



ALM FIRST

2911 Turtle Creek Blvd., Ste. 500
Dallas, TX 75219

almfirst.com

August 18, 2014

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

Dear Mr. Poliquin:

On behalf of the partners of ALM First Financial Advisors and its management staff, I am writing in response to the Notice of Proposed Rulemaking – Asset Securitization. We thank you for this opportunity.

The NCUA has issued this notice of proposed rulemaking on asset securitization to provide an additional source of liquidity into the system and to allow credit unions to optimize capital. NCUA also believes that securitization may be used to reduce interest rate risk by converting fixed-rate assets into cash.

ALM First also believes that securitization will enhance income for the participating credit unions relative to income generated by an outright sale of the whole loans. Markets generally discount loans assuming lower underwriting standards than typically seen in the credit union industry. Securitization will, thus, bring value to participating credit unions given the fact that credit unions will assume the risk associated with the first loss piece. Transaction profitability will, therefore, have a greater positive impact on the credit union's bottom line rather than of the buyer.

Suggestion One

Part 721.3 (3) Securitization

As part of its business, a federal credit union may securitize and sell loans that it has originated. The purchase and re-underwriting of a loan does not constitute origination within the meaning of this paragraph.

The regulation should address and clarify that loans purchased by way of mergers should constitute origination. The merged credit union would no longer exist, but by way of the purchase method of accounting, the loans would be acquired by the remaining credit union. The loans could be material in the case of a merger of equals.

The regulation should also clarify that loans issued by a credit union owned CUSO should qualify.

Suggestion Two

Part 721.3 (4) Authority to Create Issuing Entities

To securitize assets, a sponsor must be able to create an issuing entity, commonly known as a special purpose vehicle or special purpose entity, to hold the assets collateralizing the asset-backed security.

The securitization regulation as written is focused on a single credit union owning 100% of the issuing entity. We propose that the ruling allow multiple credit unions to collaboratively own the entity, due to the economic benefits associated with the securitization transaction. Aggregation of loans would enhance geographic diversification and demographics, which will subsequently enhance value when sold to the street. In addition, multiple credit unions would aid in volume. The agency may wish to consider limiting the number of owners to aid in complexity and limit the risk of the first loss piece. The first loss piece will most likely represent the entire pool with defaults distributed pro rata. If underwriting guidelines are uniformly adopted across all owner credit unions, defaults should be proportionate.

ALM First also suggests that the regulation allow for the issuing entity to attract capital from outside investors.

**Suggestion Three
Derivatives**

ALM First believes that the issuing entity should have derivative powers. It will take time to accumulate volume necessary to attract security interest from the secondary markets. Normal practice is to commit delivery of a security with predetermined loan requirements to the street and hedge the sold security as loans are accumulated into the trust. Should rates move up, credit unions would then be protected from losses. Without derivative powers, the credit union could potentially be exposed to rising rates, thus jeopardizing liquidity.

ALM First applauds the NCUA for its efforts in drafting a securitization ruling which will allow credit unions an additional source of funding or liquidity to meet member's needs.

Thank you for allowing ALM First Financial Advisors to comment. We are hopeful NCUA finds these suggestions useful and welcome any future dialogue.

Sincerely,



Emily Moré Hollis, CFA
Partner