



**National Association  
of Federal Credit Unions**  
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NAFCU | Your Direct Connection to Education, Advocacy & Advancement

August 25, 2014

Mr. Gerard Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

RE: Proposed Rule- Asset Securitization (RIN 3133- AE29)

Dear Mr. Poliquin:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the National Credit Union Administration's (NCUA) proposed rule on asset securitization.

First and foremost, NAFCU strongly supports NCUA's decision to clarify that credit union powers include the ability to securitize loans that the credit union has originated, provided that the transaction meets certain requirements. As NCUA noted, the proposed rule would provide an additional method by which credit unions could increase available liquidity and benefit their membership. In addition, the proposed rule would further the same goals as NCUA's recent final rule regarding credit union investments in derivatives by expanding the array of tools with which credit unions may mitigate interest rate risk. NAFCU hopes that NCUA will continue its successful push through NAFCU's "Dirty Dozen" list of rules that could be improved or eliminated and continue to provide means for credit unions to strengthen their balance sheets. As part of this effort, NAFCU encourages NCUA to work with other federal and state regulators where necessary to achieve regulatory relief.

NCUA's mission is to facilitate the availability of credit union services to all eligible consumers through a safe and sound credit union system, and to insure account holder deposits through the National Credit Union Share Insurance Fund (NCUSIF). Thus, in considering changes to the proposed rule, NAFCU believes NCUA should focus primarily on protecting credit unions and their members by making available to them a robust and viable securitization regime. While developing reasonable protections for investors in credit union securitizations may be incidental to NCUA's mission, the protection of such investors is the providence, and well within the existing regulatory framework, of other government agencies, such as the Securities and Exchange Commission. Accordingly, NCUA should not develop a securitization regime that

requires overburdensome and unnecessary provisions related to investors at the expense of ensuring that credit unions may serve the best interests of their members through the use of securitizations.

I. Expand Eligibility of Loans Beyond Those Originated By the Securitizing Credit Union

NAFCU requests that NCUA consider expanding the types of loans eligible to a credit union for asset securitization beyond those the credit union itself originated. Instead, the proposed rule should allow a credit union to securitize any loan originated by a federal credit union or its credit union service organization. Doing so would continue to ensure that all loans securitized by credit unions are subject to the supervisions and regulatory requirements of NCUA. Further, it would greatly enhance the efficiency and viability of the securitization regime by allowing originators to allocate their loans to those credit unions with the greatest resources, personnel, and experience. Such credit unions could then achieve significant economies of scale, particularly with respect to compliance training and costs. Credit union originators would be able to pass the avoided costs through to their members in the form of superior interest rates, while expeditiously increasing their liquidity. In addition, this change would ensure that credit unions have access to a sufficient number of loans to create a viable pool to securitize. Forcing credit unions to securitize only the loans they themselves originate represents a significant barrier to entry and will greatly reduce access to the secondary market and the benefits the rule could prove to credit union members nationwide.

II. Provide Flexible Residual and Retained Interests Requirement

The securitization rule should not establish an arbitrary, fixed level at which credit unions may hold residual and retained interests in securitized assets. While unbridled and uninformed investment in residual and retained interests could pose a potential risk to credit unions, the proposal contains meaningful safeguards in the form of the requirement that credit unions use, and adequately document, reasonable methodologies and techniques to value such residual and retained interests. The fixed 25% threshold for such interests, however, does not reflect the potential for credit unions to structure securitizations and enforce underwriting standards to ensure that residual and retained interests do not pose a serious risk.

NCUA should replace the fixed threshold with a sliding scale linked to the amount of risk associated with a given residual or retained interest. This change would serve two important purposes. First, it would ensure lower levels of investment in residual or retained interests that pose relatively greater risks to credit unions. Second, for those residual or retained interests that pose relatively limited risks, credit unions would have the opportunities to instill greater confidence in third party investors and more flexibility in developing their balance sheets. NCUA should also amend the proposal to explicitly grant credit unions the authority to alienate such interests.

### III. Derivatives and Hedging

In their current form, the regulations governing credit unions' ability to invest in derivatives (codified at 12 C.F.R. 703) do not allow them to enter into derivative transactions with their special purpose vehicles (SPVs). NAFCU recommends that NCUA explicitly authorize credit unions to enter into otherwise acceptable transactions with their SPVs through an ordinary application for derivatives authority. Similarly, NCUA should expand 12 C.F.R. 701.21 to allow credit unions to apply forward hedges to loans that credit unions intend to include in securitization transactions. These changes would greatly enhance credit unions' available options in mitigating interest rate and other types of risk.

### IV. Additional Clarifications and Guidance

NAFCU requests greater guidance on the types of agreements that would be and would not be allowed pursuant to NCUA's proposal to prohibit implicit recourse. NAFCU also asks that NCUA clarify that the proposed rule would not apply to securitizations issued through a government-sponsored entity program. The proposed rule also does not make clear if and under what conditions credit unions may engage in securitization transactions with multiple sponsors, and NAFCU asks that NCUA provide greater clarity on this point.

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at [ameyster@nafcu.org](mailto:ameyster@nafcu.org) or (703) 842-2272.

Sincerely,

A handwritten signature in black ink, appearing to read 'Angela Meyster', with a horizontal line extending to the right from the end of the signature.

Angela Meyster  
Regulatory Affairs Counsel