Board Action Bulletin

PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR JUNE 19, 2014

NCUA Board Proposes Allowing Credit Unions to Securitize Their Own Assets

Proposed Appraisal Rule and Final Voluntary Liquidation Rule Cut Red Tape

ALEXANDRIA, Va. (June 19, 2014) – The National Credit Union Administration Board convened its sixth scheduled open meeting of 2014 at the agency's headquarters here today. The Board unanimously approved five items:

- A proposed rule expanding the powers of federal credit unions by allowing qualified institutions to securitize loans they have originated.
- A proposed rule creating safe-harbor protection for certain securitized assets and protecting investors in cases of conservatorship or liquidation.
- A proposed rule to assist underwater borrowers by allowing federally insured credit unions to refinance or modify real estate loans without obtaining an additional appraisal.
- A final rule reducing administrative burdens on solvent credit unions that voluntarily liquidate.
- A request by Mainstreet Credit Union of Lexana, Kansas, to convert to a federal charter.

Proposed Securitization Rule Would Provide Opportunities for Innovation

Qualified federal credit unions would be able to securitize loans if they meet certain criteria under a proposed rule (Parts 721 and 741) approved by the Board.

NCUA Board Chairman Debbie Matz said securitization can be an effective tool for very large credit unions that have the capacity and expertise to handle these transactions.

"As the credit union system becomes larger and more complex, more credit unions are developing the scale and expertise to offer sophisticated innovations," Matz said. "Securitization is complex and has the potential to tap new sources of liquidity and mitigate interest rate risk. However, it would also create an additional layer of risk. Most credit unions do not yet originate enough loans to sponsor securitizations, but for those that do, it is prudent to propose specific safety and soundness provisions."

The proposed rule would allow qualified federal credit unions to securitize loans they have originated under certain conditions. A credit union would be required to create a separate, special-purpose entity to hold the assets. It would also need to have independent risk-management controls and an annual independent audit performed.

Additionally, the credit union's board members would need to have an adequate understanding of the securitization process, and senior management would need to have sufficient expertise to oversee these transactions. The credit union must also have in place a board-approved securitization policy.

The proposed rule also would apply to federally insured, state-chartered credit unions that are permitted by state law to securitize their assets.

Comments on the proposed rule, available online here, must be received within 60 days of publication in the *Federal Register*.

Safe Harbor for Securitizations Would Protect Investors

In conjunction with the proposed rule on securitization, the Board also approved a proposed rule (Part 709) providing a safe harbor for assets transferred by a federally insured credit union in connection with a securitization or a participation.

Matz called the proposed rule "essential to creating a viable market for credit union securitizations," saying it would protect investors in the unlikely event of a credit union being conserved or liquidated. The proposed rule would provide greater certainty to promote investor confidence and a level playing field for credit unions to sponsor securitizations.

Comments on the proposed rule, available online here, must be received within 60 days of publication in the *Federal Register*.

Proposed Appraisal Rule Streamlines Regulation, Provides Homeowners Relief

The Board approved a proposed rule (Parts 701 and 722) providing a measure of relief to both federally insured credit unions and homeowners who are underwater in their mortgages through no fault of their own.

"Like our rule on Troubled Debt Restructuring, this proposed rule is an example of how NCUA is working to help keep credit union members in their homes," Matz said. "The proposed rule both gives relief to homeowners and reduces unnecessary paperwork for credit unions."

The proposed rule, part of the agency's Regulatory Modernization Initiative, would encourage more federally insured credit unions to modify or refinance mortgages in markets where home prices have declined. The rule would allow a federally insured credit union to refinance or modify a real estate-related loan it holds without obtaining an appraisal if there is no advancement of new monies or with an advancement if there is adequate collateral protection.

The rule would eliminate the current duplicative requirement that federal credit unions provide members copies of appraisals for loans secured by a first lien on a dwelling, as recently finalized Consumer Financial Protection Bureau regulations also require credit unions provide copies of such appraisals.

Comments on the proposed final rule, available online here, must be received within 60 days after publication in the *Federal Register*.

Voluntary Liquidation Rule Provides Greater Flexibility, More Protection

Solvent federal credit unions that decide to liquidate voluntarily will have fewer administrative hurdles, and members will have better protection, under the Board-approved final rule (Part 710).

"This rule will reduce administrative burdens and ensure every credit union member receives all their insured funds," Matz said. "We are not encouraging more credit unions to liquidate, but we want to make the process as efficient as possible when they do make this decision. This rule is more than 20 years old, so it's a perfect candidate for our Regulatory Modernization Initiative."

The revised rule:

- Increases asset-size thresholds for certain procedural requirements in a voluntary liquidation.
- Gives credit unions greater flexibility to use electronic means to publish creditor notices and issue member share payouts.
- Provides that preliminary distributions to members are permitted up to the insured limit applicable to each member's account.

The final rule, available online here, will become effective 30 days after publication in the *Federal Register*.

Mainstreet Credit Union Federal Charter Conversion Approved

Mainstreet Credit Union of Lexana, Kansas, will continue to improve and expand member services following the Board's approval of a federal community charter.

"Mainstreet demonstrates the capacity and the commitment to service its community," Matz said. "As a federal charter, Mainstreet will have greater opportunities to branch out across the state line and reach untapped markets, and they have designed several products and services to meet the needs of low-income members. One particular service that's truly innovative is the branch Mainstreet operates twice a week at a local work-release facility, which offers ex-offenders budget training and the chance to establish a firm financial foundation as they re-enter society."

Mainstreet, previously a state-chartered credit union, requested the conversion to better meet its strategic needs and serve its membership by expanding its branch network in Missouri. Mainstreet will serve people who live, work, worship or attend school in, and businesses and other legal entities located in, Kansas City, Kansas, and the Missouri-Kansas Metropolitan Statistical Area, consisting of Franklin, Johnson, Leavenworth, Linn, Miami and Wyandotte counties in Kansas and Bates, Caldwell, Cass, Clay, Clinton, Jackson, Lafayette, Platte and Ray counties in Missouri.

Originally chartered in 1953 as the Northeast Johnson County Teachers' Credit Union, Mainstreet later became a community charter and has gradually expanded its field of membership. The credit union changed its name to Mainstreet in 2011. A full-service credit union, Mainstreet has 60,535 members and assets of $355.5 million, according to the credit union's most recent Call Report.

The area Mainstreet will serve has a population of more than 1 million, which requires NCUA Board approval.

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