

NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314**

DATE: June 2013 **LETTER NO.:** 13-CU-05

TO: Federally Insured Credit Unions

SUBJ: **Guidance: Investing in Securities without Reliance on Credit Ratings**

ENCL: **Supervisory Letter 13-03: Investing in Securities without Reliance on Nationally Recognized Statistical Rating Organizations (NRSRO) Ratings**

Dear Board of Directors and Chief Executive Officer:

Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act required all federal agencies, including NCUA, to remove references to credit ratings in regulations and substitute other standards of creditworthiness that are deemed appropriate.

As a result, the NCUA Board's revisions to investment regulations for natural-person credit unions recently took effect.¹ The revisions replace minimum rating requirements with a requirement that federal credit union investment officials conduct and document credit analyses demonstrating that each issuer has demonstrated a capacity to meet its financial commitments.

The elimination of credit ratings from the regulations has prompted credit union officials to seek clarification of NCUA's expectations regarding issues of creditworthiness and due diligence. Towards that end, we have prepared new investment guidance for NCUA examiners.

Attached is NCUA Supervisory Letter 13-03, which provides you with the same guidance we have just shared with our examiners. This Supervisory Letter will help you understand your examiner's focus on specific elements of a sound due diligence process, including:

- Key factors to consider in analysis of credit risk for various investment types and counterparty agreements;
- Guidance on structured securities analysis; and
- Grandfathered investments.

¹ See updates to Parts 703, 704, 709 and 742 of NCUA Rules and Regulations.

I encourage you to review the attached supervisory guidance. It will help you understand how to evaluate the risks associated with investment purchases without sole reliance upon credit ratings.

If you have any questions related to this letter, please contact NCUA's Office of Examination and Insurance at 703-518-6360 or EIEmail@ncua.gov.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure