

August 25, 2014

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

RE: Comments on Proposed Rules - Asset Securitization and Safe Harbor

Dear Gerald Poliquin,

Thank you for the opportunity to submit comments on behalf of the League of Southeastern Credit Unions & Affiliates (LSCU) regarding the National Credit Union Administration (NCUA) Board's Asset Securitization proposal. By way of background, LSCU is one of the country's largest credit union advocacy organizations, representing more than 285 state and federal credit unions throughout Alabama and Florida, which serve more than 6 million members.

Our comments are in response to the NCUA proposal to amend its regulations to clarify the authority of a credit union to securitize originated loans, as an incidental powers activity, provided the transaction meets certain predetermined requirements. This proposal would also permit those federally insured, state chartered credit unions to securitize their assets also, if permitted by applicable state law. LSCU applauds the agency for taking steps aimed at providing credit unions with opportunities in which they can grow and operate effectively, while at the same time compete in the marketplace. Another source of liquidity for credit unions to access as part of their loan programs, as this proposal seeks to provide, is a welcome addition to current credit union capabilities.

LSCU supports the objectives and most provisions of this proposal and commends NCUA for moving ahead with this rulemaking. We have provided several recommendations we believe will benefit credit unions and we urge the agency to include them in the final rule. We offer them in an effort to improve the rule's usefulness to credit unions without posing additional risks to the National Credit Union Share Insurance Fund.

Credit Unions Authorized to Securitiz Assets

The Federal Credit Union (FCU) Act provides credit unions with the authority to sell loans and while the language of the Act does not specifically address the securitization of loans, the practice is in line with the long established permissibility of credit unions to originate loans that are then sold. The securitization or packaging of loans for sale to investors is complex and requires diligent monitoring but the practice is not foreign to credit unions in today's marketplace. We support the NCUA position that the securitization of credit union loans meets all three parts of the agency's test for a permissible incidental power.

To meet the first of the three part test an activity must be convenient or useful in carrying out the mission of credit unions. Securitization aids credit unions in facilitating member

lending. Member lending is a critical function of credit unions and when done correctly, a provider to credit unions of fee income and financial stability.

Secondly, an effective loan program is an undeniable result of other member products and services that have long been the basis for the credit union movement. Selling loans packaged as securities is a natural byproduct of credit union lending programs.

Third, a credit union should avoid activities that introduce risk largely different from risk the credit union has already undertaken during the course of its operation. Risks currently present among credit unions that chose to engage in asset securitization should not be viewed as being that different from those credit union management already manages as part of their loan programs. Based on these reasons, LSCU supports NCUA's legal position that the authority of credit unions to securitize assets is permissible under the FCU Act.

Expand Credit Union Ability to Securitize Assets

The proposal currently seeks to limit credit unions' authority to securitize loans to only those loans originated by the participating credit union. This unnecessary restriction would diminish the benefit of the rule to credit unions and we strongly urge the agency to delete it from the final rule. According to our affiliate members, commercial and community banks in Alabama and Florida with whom our member compete daily are not limited in this way, and we have not found sufficient justification as to why the agency would require credit unions to operate differently. A level field on which to compete is a reasonable request in this instance.

A level playing field would mean credit unions could securitize loans not originated and as a result increase access to the marketplace by increasing their opportunities to securitize assets. It would provide individual credit unions the opportunity and flexibility to determine when and which loans to purchase in order to facilitate securitization and it would provide credit unions of limited resources and opportunities the ability to securitize assets, when financially prudent to do so.

We recommend that the current restriction applicable even if loans that are purchased are re-underwritten based on the credit union's loan policies and creditworthiness standards be removed. Why loans not originated but underwritten by a credit union are viewed in this manner is a mystery to us since they represent no greater risk to the credit union than those loans originated and underwritten in house. As you are no doubt aware, credit unions currently may hold loans that they have purchased based on reasons unrelated to securitization. Credit unions should be allowed to include these loans in a securitization transaction should it be determined by management it is a viable option.

It is not unreasonable for the NCUA to be concerned that some credit unions will undoubtedly purchase loans that reflect unnecessary risk as they seek increased returns. Such a view is understandable for a supervisory agency. However, rather than prohibiting the purchase of loans for securitization, we believe the agency would be better served by providing guidance to participating credit unions' that highlights the obligations an institution takes on when entering into asset securitization activities. Emphasis in the form of proper due diligence and reporting procedures are critical to a successful securitization program.

Furthermore, the final rule should include clear definitions. Loans originated by a credit union's CUSO or other lending program should be explained fully. Without a clear explanation of the meaning and purpose of the many parts of such a program and the agency's definition of each, confusion could create issues for institution and agency. We urge the agency to provide definitions where necessary to improve communication and eliminate misunderstanding.

Risk-Based Capital

Recently, the NCUA Board proposed sweeping changes to the Risk Based Capital Rule that, once adopted, promise major adjustments among credit unions. With that in mind, any final rule involving asset securitization demands a detailed risk-based capital (RBC) issues explanation addressing the potential impact of securitizations. We believe securitized mortgages should not be included in concentration risk thresholds. NCUA should also consider providing regulatory capital relief for pass-through securitizations. This appears to be a reasonable accommodation aimed at providing credit unions relief in this critical area.

Credit Union Service Organizations (CUSO)

Credit Union Service Organizations (CUSO) play a key role for many credit unions and asset securitization offers another opportunity for CUSOs to contribute positively to the credit union mission. Prior to the adoption of the final rule, we strongly urge the agency to include a clear and concise explanation of the role of CUSOs in asset securitization. While asset securitization is not currently a pre-approved CUSO activity, we believe NCUA should consider whether CUSOs can act as sponsors. In addition, a CUSO's ability to securitize assets should be determined so there is no ambiguity among credit unions as to their role in the process.

Closing

Thank you for the opportunity to submit our comments on NCUA's asset securitization proposal. We are in support of the proposal; however, we would like to see NCUA address the issues we have identified in this letter to ensure the securitization rule adopted by the agency proves beneficial to credit unions. If you have any questions about our comments, please do not hesitate to contact me.

Sincerely,

Scott Morris
Director
League of Southeastern Credit Unions

cc: CUNA, CCUL
