



DCU BULLETIN

Division of Credit Unions

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Interest Rate Risk

Recent years have shown a significant increase in the level of fixed rate real estate loans on the books of credit unions in Washington and across the country. Accompanying those loans is an increased exposure to interest rate risk. In general, credit unions have not adequately improved their policies and procedures to manage that risk.

In response to these conditions, NCUA provided Letter to Credit Unions 99-CU-12 in August of 1999. Unfortunately, it appears that the attention of many credit unions was focused in other areas and the import of that Letter may have escaped you.

Please be aware that the Division of Credit Unions and NCUA will be focusing increased attention on the interest rate risk management of those credit unions that have significant levels of assets with potential interest rate risk. Such assets include complex investments and loans secured by real estate.

We intend that **our emphasis will be graduated** and those credit unions with higher levels of risk assets will be expected to have developed more extensive policies, procedures, and competencies. Credit unions with no or limited interest rate risk assets will not be expected to have extensive management controls. Our reviews will evaluate the adequacy of Asset/Liability Management (ALM) policies, ALM planning, liquidity, ALM committee efforts, training and competencies of staff assigned to manage the risk, the adequacy of tools (eg. modeling) used to measure the risk, and the internal estimate of the level of the risk.

We are well aware that education and improvements in this area will require some time. However, affected credit unions should have set in place adequate plans for improved monitoring and control of their interest rate risk.

Please contact Mike Delimont at (360) 902-8790 if you have any additional questions or concerns on the subject.