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November 26, 2012

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

Re: Comments on Proposed Rule 703, Investment and Deposit Activities; RIN 3133–AE06

Dear Ms. Rupp:

This comment letter represents the views of the Credit Union National Association (CUNA) regarding the National Credit Union Administration's (NCUA's) proposal on investment and deposit activities on Treasury Inflation Protected Securities (TIPS). By way of background, CUNA is the largest credit union advocacy organization in this country, representing approximately 90% of our nation's 7,000 state and federal credit unions, which serve about 95 million members.

CUNA supports NCUA's proposal to allow federal credit unions to purchase Treasury Inflation Protected Securities (TIPS) as a permissible investment. In addition, we urge NCUA to work with state regulators to facilitate the ability of well-managed state credit unions to invest in these securities as well, where permissible under state law.

Currently, TIPS, which re-price based on the U.S. Bureau of Labor Statistic's Consumer Price Index (CPI), are generally not a permissible investment for federal credit unions, even though a limited pilot program exists. That is because in the past, NCUA determined that the CPI is not an appropriate index for variable rate instruments authorized for federal credit unions.

The TIPS market has been in existence for fifteen years and its benefits to investors have been widely recognized. TIPS are fully guaranteed by the U.S. government. The principal is adjusted based on changes in the CPI, while the interest rate, which is paid semiannually on the adjusted principal, remains fixed. At the maturity of a TIPS, the investor receives the adjusted principal or the original principal, whichever is greater.

We agree with the agency that the authority to invest in TIPS will help credit unions protect themselves against inflation risk. We further believe TIPS could be useful to credit unions in managing interest-rate risk. While we also agree that a credit union should undertake sufficient analysis before purchasing any TIPS and be able to manage its TIPS investments on an ongoing basis, current requirements regarding due diligence and risk management are sufficient, and no additional requirements in these areas should be imposed on credit unions in connection with TIPS authority.

Credit unions have access to sufficient asset-liability management and other tools to identify, measure, and manage any risks associated with investing in TIPS.

We feel this is a straightforward proposal and will allow well-managed credit unions to determine whether investments in TIPS are appropriate for their portfolios and their asset-liability management needs.

Thank you for the opportunity to comment on this proposal. If you have any questions concerning our letter, please feel free to contact Dennis Tsang, CUNA Regulatory Counsel, or me at (202) 508-6736.

Sincerely,

Mary Mitchell Dunn

Mary Mitchell Dunn
CUNA Deputy General Counsel and Senior Vice President