National Association
of Federal Credit Unions
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November 21, 2012

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

RE: Proposed Rule on Treasury Inflation Protected Securities

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing you regarding the National Credit Union Administration's (NCUA) proposed rule regarding Treasury Inflation Protected Securities (TIPS).

First and foremost, NAFCU would like to express our appreciation to NCUA for heeding the call of credit unions and NAFCU on TIPS. We are especially thankful that the agency is acting upon this issue, and others, which was specifically identified by credit unions during Chairman Debbie Matz's listening sessions as regulatory matters that the agency should address. NAFCU has, and continues to, urge the NCUA to act on what it learned during the listening sessions.

The proposed rule would remove the current prohibition against credit unions' investment in TIPS. The NCUA has long limited credit unions' ability to invest their funds, even in cases where the investments are in assets and securities that have proven to be safe, including TIPS, far beyond the limits that the Federal Credit Union Act (FCU Act) imposes on credit unions' investment powers. NAFCU has consistently advocated for increased investment powers for credit unions, including the authority to invest in TIPS. Accordingly, we strongly support the NCUA's proposal.

However, NAFCU believes the agency should ensure that this proposed rule is a first step in providing qualified credit unions increased flexibility and added investment powers. For example, we strongly believe that credit unions should have limited authority to engage in certain derivatives activities. The agency has issued two Advance Notice of Proposed Rulemaking seeking comments on derivatives authority; however, while there is broad support for limited derivatives authority, the agency has yet to issue a proposed rule. We strongly urge the agency to move forward with its rulemaking on derivatives as such instruments would provide qualified credit unions a very useful tool to, at the very least, hedge against interest rate risk.

As we have previously stated, credit unions should also be able to purchase mortgage servicing rights as an investment. Allowing credit unions this investment power would clearly enhance their ability to diversify their investments. Further, where the rights are purchased from another credit union, it allows both parties to benefit from the transaction. Conversely, the prohibition against purchasing mortgage servicing rights is not well-founded.

Lastly, NAFCU strongly urges the NCUA to fully examine Part 703 and other relevant regulations to ensure that only necessary limits on credit unions' investment powers are imposed. We stand ready to assist the agency to identify aspects of its regulations that should be revamped and also to help craft solutions where needed.

NAFCU appreciates the opportunity to share our thoughts on the proposed rule. Should you have any questions or require additional information please call me at (703) 842-2268.

Sincerely,

Tessema Tefferi

Tessema Tefferi
Regulatory Affairs Counsel