners will respect credit unions' policy decisions. In this respect, we point to the fact that proposed Appendix B to Part 741 contains standards for determining the adequacy of IRR policy and effectiveness of the program that should be a key point of reference for examiners if the appendix is adopted by the NCUA in the final rule.

Further, and importantly, NAFCU urges the agency to update relevant parts NCUA's Examiner's Guide in accordance with the final version of the proposed rule. As currently drafted, the guide lends itself for subjective examinations, in part because credit unions are not currently required to adopt an IRR policy. *See, e.g.* NCUA Examiner's Guide, Chapter 13, part 2.

NAFCU appreciates the opportunity to comment on the proposed rule. Should you have any questions, please contact me by telephone at (703) 842-2268 or tteffer@nafcu.org.

Sincerely,

Tessema Tefferi

Tessema Tefferi
Associate Director of Regulatory Affairs