DESERT SCHOOLS
FEDERAL CREDIT UNION

July 26, 2013

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
(Via email to regcomments@ncua.gov)

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:

We appreciate the opportunity to comment on the above mentioned proposed rule to allow federally insured credit unions to engage in simple derivatives transactions for the sole purpose of mitigating interest rate risk.

Desert Schools Federal Credit Union is a $3.2 billion credit union located in Phoenix, Arizona, serving over 300,000 members.

In general, we support the proposed rule as a prudent means of enabling credit unions to better manage their interest rate risk (IRR). We hope and encourage the NCUA to expedite the approval of this proposal as interest rate derivatives, specifically swaps and caps, could be a very beneficial tool in managing IRR in this unprecedented low interest rate environment. We also believe that the ability to utilize derivatives will enable credit unions to offer more competitive and meaningful loan choices to our retail and business members.

However, there are major provisions of the proposed rule which we find onerous and would suggest the following improvements:

- Delete the imposition of application and/or supervision fees for credit unions to apply for or maintain derivatives programs
- Eliminate the asset eligibility threshold for participation in the program.
- Allow credit unions to rely on third party service providers to assist with the expertise and experience requirements.
- Broaden the collateral acceptable to hedge to include agency backed MBS and CMO securities fully guaranteed by FNMA, FHLMC or GNMA.
- Eliminate the limit of purchased swaps to some portion of credit unions' net worth.
- Extend the duration to provide the opportunity for better hedging of longer term assets like fixed rate mortgage loans.

- Eliminate the need for daily valuation and collateral monitoring as this is excessively burdensome.
- Provide flexibility in the requirement to mark-to-market the hedge while not allowing the recognition of the offsetting charge in the asset being hedged.
- Delete the need for a separate internal controls audit to participate in the program.

Since this is such a critical proposal, we strongly urge the agency to take the recommendations from all commenters very seriously in an attempt to make the derivatives program the most useful tool for as many credit unions as possible. We agree that the interest rate risk concerns facing the industry are one of our paramount risks and hope that the revised rule will enable our credit union to better manage this risk.

Thank you for the opportunity to provide feedback to NCUA's request for public comment on additional derivatives authority for credit unions.

Sincerely,

Susan C. Frank
President and CEO
Desert Schools Federal Credit Union