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July 26, 2013

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

Re: Comments on Proposed Rule, Derivatives

Dear Ms. Rupp:

Bellco Credit Union (Bellco) appreciates the opportunity to comment on the National Credit Union Administration Board's (NCUA) proposed rule to permit credit unions to engage in limited derivatives activities. We believe that the ability to use derivatives as tools in asset liability management will be beneficial in helping credit unions better manage interest rate and liquidity risks. This letter presents several comments for the NCUA's consideration in shaping the final version of the proposed rule.

Derivative Limits in Relation to Net Worth

We suggest that the NCUA eliminate the limits on the notional values of derivatives in relation to net worth. As shown in the NCUA proposed rule, credit unions with total assets in excess of $250 million carry an average of more than 35 percent of total assets in the form of fixed-rate mortgages. These assets contribute a significant portion of these credit unions' total interest rate risk exposure and are a key factor in the consideration of the use of interest rate derivatives. Eliminating the limits on the notional values would allow for the greater use of derivatives at credit unions that have the most need for mitigating the interest rate risk associated with the fixed rate mortgages, and would be of benefit to the credit unions and NCUSIF. We suggest that exposure to derivatives be measured in a way that captures the interest rate risk of the derivatives, such as duration, rather than measuring the exposure of longer maturity and shorter maturity derivatives equally.

Maturity and Average Life Limits

Again, we would anticipate that the greatest use of derivative instruments by credit unions would be for hedging fixed-rate mortgage assets. Because these assets have terms up to 30 years, we would suggest that the NCUA increase the maturity and average life limits in the final rule. At a minimum, we would suggest that the final rule increase the Level I term and average life limits to those applicable to Level II authority. We also suggest that the NCUA consider setting the maximum maturity for derivatives at 15 years to allow flexibility to construct the most effective hedge for balance sheet assets.

Experience Requirement

We suggest that the NCUA modify the experience requirements in the final rule. We agree that a credit union should be able to demonstrate the skills necessary for the effective and prudent management of various risks before entering into derivative transactions. However, direct prior internal experience with derivative transactions should no more be a requirement for derivative authority than direct prior internal experience with any other type of transaction. Having this type of requirement might force many credit unions to hire additional personnel to engage in plain vanilla swaps that are no more complex, with respect to interest rate, credit and liquidity risks, than the other investment activities existing personnel already transact. Imposing such experience limits negates the value of existing expertise, discounts the alternatives of training and research, and would introduce unnecessary costs at many credit unions. We suggest that the NCUA modify the final rule to eliminate the internal derivative experience requirement while continuing to focus on the other aspects of managing the risks related to these transactions.

Bellco and the credit union industry frequently utilize partnerships with other credit unions, such as CUSOs, to leverage expertise and to add efficiencies and cost savings to processes. We encourage the NCUA to consider the ability for credit unions to use partnership structures to comply with derivative regulation requirements, including any experience-level requirements that might remain in the final regulations.

Separation of Duties

We believe that the NCUA should reduce the separation of duties requirements with respect to derivative activities. It clearly is important to maintain effective separation of the risk taking and monitoring functions at credit unions. However, separating these duties into four components is overly burdensome and will result in artificial and meaningless separations of duties at most, if not all, credit unions. We suggest rewording this requirement to call for the separation of only the risk taking (i.e., execution and oversight) and risk management (i.e., accounting, confirmation, ALM, credit, collateral and liquidity management) functions.

Application and Supervision Fees

We suggest that the NCUA lower or eliminate the fees it will assess to credit unions that apply for derivative authority. The fees in the proposed rule of $25,000 for Level I authority and $75,000 to $125,000 for Level II authority will likely have the unintended consequences of discouraging some credit unions from utilizing derivatives. We believe that the application process and other requirements in the proposed rule will be more than sufficient to ensure that only those credit unions that truly need and will use the authority will apply, and the requirements will ensure that the applicant credit unions have the means to use derivatives in a manner that will be beneficial in managing interest rate risk while not creating undue credit, transaction and compliance risk.

We do not believe that the NCUA should assess annual licensing or examination fees to credit unions using derivatives. The appropriate use of derivatives should have positive impacts of reducing earnings and NEV volatility at the credit unions that use the derivatives and this should have a positive impact on the NCUSIF. Assessing annual licensing or examination fees would discourage some credit unions from using derivatives for appropriate risk management activities and may have the unintended consequence of increasing losses to the NCUSIF.

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Thank you for the opportunity to comment on the NCUA's proposed derivatives rule. Please let us know if you have any questions or comments on this letter, or need any additional information on Bellco Credit Union's perspective on the proposed rule.

Sincerely,

Dan Kampen
Chief Financial Officer

Lesley Fox
Treasury Officer