July 22, 2013

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

Re: 12 CFR Part 703, Financial Derivatives Transactions to Offset Interest Rate Risk

I would like to express my appreciation to NCUA for considering this important topic. One of NCUA's greatest concerns for credit unions over the next few years as mentioned by the Board remains exposure to interest rate risk. One of the easiest, low cost and low risk ways to management interest rate risk without significantly impacting the size of the balance sheet and net worth ratio is the use of interest rate derivatives.

There have been times over the last 5 or 6 years where the use of simple interest rate swaps would have allowed us more effectively to offer lower rate consumer loans and swap the low rate into a variable income stream as rates rise. This would have cut our interest rate risk exposure and help keep us competitive with both state chartered credit unions and banks.

The most recent proposal provides a good starting point for a derivative rule for credit unions, but creates enough barriers to use that many credit unions that could benefit from derivatives will not utilize them. The requirement for internal experience and the fees imposed by the regulator will limit the use of derivatives. If it is so important to address derivatives due to the increasing risk of rising interest rates negatively impacting credit unions' financially, then NCUA needs to reduce the barriers to access for derivatives rather than creating more.

Experience Requirements

The proposed rule requires that a credit union must internally employee staff with 3 or more years of experience. That combined with the required separation of duties would suggest that NCUA expects that each credit union would hire at least 4 staff with derivative trading experience. This would so expensive that only the very largest of credit unions or state chartered credit unions that have been able develop staff over the years could afford to use derivatives. I would guess that this experience would come at a high cost if it can even be found in some regions of the country.

NCUA should consider the ability for credit unions to utilize third party through a contracted process to help develop staff internally and provide guidance to management. This would provide an effective and short term solution for credit unions to move into the derivatives during this challenging interest rate period. Over time, both staff and management of the credit union would gain the experience required.

Regulatory and Examination Fees

The proposed rule requires that a credit union pay both an application fee and an ongoing examination fee. I understand the NCUA is concerned about the cost associated with review and examination of derivatives. This would only add another barrier to the use of derivatives for most credit unions. It also makes the use of derivatives affordable to only the largest credit unions. I can think of several mid-sized credit unions who would have benefited from the use of derivatives and if they had used them, there may have been less loss to the insurance fund. NCUA should think of how best to broaden the use of basic derivatives to a larger number of credit unions in order to ensure protection for the industry from rising rates.

In fact both the cost of exam fees and staffing might actually force a credit union who is using or feels the use of derivatives to be beneficial to take on an even higher level of risk in order to cover the cost of derivatives. That would not be NCUA's intent but could be the reality imposed through NCUA's regulation.

Again, thank you for bringing this proposed rule forward for comment.

Sincerely,

Bonnie Humphrey-Anderson
Executive Vice President/Chief Financial Officer