



December 27, 2010

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

RE: Interim Final Rule Rulemaking – Corporate Credit Unions; Technical Corrections

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCU), I am writing to you regarding the National Credit Union Administration's (NCUA) interim final rule clarifying some aspects of NCUA's final rule on corporate credit unions issued in September 2010 (corporate rule).

NAFCU appreciates the agency's efforts in reviewing the corporate rule to make technical corrections where necessary and appropriate. While we generally support the effort, we do not believe that all the changes made were technical and, in fact, we are concerned about a particular change regarding exclusions from the definition of collateralized debt obligations (CDO).

Under the corporate rule, corporates are prohibited from purchasing CDOs. NCUA reasoned that CDOs are overly complex or leveraged investments and posed potential excessive investment losses. The final rule defined CDOs as follows: a debt security collateralized by mortgage-backed securities, asset-backed securities, or corporate obligations in the form of loans or debt. The definition specifically excluded senior tranches of Re-REMIC's consisting of senior mortgage- and asset-backed securities.

In the interim rule, reasoning that definition of CDOs was too broad and inadvertently included investments that did not present the risk of excessive losses when subject to the other credit risk and asset liability management rules, amended the definition of CDOs to exclude from the definition CDOs collateralized by (1) commercial

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mortgage backed securities; (2) securities collateralized by Agency mortgage backed securities (Agency MBS); and (3) securities that are fully guaranteed as to principal and interest by the United States government and its agencies and government sponsored enterprises.

NAFCU does not believe that NCUA's expansion of the list of exclusions so that CDOs collateralized by commercial mortgage backed securities are not prohibited investments is a technical change. Nonetheless, it appears that NCUA's reasoning is that commercial MBSs do not pose the kind of credit risk that NCUA is concerned about because, unlike residential MBSs, they have not been structured in a manner that would increase risk for the investor. Further, there are other sections of Part 704, including the limits on investment authority, which would also serve to limit the amount of risk that a corporate can take with respect to commercial MBS.

Assuming each of these assertions are correct, we believe that NCUA, as it finalizes the interim rule, should clearly state its reasoning for the exclusion from the definition of CDOs and more importantly, state that should firms begin to structure commercial MBSs in such a way that increases risk of loss for corporates, NCUA will remove this particular exclusion. We strongly encourage the agency, going forward, to closely monitor corporates' investment authority and make appropriate revisions taking into account increased and undue risk associated with investments in particular securities.

NAFCU appreciates the opportunity to comment on the interim final rule. Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2268 or ttefferi@nafcu.org.

Sincerely,

A handwritten signature in cursive script that reads "Tessema Tefferi". The signature is written in black ink and is positioned above the typed name.

Tessema Tefferi
Associate Director of Regulatory Affairs