ALM FIRST
for a partnership built on trust.

November 20, 2017

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Request for Comments; Regulatory Reform Agenda

As an asset/liability and securities portfolio management consulting firm, ALM First Financial Advisors, LLC ("ALM First") welcomes the opportunity to respond to the request for comment concerning the National Credit Union Administration's ("NCUA") Regulatory Reform Task Force ("Task Force") and its regulatory reform agenda. ALM First appreciates the mission of the task force in identifying regulations to "alleviate unnecessary regulatory burdens placed on the American people". We strongly support the proposed rule, and its recommendations regarding existing regulations.

As consultants and asset managers, our comments are confined to those which are most applicable to ALM First's area of expertise: Part 703—Investment and Deposit Activities, Subpart A and Subpart B. When reviewing and commenting on the proposed regulatory rule changes, we asked ourselves the following question: "Will the proposed change allow credit unions to reduce risk and ultimately perform better than under the prior regulations?" Regarding all of Part 703 recommendations, the answer was "yes". However, there are still regulations to consider, which we believe deserve consideration.

In regards to Part 703 Subpart A, we support the published proposals. In particular, we believe the credit union industry will benefit from the loosening and removal of prescriptive language. Our portfolio management process attempts to direct credit union focus away from an individual security perspective, in favor of a holistic balance sheet risk perspective. Furthermore, we fully support the streamlining of Subpart A to provide the full investment authority allowed under the Federal Credit Union Act (the "Act").

However, ALM First recommends the Agency consider expanding investment authority to include other asset classes important for risk diversification and portfolio performance. In particular, we recommend exploring authorizing the purchasing of:

- Investment-grade (“IG”) corporate debt
- Auto and other consumer debt asset-backed securities (“ABS”)
- Mortgage servicing rights (“MSR”) assets

For a credit union with sufficient resources, knowledge, systems, and procedures to handle the risks, there is no reason why investing in IG corporate debt and ABS products should be prohibited. Such authorization would promote the overall efficiency of the credit union industry investment holdings, as these asset classes are important for risk diversification and portfolio performance. Empirical data show a reasonable allocation to these assets classes provides diversification benefits, such that the return series is *less* risky, not more risky. Please be advised that ALM First is not aware of the legal landscape and degree of effort such authorization would require.

Currently, credit unions are already in the mortgage servicing business, and many are already large holders of these assets. However, many credit unions also may desire to shed the asset. This could be for concerns over the asset’s risk profile, or the economic barriers to entry of building an efficient servicing operation. Allowing for transacting could promote the greater efficiency of the overall system.

Regarding Part 703 Subpart B, ALM First commends the Task Force in its efforts to widen the applicability of the rule. We believe the replacement of the application process with a “Notification” requirement and the removal of the volume-based limits on derivatives activity are a step forward in promoting a more efficient interest rate risk management process in the industry. ALM First believes the authorization of the following instruments would improve hedging efficiency and effectiveness:

- Eurodollar futures
- Interest rate swap futures

ALM First appreciates the consideration of these comments, and looks forward to working with the NCUA to advance the credit union industry.

Sincerely,

Emily M. Hollis	Robert B. Perry
Chief Executive Officer	Principal, ALM & Investment Strategy
ALM First Financial Advisors, LLC	ALM First Financial Advisors, LLC