



November 26, 2012

Via Email: regcomments@ncua.gov
Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: OCUL comments on NCUA proposed rule 703 on investment and deposit activities

Dear Ms. Rupp:

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposed rule 703 that would allow federal credit unions (FCUs) to purchase Treasury Inflation Protected Securities (TIPS) as a permissible investment.

OCUL is the trade association for credit unions in Ohio and advocates on behalf of Ohio's 367 federal- and state-chartered credit unions, serving 2.7 million members. The comments reflected in this letter represent the recommendations and suggestions that OCUL believes would be in the best interests of Ohio credit unions.

Background and Analysis

TIPS are securities issued by the U.S. Department of the Treasury, Bureau of Public Debt, which are readily available to investors. TIPS are currently a prohibited investment under the National Credit Union Administration (NCUA) regulations part 703 because they reprice their value in response to changes in the Consumer Price Index (CPI) which is a prohibited index for variable instruments. Under section 703.14(a) a FCU is permitted to invest in a variable rate instrument as long as the rate is tied to a domestic interest rate.

OCUL supports the proposed rule and agrees with NCUA that FCUs should be permitted to invest in TIPS. As noted above, FCUs are permitted to invest in variable rate instruments where the index is tied to a domestic interest rate, including the Fed Funds rate, Treasury rates, and LIBOR. Despite the common label "domestic interest rate," each of these rates is not perfectly correlated with the other. FCU can still be exposed to earnings variability if it invests in variable rate assets tied to one rate. OCUL understands why in the past NCUA prohibited investments tied to non-domestic rate indices, but OCUL shares the same belief as NCUA, that FCUs have greater access to advanced assets-liability management tools that can identify and measure basis risk, and are therefore better equipped to manage risk associated with adding CPI as a permissible index. In addition, NCUA has monitored FCU usage of TIPS through a long-term pilot program and the results of the pilot program are consistent with NCUA's opinion that TIPS are an appropriate investment for FCUs and can be a valuable portfolio management tool when there are inflationary risks in the economy.



Mary Rupp, Secretary of the Board
National Credit Union Administration
November 26, 2012
Page 2

OCUL believes allowing FCUs to hold TIPS in their investment portfolios generally adds little 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. OCUL urges NCUA to work with state regulators to facilitate the ability of well-managed state credit unions to invest in these securities as well, when permissible under state law.

Conclusion

As stated above, OCUL supports NCUA's proposal to make TIPS a permissible investment under NCUA regulations Part 703. OCUL believes TIPS can be a good investment to hedge inflation risks as long as CUs undertake sufficient due diligence, along with an effective risk management programs with current access to sufficient asset disability management and other tools. OCUL does not believe any new rules are needed. The decision to purchase TIPS should be based upon sound due diligence and a demonstrated effectiveness in managing risk.

The Ohio Credit Union League appreciates the opportunity to provide comments on NCUA proposed rule 703 that would make TIPS permissible investment for FCUs. OCUL is available to provide additional comments or information on this proposal if so requested. If you have any questions, please do not hesitate to contact me at (800) 486-2917 or jkozlowski@ohiocul.org.

Respectfully submitted,



John F. Kozlowski
General Counsel



David J. Shoup
Director, Compliance & Information



Juliana Maneno
Manager, Member Compliance Services

cc: Mary Dunn, Credit Union National Association General Counsel
Tim Boellner, OCUL Chair
OCUL Board of Directors
Ohio Governmental Affairs Committee
Paul Mercer, OCUL President