

April 5, 2012

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

Delivered Electronically

Subject: Financial Derivatives Transaction to Offset Interest Rate Risk; Investment and Deposit Activities

Dear Ms. Rupp:

The Northwest Credit Union Association (Association)¹ is pleased to offer comments on the National Credit Union Administration (NCUA) advance notice of proposed rulemaking (ANPR) seeking comments to identify the conditions for federal credit unions (FCUs) to participate in certain derivatives transactions for the purpose of offsetting interest rate risk (IRR).

Now, more than ever, credit unions need the flexibility and tools to manage their balance sheets and serve their members in a changing economy. The Association believes that more credit unions should be able to engage in derivatives as a tool to managing IRR and we applaud the NCUA for continuing to move this rulemaking process forward.

The NCUA seeks comment on the qualifications a credit union should meet or demonstrate before being granted independent derivatives authority. The Association believes that while important, these qualifications should not be overly narrow or burdensome. The rule should allow a well-run credit union that has existing IRR or forecasted exposure on its books to receive independent authority. To participate in the program, credit unions should demonstrate the ability to manage the activity including adequate levels of financial performance, expertise, and experience. It is difficult to quantify these levels because of the individual nature of credit unions, membership, and activities. Parameters should be broadly established so that credit unions and their boards can establish programs appropriate for their level and type of activity.

Approved derivatives for credit union investment should include basic interest rate swaps and interest rate caps to hedge IRR. However, well-run credit unions should not be limited to a set list of options

¹ The Northwest Credit Union Association is a regional trade association representing the interests of more than 200 credit unions and their six million consumer-members; institutions that employ and engage more than 10,000 people and hold more than \$50 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in the Northwest quadrant of the United States, but the Association also has members from the states of Alaska, Idaho, California and Hawaii. Learn more about the Association at www.nwcua.org.

and should have the ability to seek out derivative instruments that will meet their risk mitigation needs as long as they comply with regulatory requirements. It is important that there be multiple eligible derivative counterparties available to credit unions to ensure a sound marketplace with adequate access to varying products, services, and pricing.

The Association would urge the NCUA to allow a credit union's board to set exposure limits based on its needs. A participating credit union's board should understand and monitor the program as a part of the risk management policies for the institution. Setting limits on the aggregate amount of derivatives instruments in the portfolio or aggregate amount of derivatives transacted with any counterparty would limit the options for credit unions, not allowing them to make decisions based on their risk mitigation needs.

The NCUA should not set strict requirements on collateral and should consider waiving collateral requirements when net exposure is below an established minimum threshold. While appropriate standards are necessary, they should not be restrictive and providing credit unions with sensible options and tools will help develop a useful program.

The Association supports the NCUA efforts in expanding derivative authority for credit unions. We would like to see a program that allows credit unions to work with their boards to establish reasonable limits and policies that help them manage their balance sheets while remaining safe and sound.

Thank you for putting forward this ANPR, we would be pleased to answer any questions you may have.

Sincerely,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association