November 26, 2012

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

Re: Comments on Proposed Rule on Part 703 - Investment and Deposit Activities'

VIA ELECTRONIC MAIL: regcomments@ncua.gov

Dear Ms. Rupp:

The Michigan Credit Union League (MCUL) appreciates the opportunity to comment on the NCUA Board's proposed rule to allow federal credit unions (FCUs) to purchase Treasury Inflation Protected Securities (TIPS). MCUL is a statewide trade association representing 97% of the credit unions located in Michigan.

According to the NCUA Board's proposal, a TIPS is "a security issued by the U.S. Department of the Treasury, Bureau of Public Debt, which is readily available to investors. TIPS differ from other securities by providing protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Bureau of Labor Statistic's Consumer Price Index (CPI). When a TIPS matures, the holder is paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year at a fixed rate. The rate is applied to the adjusted principal, so, like the principal, interest payments rise with inflation and fall with deflation. In a deflationary period, it is possible to experience a contractual decline in the principal balance, which is not an event of default."

MCUL supports the NCUA Board's proposal to allow for an additional investment option for FCUs, and appreciates the NCUA's actions in researching and monitoring this product for the purpose of determining whether FCUs may include TIPS in their respective investment portfolios. TIPS are fully guaranteed by the U.S. government, but have previously not been recognized as an appropriate investment for FCUs because they re-price their value in response to changes in the CPI, which hitherto has not been deemed an appropriate index for variable rate instruments for FCUs. Currently, FCUs may only invest in variable rate instruments if they are tied to domestic interest rates, prohibiting non-domestic rate indices due to basis risk.

The NCUA Board correctly notes in its proposal that "FCUs now have greater access to advanced asset-liability management tools that can identify and measure basis risk, and are therefore better equipped to manage such risk associated with adding CPI as a permissible index. Allowing FCUs to hold TIPS in their investment portfolios adds no credit risk and allows them the option of minimizing the need for accurate inflation forecasting as a way to maintain the real value of their investment portfolios." Properly used and managed, TIPS will now provide FCUs with another beneficial portfolio option, and another tool for asset-liability management.

MCUL notes, and the NCUA Board observes in its proposal, that FCUs need to exercise due diligence and assess their ability to manage TIPS investments prior to purchasing, just as with other investments. However, current requirements for FCUs related to due diligence and risk management, and current tools available to FCUs for such, are sufficient. No new requirements for such are necessary for FCUs in connection with the authority to utilize TIPS.

Finally, the MCUL also urges NCUA to work with state credit union regulators to facilitate the ability of well-managed state credit unions to invest in these securities as well, as permitted under applicable state law.

MCUL appreciates the NCUA bringing this issue forward, and appreciates the opportunity to comment.

Sincerely,

David Adams
Chief Executive Officer