Premier America
CREDIT UNION

August 22, 2011

Mary Rupp
Secretary of the Board
National Credit Union Administration

Subject: Comments on Part 703 ANPR, Financial Derivatives Transactions to Offset Interest Rate Risk

Dear Ms. Rupp:

The NCUA should allow natural person credit unions the ability to continue using interest rate derivatives as a tool for managing interest rate risk. Premier America has successfully used interest rate swaps in the past to lower interest rate risk. Simply put, interest rate derivatives are another tool in our tool box that allows credit unions to effectively manage interest rate risk.

For example, interest rate swaps, one of the more common derivatives, convert existing floating rate liabilities into longer term fixed rate liabilities. This results in the same impact as borrowing for a longer-term from the FHLB or Corporate with one important distinction. Borrowing dilutes capital whereas the swap does not. Many credit unions are in the process of rebuilding their capital positions, but in this rate environment, it also makes sense to extend liability duration to hedge against rising rates. The preferred method for these credit unions would be interest rate swaps as long-term borrowing would impede their ability to rebuild capital.

The existing pilot Program for credit unions to engage in derivatives for interest rate risk management should be permitted to continue and those credit unions with previous approvals in Part 703 should be "grandfathered". Pilot Program participants went through extensive due diligence and have responsibly used these tools. Many auditors, third parties and examiners have reviewed the policies, procedures, internal controls, accounting and deployment of the Investment Pilot Program at various institutions. I am not aware of any issues or concerns with pilot program participants arising from the use of this hedging tool.

NCUA's Derivative Program is a fundamentally sound process giving credit unions of all sizes access to the derivatives market in a safe, monitored format. The NCUA should convert the Investment Pilot Program relating to derivatives into a permanent program.

For further guidance on the evolution of the interest rate derivatives program, the NCUA can look to other members of the FFIEC and ascertain how they have they have handled interest rate derivatives programs for the financial institutions they supervise. Interest rate derivatives have successfully been use by the banking industry for many years. I have firsthand knowledge of this as I used derivatives in the community banking environment in the 1990s and I have colleagues who started using them in the late 1980s.

A well functioning interest rate derivatives program is a critical component to Asset Liability Management and allows credit unions to implement an overall "Best Practices" approach to ALM.

Thank you for your time and consideration in this matter. If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

Brad Cunningham
Senior Vice President & CFO
Premier America Credit Union