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

Re: Comments of Proposed Rule for Use of Derivatives

Dear Ms Rupp,

Thank you for the opportunity to comment on the NCUA's proposed rule for the use of derivatives by credit unions. This is a very appropriate and important step toward allowing for credit unions to effectively manage interest rate risk.

It is obvious that the NCUA has put a great deal of thought into this rule. The limits proposed should effectively limit excessive risk taking and maintain adequate control of derivative use while alleviating any unintended risks to the NCUSIF.

In a few instances we feel the rule could allow for a bit more flexibility to further enhance its risk mitigating intentions.

703.102(f): The limit on settlement within three days might be lengthened. Many times mortgage loans have rate lock periods that are set more than three days prior to close. Allowing for a longer forward period on the swap would better match the asset being hedged.

703:102(g): Many assets being hedged are structured to pay principal over time. A better hedge could be the use of an amortizing swap.

703:109(a): Limiting the notional amount of swaps to 100% of net worth could be too low. Credit unions tend to hold a higher percentage of longer assets than that on balance sheet.

703:109(d): Measuring the aggregate loss position of only the swap position without regard to the hedged assets does not give a true picture of risk.

703:109(e): The maximum maturity of seven years for a single swap does not necessarily match well with longer dated assets.

Clearly the intent of the rule is to lower risk to credit unions and the NCUSIF. For the most part the eligibility requirements accomplish this. Yet section 703.103(a)(3) limits authority to credit unions exceeding $250 million in assets. We believe that if a credit union meets the other eligibility criteria asset size is an unfair measure of need and ability.

Lastly, it is welcome that the NCUA understands the risks inherent in misuse of derivatives and places a high priority in having the expertise to efficiently monitor use by credit unions. Yet charging for potential added cost through application fees or ongoing fees can only discourage the use of these risk management tools. The overall limits in place in this proposed rule should protect against mismanagement of a derivative program and use should be encouraged not discouraged through fees.

We at D A Davidson look forward to assisting our credit union clients in implementing a sound and prudent derivative program that works well within the final NCUA rule.

Thank you,

Julie Hughes
Senior Vice President

Joseph DeMichele
Vice President