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October 28, 2013

Robert deV. Frierson, Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

**Re: Docket No. R-1411**

Dear Secretary Frierson:

The Pennsylvania Credit Union Association (PCUA) is a state-wide advocacy organization that represents a majority of the nearly 500 credit unions located within the Commonwealth of Pennsylvania. PCUA appreciates this opportunity to submit comments to the Board of Governors of the Federal Reserve System (Board) regarding its proposed revised rule that addresses credit risk retention.

To prepare this comment letter, PCUA consulted with its Regulatory Review Committee (the Committee). The Committee consists of chief executive officers and executive management staff from credit unions representing all asset-sized peer groups. The comments contained in this letter articulate the input of the Committees and PCUA staff.

### **Definition of Qualified Residential Mortgage**

The Committee supports the proposed, revised definition of Qualified Residential Mortgage (QRM), in particular, the fact that the proposed definition aligns with the definition of a Qualified Mortgage (QM) as adopted by the Consumer Financial Protection Bureau (CFPB). As a general rule, Pennsylvania's credit unions underwrite real estate loans and mortgages pursuant to standards set by the Government Sponsored Enterprises (GSEs). A credit union would likely retain a small portion of loans in its portfolio. As QRM will track QM, the proposed rule enables credit unions to continue their underwriting practices and ensure that those mortgages that a credit union would want to sell on the secondary market would remain eligible for sale.

### **Enhanced Securitization versus Safety and Soundness Standard**

Consistent with our support of the definition of QRM, credit unions support the policy behind the credit risk retention standards. That is, risk retention can mitigate the risk in the pool of assets that becomes securitized. QRM is a reasonable and valid exception to risk retention standards.

As the regulation takes effect, however, we urge all of the regulatory agencies that are parties to the QRM proposal and all prudential regulators to view the credit risk retention rules in the proper light. These rules are aimed at mitigating risk connected to asset-back securities. Despite a similarity to consumer protection rules, QRM and credit risk retention should not evolve into a safety and soundness standard in terms of evaluating an individual credit union's real estate loan portfolio. Prudential regulators have issued guidance during recent years concerning concentration risk, interest rate risk, asset-liability management, and risk management in general. All financial institutions are operating in an uncertain economic environment; therefore, it is prudent to undertake risk management measures. However, if QRM or QM would emerge as the safety and soundness yardstick for consumer real estate lending, we fear that consumers will suffer reduced access to credit.

As noted above, Pennsylvania's credit unions hold a small portion of real estate loans in their portfolio. Such a decision might be based on asset-liability management or it might be based upon accommodating the credit needs of a member. The availability of such credit could evaporate if credit unions feel pressure to underwrite strictly in accordance with QRM or QM. Quite simply, a credit union would re-evaluate the terms available or the products offered if it anticipates supervisory pressure. Accordingly, we think it would be appropriate for the Federal Reserve and the other agencies to state that credit risk retention and QRM are rules intended to preserve the integrity of asset-backed securities and they are not meant to articulate a safety and soundness standard in the context of supervision.

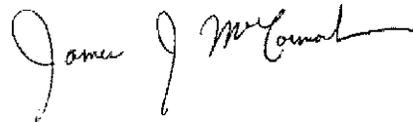
### **Alternative Definition...QM-Plus**

The Committee strongly urges that the final rule should not include an alternative definition of a QRM called QM-Plus. As proposed, QM-Plus would be available only for first lien loans secured by a one to four family principle residence and would limit a LTV to 70%, requiring a borrower to put down 30% in order to qualify for the real estate loan. The Committee anticipates that the additional requirements could disadvantage a potentially large segment of American consumers by locking them out of the real estate loan market due to the down payment requirement.

## Conclusions

In general, credit unions are supportive of reforming securitization pools with the aim of preventing assets that carry undue risk from corrupting the secondary markets. The proposed definition of QRM is a welcome revision to the rule. It will enable credit unions to continue their current underwriting practices while ensuring access to the secondary market. We maintain that the credit risk retention rules and QRM should not evolve into a safety and soundness standard for evaluating the quality of a credit union's loan portfolio. Should that occur, we anticipate decreased availability of credit as credit unions would tighten underwriting criteria. We do not support QM-plus. We would be happy to discuss the comments contained in this letter at the convenience of the Board of Governors.

Sincerely,

A handwritten signature in black ink, appearing to read "James J. McCormack". The signature is fluid and cursive, with the first name "James" being the most prominent.

James J. McCormack  
President/CEO

JJM:RTW:JFK:llb

cc: PCUA Board  
Regulatory Review Committee  
M. Dunn, CUNA