



August 25, 2014

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

**RE: Comments on Proposed Rule – Asset Securitization**

VIA ELECTRONIC MAIL: [www.regulations.gov](http://www.regulations.gov)

Dear Mr. Poliquin,

The Michigan Credit Union League (MCUL), the statewide trade association representing 98% of the credit unions located in Michigan and their 4.5 million members, appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposal to amend regulations to allow the securitization of loans, under certain conditions.

The MCUL supports the NCUA's initiative to allow more opportunities for credit unions to diversify and protect their portfolio as the interest rate environment changes. The ability for credit unions to securitize and sell their loans would provide credit unions with another tool to free up funds that can be used to provide additional lending opportunities to members or allow for a credit union to diversify their portfolio to provide protection as interest rates change.

Loans the Credit Union has Originated

The NCUA indicates in their proposed rule that allowing credit unions to purchase loans for the purpose of issuing asset-backed securities would add an additional layer of risk, which is "uncharted" for the NCUA. Therefore, the proposed rule limits the ability for credit unions to only securitize loan assets they originate. While it may be uncharted territory for the NCUA and credit unions, the MCUL does not agree that this provides a sufficient rationale to prohibit it. As credit union balance sheets evolve, so should risk mitigation strategies. The NCUA has not shied away from progressive strategies, as highlighted by the recent rule on derivatives, and should not handcuff credit unions with regard to this strategy that is based on an accepted and well-documented practice for other segments of the industry.

The NCUA indicates that the proposed rule limits securitization to loans the credit union has originated for safety and soundness reasons associated with purchasing assets for the specific purpose of securitization, without regard to asset quality. However, this concern is significantly mitigated by the requirement for the sponsor to retain an economic interest in a material portion of the financial assets. According to the NCUA's "safe harbor proposal," the retained interest may either take the form of an interest of not less than 5% in each credit tranche, or in a representative sample of the securitized financial assets equal to not less than 5% of the principal amount of the financial assets at transfer. The retained interests cannot be sold, pledged, or hedged during the life of the transaction, except for the hedging of interest rate risk. The NCUA indicates that with this economic interest in the asset pool requirement, the sponsor will be less likely to purchase

low quality financial assets. The MCUL agrees with this analysis from an origination and purchase perspective.

In addition to the retained interest requirement, it would be reasonable for the NCUA to consider the imposition of additional requirements for purchased assets to be securitized, such as policies and procedures related to the due diligence and underwriting standards of those assets. With numerous ways for risk to be addressed, the MCUL strongly encourages the NCUA to re-evaluate and remove the restriction on this activity in the final rule.

#### Effect on Credit Unions

There are currently credit unions that purchase real estate loan assets to hold in portfolio as part of their business model. These loan assets are whole mortgages that the credit union services and that also meet the credit union's internal underwriting criteria. The purchasing of these mortgages allows for credit unions with more restrictive balance sheets to offer mortgage lending to their members, while having the ability to offload the asset for immediate liquidity. This also allows the mortgage loan to stay within the credit union industry, as opposed to being sold in the secondary market. Under this proposed rule, the purchasing credit unions would be prohibited from securitizing those mortgage assets, losing a valuable risk mitigation tool.

#### Safe Harbor

The MCUL supports the aspect of NCUA's proposal that allows the liquidating agent or conservator of a federally insured credit union a safe harbor for financial assets transferred in connection with securitizations and participations, when done so in compliance with the regulation. The MCUL agrees that it is important to provide parity with other industry participants proposed and final rules. Additionally, this safe harbor will also be an important factor and element of protection for securitization investors and loan participants.

#### Summary

In general, the MCUL is supportive of both the Asset Securitization and Safe Harbor rules. However, the MCUL strongly encourages the NCUA to consider expanding the ability to securitize loans that are purchased by the credit union, as well as originated. If the NCUA believes there is a safety and soundness issue, the MCUL encourages the NCUA to consider criteria to mitigate the perceived risk as opposed to the blanket prohibition of the activity. Having the ability to engage in this type of "uncharted" activity would allow credit unions the sort of additional risk mitigation tool that will be necessary as credit union portfolios evolve.

Sincerely,

A handwritten signature in black ink, appearing to be 'K. Ross', written in a cursive style.

Ken Ross  
Executive Vice President & Chief Operating Officer