CATALYST
Corporate Federal Credit Union

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Mary Rupp, Secretary of the Board
National Credit Union Administration
Via email: regcomments@ncua.gov

RE: Comments on Proposed Rule – Derivatives

Catalyst Corporate Federal Credit Union (Catalyst Corporate) commends the NCUA Board (Board) for proposing a rule allowing credit unions to use derivatives as a tool to manage and reduce interest rate risk. Recent volatility in market interest rates has further highlighted the timeliness and necessity of this proposed rule.

Catalyst Corporate's management and staff have significant experience using interest rate swaps and caps, and intends to ask for authority to use them to reduce interest rate risk on our balance sheet. The management and staff of our wholly owned CUSO, Catalyst Strategic Solutions, LLC (CSS), also has extensive experience valuing and using interest rate swaps and caps. CSS intends to provide derivative services to client credit unions that are granted authority to use derivatives.

We do have several comments and recommendations to improve the rule and allow access for all credit unions to benefit by using these risk mitigation tools, thereby reducing risk to the credit union system and the share insurance fund.

Part 703.102 Permissible derivatives transactions

Catalyst Corporate believes that credit unions should be allowed to enter into cancellable or callable interest rate swaps which can provide protection against fair value losses. A pay fixed/receive floating interest rate swap transaction, where a credit union has the right but not the obligation to terminate the swap transaction, can effectively reduce the fair value loss exposure in a declining interest rate scenario. A callable interest rate swap is more expensive than a non-callable interest rate swap since the credit union is effectively purchasing an option to terminate the swap transaction. However, the cost of the option can be managed by lengthening the time period in which the credit union can exercise the termination option (i.e., five years versus three years). The cost of the option will be a higher fixed rate of interest paid on a callable swap transaction. For example, the current fixed rate paid on a ten year swap transaction with a one-time call option in five years is 2.94 percent compared to 2.77 percent on a ten year swap transaction without the callable feature.

Cancellable and callable swap transactions can be an effective tool in managing a credit unions aggregate fair value loss exposure and fair value loss limits in the proposed rules.

Part 703.103 Eligibility

Catalyst Corporate believes that many credit unions, regardless of asset size, can benefit from using interest rate swaps and caps as tools to reduce interest rate risk. Complexity of the balance sheet is the better indicator of the need for this tool, not asset size. If a credit union can exhibit the need for derivatives and can access the expertise needed to manage the transactions, there should not be an asset restriction.

Part 703.108 Systems, processes, and personnel requirements

Catalyst Corporate agrees that ongoing education for the credit union's board, senior management, and the staff responsible for executing any derivatives transactions is very important and necessary. We feel the language in the rule could be clarified to state that the senior officers and staff directly responsible for managing the balance sheet and the related risk tools must have the knowledge and experience to either manage derivatives in-house or manage the service provider relationship. The current proposal could be interpreted to indicate that the entire senior management team must have this expertise and experience.

Catalyst Corporate believes requiring a legal opinion before executing any derivatives transaction is redundant and unnecessary as the credit union is required to apply and go through NCUA's review prior to executing derivatives. We do believe a legal review of the ISDA and swap agreements is prudent.

Parts 703.109 and 703.110 Specific Level I and Level II limits and requirements

Catalyst Corporate supports the investment limits as a multiple of net worth for both Level I and Level II.

Credit unions do not need all the expertise on staff and should be allowed to hire trusted external service providers to help them implement and manage this tool. Catalyst Corporate feels that the use of third parties with expertise and experience is very important for the usage of derivatives to help credit unions manage interest rate risk. Credit unions at both levels should be allowed to rely on external service providers more than allowed by the rule to meet the requirements as long as they have the in-house expertise to manage the relationship, like they currently do for member business lending and ALM, among other services. We also feel that the internal control requirement is redundant as the controls surrounding the derivative transactions will be tested during the annual financial statement audit.

Part 703.111 Applying for Level I or Level II authority

Catalyst Corporate strongly opposes any fee charged to credit unions by NCUA or any other regulatory agency to apply for and maintain activities permissible under federal or state law. These fees include the proposed one time application fee and potential ongoing supervision and/or examination fees that are discussed in the proposed rule. Derivatives activity reduces risk at credit unions and in turn, to the insurance fund and should be allowed without extra regulatory fees.

Thank you for the opportunity to comment on the proposed derivatives proposal.

Sincerely,

Kathy L. Garner

Kathy L. Garner
President/CEO