Thursday, July 18, 2013

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

Re: Comments on Proposed Rule - Derivatives

From: David Stacey
America First Federal Credit Union
Treasurer's Office
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Dear Ms. Rupp:

After reviewing NCUA's proposed changes to part 703 Derivatives, America First Federal Credit Union would provide the following comments:

America First agrees with NCUA's suggestion that the credit union industry may be vulnerable to the interest rate risk that will inevitably come with increases in the yield curve. Many credit unions were wounded deeply by the ravages of the Great Recession, some are still unable to hide their battle scars, but time tends to help us heal and forget. The extended period of unbelievably low market rates has further encouraged many to stretch for yield both in their investment and loan portfolios. Longer term assets obviously increase risk.

Interest rate risk is not new to credit unions; however, conservative approaches and traditional ALM methods seemed to have served the industry in the past. While acknowledging that derivative instruments used properly may help mitigate some of the impact of the impending rising rate environment, America First would question the timing of the proposed changes coming on the heels of the worst financial environment that many credit unions have ever experienced. Especially considering the new rule requires a minimum three years *"direct transactional experience in the trading, structuring, analyzing, monitoring, or auditing of financial derivatives transactions at a financial institution, a risk management advisory practice, or a financial regulatory organization."* Experience gained during the past three or even five years, with declining or flat rates, doesn't seem to qualify someone as an expert given what may lie ahead. One would also have to ask what kind of experience field examiners have received that will help them as they review these transactions?

America First wonders if the NCUA has considered the impact on the credit union industry that hiring all these "direct transactional" experts from Wall Street or other large financial institutions will have? We would urge the NCUA to consider these issues and find a way for credit unions to gain the necessary derivative experience on a limited basis over time or in a protected environment that could strengthen, rather than possibly destabilize the movement.

Other provisions of the proposed rule that may prove burdensome include requirements to obtain a legal opinion from qualified counsel before executing any derivative transaction and pricing transactions on a daily basis after execution. The application fees ranging from $25,000 to $125,000 also seem weighty if not punitive.

America First believes that NCUA's requirements to, *"ensure credit union executives have the education, skills, and experience necessary"* to understand these transactions as well as the requirement to notify the NCUA immediately if one of the Executives leave, and demonstrate that the replacement meets all of the requirements, may become difficult for the Credit Unions to administer and appears to put the NCUA in the unlikely position of interviewing possible applicants.

America First believes that Credit Unions will at some point need to become skilled with managing interest rate risk using additional methods such as derivative transactions, whether this is the time or these are the right changes to the rules, remains unanswered.

Please contact me if you have any questions regarding our comments at 801-778-8382.

Sincerely,

David Stacey
Treasury Manager
America First Federal Credit Union