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July 26, 2013

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

RE: Comments on Proposed Rule 12 CFR Parts 703, 715, and 741 to Allow Credit Unions to Engage in Limited Derivatives Activities to Mitigate Interest Rate Risk

Dear Ms. Rupp,

Thank you for the opportunity to provide our comments on Proposed Rule 12 CFR Parts 703, 715, and 741 to allow qualifying credit unions to utilize interest rate swaps and caps as an additional tool to manage interest rate risk. In general, we support the proposed rule as a means of enabling credit unions to protect their net interest margins and capital positions in the historically low interest rate environment against the inevitable rise in market interest rates.

There are areas where we generally oppose some of the limitations and requirements being proposed. The items we oppose are:

- **Eligibility for Derivatives Authority.** The proposal would not permit a credit union less than \$250 million in assets to apply for derivatives authority. We feel this limitation is not needed for safety and soundness reasons and should be eliminated. The ability to meet reasonable requirements associated with derivatives authority will make the process self-selecting, and NCUA should not establish an arbitrary asset-size prerequisite for otherwise qualified credit unions.
- **Application and Supervision Fees.** The fee structure, as proposed, is too expensive and will serve as a barrier to credit unions applying for derivatives authority. Credit unions should not be charged a fee to take advantage of a program that will minimize risk to the NCUSIF. The imposition of a separate activity fee would establish a dangerous precedent that could set the stage for fees for other activities NCUA deems to be particularly risky.
- **Expertise and Audit Requirements.** The proposed approach that a credit union must comply with a number of proposed requirements before submitting an application to NCUA is not beneficial and front loading the expense would create a huge start-up cost before a credit union knows if its application has been approved.

- The experience requirements are rigid and inflexible for qualified derivatives personnel. Very few credit unions will be able to meet all of the experience requirements, regardless of the credit unions' size.
- As proposed, all applying and participating credit unions will have to have an internal controls audit to be granted derivatives authority. This requirement is excessive and unnecessary for most credit unions. Experienced external auditors with derivatives experience should be able to perform an appropriate audit that would provide reasonable assurances to NCUA that adequate internal controls are in place and the credit union can safely engage in derivatives transactions.
- Pilot Program Credit Unions. The limited number of pilot-program credit unions should be allowed to continue with their derivatives programs without having to reapply to NCUA. Reapplication would be needlessly expensive and unnecessary for credit unions that have already conducted derivatives transactions. As such, pilot-program credit unions should be allowed to use experience and other aspects of their participation in the pilot program to meet NCUA regulatory requirements.

Ms. Rupp, thank you again for allowing us to provide you our comments on this proposed rule.

Sincerely,



Steve Gilman

President and CEO

Members Choice Credit Union

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