

May 2, 2011

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

**Re: Comments on Notice of Proposed Rulemaking – Removing References to Credit Ratings**

VIA ELECTRONIC MAIL: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Dear Ms. Rupp,

The Michigan Credit Union League (MCUL) appreciates the opportunity to comment on the NCUA Board's proposed rule regarding the removal of credit rating references in all of the relevant NCUA regulations. MCUL is a statewide trade association representing 95% of the credit unions located in Michigan. MCUL respectfully requests that the NCUA Board takes the following letter into serious consideration when deliberating the passage of a final rule.

MCUL believes it is very unfortunate that Congress decided to scrap the credit rating standards applied by the Nationally Recognized Statistical Rating Organizations (NRSROs), rather than attempting to reform how the narrative standards are applied. MCUL also believes that replacing these standards with vague "external assessments of creditworthiness" merely transfers the problem from one system to another without getting to the root of the problem.

Having said this, MCUL understands that these proposals have been mandated by the Dodd-Frank Act and, as such, there is little opportunity for change. MCUL finds it extremely unfortunate that the Dodd-Frank Act imposed deadlines that many federal agencies have been unable to meet. As a result, regulators are forced to issue proposed rules before they are ready to enforce them in final form. MCUL strongly urges the Board to delay passage of this proposal until the necessary guidance promised in the proposal can be issued.

**Discussion**

Part 703 - Investment and Deposit Activities

The proposed rule would prohibit federal credit unions (FCUs) from purchasing a collateralized mortgage obligation (CMO), any other mortgage-related security, or a "small business related security" unless the FCU has specific evidence that the Securities and Exchange Commission (SEC) considers that security meets the requirements of the Securities and Exchange Act.

MCUL finds it disappointing that FCUs will be forced to wait up to two years before the SEC establishes its standards for these types of investments.

Additionally, §703.8(b)(3) and §703.9(d) list a number of factors FCUs should consider when evaluating the reliability of broker-dealers and investment safekeepers, respectively. The NRSRO reports would be replaced by “external assessments of creditworthiness,” which could be obtained from various sources. While MCUL often appreciates reasonable vagueness as offering flexibility, MCUL is not certain that “external assessments of creditworthiness” replaces the problem of NRSRO narrative deficiencies, and believes this rule was designed quickly simply to meet a deadline, as opposed to offering a viable alternative.

#### *Permissible Investments*

Section 703.14(e) currently provides that an FCU may purchase a municipal security (muni) that an NRSRO has rated in one of the four highest rating categories. The proposed rule removes the minimum rating requirements, providing instead that for an investment to be permissible, it must be originated by an issuer that has at least an adequate capacity to meet its financial obligations, even under adverse conditions, for the projected life of the security. An FCU could evaluate the financial strength of an issuer by conducting internal assessments and/or reviewing assessments issued by third-parties.

For European financial options contracts, the proposed rule would remove the reference to the NRSRO ratings and instead require that the counterparty meet credit standards “set by the board.” The proposed rule would also remove the reference to the NRSRO ratings for mortgage note repurchase transactions, and would instead require that the counterparty meet credit standards “set by the board.”

The proposed rule would also limit the FCU holdings in each of these investments.

MCUL urges the Board to grandfather FCUs with existing holdings of each of these investments that do not pose a safety and soundness risk to the FCU. It does not make sense to require any divestiture in these types of holdings, especially because the required standards have not yet been established that would demonstrate any greater risk that would necessitate any limitations.

#### Part 704 – Corporate Credit Unions

The proposed rule would remove the minimum rating requirements for corporate credit union investments, providing instead that for an investment to be permissible, it must be originated by an issuer that has at least a very strong capacity to meet its financial obligations, even under adverse conditions, for the projected life of the security. This standard would apply to both long-term and short-term investments. A corporate may base its evaluation of the financial strength of an issuer on internal and external assessments.

While it may be true that NCUA already requires corporates to have credit risk management policies that go beyond simple reliance on credit ratings, the credit ratings often form the basis for the assessment.

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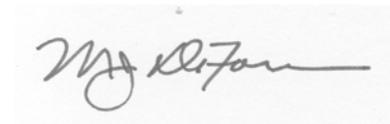
Additionally, NCUA stated in its proposal that it will “provide additional supervisory guidance on the indicators that support a determination that an issue or issuer has the necessary capacity (e.g., adequate, strong, very strong, etc.) to meet its financial commitments.” Without this guidance, it is not clear how a corporate and natural person FCU can adequately make this determination in line with the regulatory requirements. Nor is it clear how examination consistency will be ensured. Without clear guidance, FCUs will be assessed on a completely subjective basis.

### **Conclusion**

MCUL understands that NCUA is under tight deadlines to implement the provisions of the Dodd-Frank Act. However, MCUL urges NCUA to approach these provisions in a thoughtful way in order to provide the necessary guidance promised in its proposed rule in order to ensure examination consistency, compliance, and the safety and soundness of the credit union industry.

MCUL appreciates the opportunity to provide comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael DeFors", is written over a light-colored rectangular background.

Michael DeFors  
VP Regulatory Affairs