



National Association of Federal Credit Unions
3138 10th Street North • Arlington, VA 22201-2149
(703) 522-4775 • (800) 336-4644 • (703) 524-1082
www.nafcu.org • nafcu.nafcu.org

May 2, 2011

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

RE: Proposed Rule on Credit Ratings

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCUs), I am writing to you regarding the National Credit Union Administration's (NCUA) proposed rule on removing references to credit ratings in NCUA's regulations and proposing alternatives to the use of credit ratings. *See* 76 FR 11164 (March 1, 2011).

The proposed rule implements provisions of the Dodd-Frank Wall Street Reform and Consumer Protections Act (Dodd-Frank Act) that require NCUA and the banking regulatory agencies to remove references to credit ratings from their regulations. The proposed rule implements relevant provisions of the law in three ways. First, for investments, the proposal would replace the current minimum credit rating requirement with a requirement that credit unions conduct an internal credit analysis of their investment pursuant to a particular narrative standard. Second, for counterparty transactions, the proposal would replace the current minimum credit rating requirement with one that a credit union conduct an internal credit analysis of the counterparty pursuant to a standard set by the credit union's board. Third, for regulations not concerning investments and counterparty suitability, the proposal would remove the current ratings requirement without requiring a substitute analysis.

NAFCU is very concerned about the effect the proposed rule would have on credit unions. A credit union would have to greatly increase the level of internal credit analysis it conducts relative to investments. For most credit unions, this means they would have to hire experts to conduct the necessary analysis, which would clearly increase costs associated with their investment undertakings. Similarly, costs associated with

Mary Rupp
May 2, 2011
Page 2 of 2

counterparty transactions would increase, as credit unions would have to allocate resources to conduct the proposed internal credit analysis.

NAFCU requests that NCUA withdraw the proposed rule and pursue changes to § 941 of the Dodd-Frank Act that would give the agency more flexibility in revising its regulations relative to references to credit ratings. NAFCU believes that NCUA, as the Chair of the Federal Financial Institutions Examination Council (FFIEC), is in a strong position to facilitate legislative changes to the Dodd-Frank Act.

We are mindful of the purpose behind § 941 of the Dodd-Frank Act, most prominently of which is to address over-reliance on credit ratings by institutional investors. NAFCU also understands that simply relying on credit ratings in conducting credit risk analysis may be inappropriate and insufficient in particular situations. Still, we believe that credit ratings should continue to have a prominent role in many areas. For example, where the rating agency operates under a “subscription model” (i.e., where the ratings are available only to subscribers), the concern over influence by issuers does not exist.

A possible solution the NCUA and FFEIC should consider pursuing is to seek legislation that would eliminate the statutory requirement that regulators remove references to credit ratings from their regulations. The affected FFIEC agencies should be granted the discretion to replace the current requisite credit ratings for some types of investments and counterparty transactions with appropriate standards of credit analysis that they deem appropriate.

NAFCU stands ready and willing to work with NCUA in seeking the legislative change discussed above.

NAFCU appreciates the opportunity to comment on the proposed rule. Should you have any questions, please contact me by telephone at (703) 842-2234 or by e-mail at chunt@nafcu.org, or Tessema Tefferi at (703) 842-2268 or ttefferi@nafcu.org.

Sincerely,



Carrie Hunt
General Counsel and Vice President of Regulatory Affairs