

From: [Evan Clark](#)
To: [Regulatory Comments](#)
Subject: Comments on proposed corporate regulations regarding credit
Date: Thursday, February 18, 2010 1:51:58 PM

Mary Rupp, Secretary of the Board

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Ms. Rupp,

I am writing in response to the NCUA's proposed corporate credit union rules. I applaud NCUA's leadership on the issue of the corporates and believe that the proposed rules are a good step forward in proper governance of the corporates. However I believe that the NCUA has completely missed the mark with the analysis of the problems currently facing the corporate credit unions and the credit union movement. The fundamental issue at the core of the current corporate issues was a failure on the part of the corporates to properly evaluate the credit quality of the collateral underlying the investments being considered for purchase. In many instances the evaluation should have been done on a very granular level, to the point of reviewing the underlying collateral documentation on a loan by loan basis. If done properly it would have revealed the lack of documentation for many of the loans underlying the investments purchased and the credit risk that was being contemplated for purchase. I have read the proposed new rules in their entirety and I believe the one area where there should be stronger language is in the area of credit review prior to purchase of investments and subsequent review of credit after purchase.

With regards to evaluation of credit prior to purchase of investments Section 704.5 (a) (1) if expanded should serve as the corporates' guide to proper evaluation of an investment prior to purchase. This section reads:

(1) Appropriate tests and criteria for evaluating investments and investment transactions before purchase; and

I believe this section needs to be expanded to include recommended tests and criteria. These recommended tests and criteria should include review of the credit quality of the underlying collateral of the investment being considered for purchase. A review of credit quality might include such things as current and historical delinquency and default rates of underlying collateral, loan to value ratios at time of issuance of the security and at time of purchase, and the percentage of loans in the investment being considered for investment that have limited or no documentation. As stated earlier, consideration should also be given to evaluating the credit of the underlying collateral on a loan by loan basis. If the corporates do this type of comprehensive review of credit prior to purchase and then clearly weigh the credit risks and interest rate risk against the proposed return on the investment the chances of a problem similar to the current situation will be greatly mitigated.

Further, I don't believe NCUA, the corporate credit unions or the credit union movement should put the heavy reliance on the Nationally Recognized Statistical Rating Organizations,

(NRSRO), that the proposed rules suggest. Although I do not know I have to wonder if over reliance on the NRSRO's didn't contribute heavily to the problems the corporates and the credit union movement now face. It appears as though this reliance on the NRSRO's took the place of proper evaluation of credit by the corporates and frankly, proper oversight by the NCUA. Furthermore, the independence of the NRSRO's must be questioned based on how they are compensated for their services. I believe that all references to the NRSRO's should be removed from the proposed rules because the best interests of the corporate credit unions and the credit union movement are not served by reliance on the judgment of the NRSRO's. I believe that section 706 (g) should be the centerpiece of the new rules evaluation of credit after purchase. This section currently reads:

(g)

Reporting and documentation. (1) At least annually, a written evaluation of each credit limit with each obligor or transaction counterparty must be prepared and formally approved by the board or an appropriate committee. At least monthly, the board or an appropriate committee must receive an investment watch list of existing and/or potential credit problems and summary credit exposure reports, which demonstrate compliance with the corporate credit union's risk management policies.

This analysis, if done properly, will protect the corporates and the credit union movement from a repeat of current problems we are in. In most instances the credit union should employ a qualified, independent third party to evaluate the credit worthiness of its securities.

There are other issues that I have with the proposed rules that I will address in a separate letter. However, the seriousness of the credit issues is such that I wanted to address it in separate correspondence. Thanks again for NCUA's leadership in the area of corporate credit union reform and thank you for taking the time to read about my concerns regarding the proposed corporate rules.

Sincerely,

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