

**Meeting Between Vice Chair Yellen and
Representatives of the National Association of Federal Credit Unions
December 3, 2012**

Participants: Vice Chair Janet Yellen (Federal Reserve Board Member),
Madelyn Marchessault, Jim Clouse, Susan Stawick, Kevin Bertsch,
Rodney Ramcharan, Laura Dominiak, Edwin Lucio, Robin Prager, Mary Bean,
Carol Evans, Lorna Neil and Katie Ross (Federal Reserve Board staff)

NAFCU representatives: Frederick Becker Jr., Brian Berger, Frank Berrish, Martin Breland,
David Carrier, Douglas Christman, James Dawson, Anthony Demangone,
David Frankil, Richard Harris, Philip Hoffman, Alicia Hosmer, Carrie Hunt,
Jeanne Kucey, Jessica Lewis, Curtis Long, Michael Lussier, Katherine Marisic,
Robert Marquette, Michael Parsons, Debra Schwartz, Randy Smith,
Richard Taylor, Rodney Taylor, Tessema Tefferi, Robert Templeton,
Bradford Thaler, Karen Tyson, Steven Van Beek and Angela Meyster

Summary: Representatives of the National Association of Federal Credit Unions (NAFCU), a trade association that represents the interests of federal credit unions, met with Vice Chair Yellen to discuss the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Act”). NAFCU representatives commented that credit unions were facing a significant regulatory compliance burden stemming from required rulemakings under the Act as well as from existing regulations. They expressed concerns about the interagency proposal to establish appraisal requirements for “higher-risk” mortgage transactions (Docket No. R-1443) and about the parameters for “qualified residential mortgages” under the interagency proposed rules on credit risk retention (Docket No. 2011-1411). NAFCU representatives also said the Board’s Regulation D should be amended to increase the permitted number of “convenience transfers” for consumers. In addition, NAFCU presented its views on the usefulness of credit ratings for certain types of credit evaluation (Docket No. R-1442).

NAFCU provided written views on these topics. A copy of these views is attached. The viewpoints expressed in the attachment are solely those of NAFCU.

Attachment

(Comments related to rulemakings under the Dodd-Frank Act are provided below.)

Regulation D

An ongoing concern for NAFCU and its members is the outdated restriction on “convenience transfers” under Regulation D. The current law is burdensome and confusing for depositors that wish to have unfettered access to their funds. It is unreasonable to expect consumers to understand and remember the arcane limits on the number and type of transfers that are allowed from their savings account. The rule is outdated, and as a consequence, the restrictions on transfers are incoherent to even the most knowledgeable consumers. It would be helpful to consumers if the regulation was modified to reflect the current financial services environment.

In an electronic era where consumers demand the ability to transfer funds easily to and from particular accounts, the arbitrary limitation on six transfers from a savings account creates an undue burden for consumers and financial institutions alike. NAFCU believes that the six transfer limitation could be increased and still maintain a distinction between savings and transaction accounts. NAFCU strongly supports increasing the limit to at least nine convenience transfers per month.

Appraisals

The multi-agency proposed rule on appraisals is not particularly problematic for credit unions in terms of substantive changes, but it is symptomatic of the larger issue of over-regulation. There is no shortage of existing rules and regulations concerning the appraisal process. The Uniform Standards of Professional Appraisal Practice (USPAP), the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and existing NCUA rules already impose a number of requirements on credit unions regarding the appraisal process. Nonetheless, the proposed rule would create yet a new set of obligations for credit unions to comply with, despite the fact that the collective lending portfolio of the credit union industry survived the financial crisis remarkably well.

Credit Ratings

As required by the Dodd-Frank Act, NCUA and other federal banking regulators are in the process of eliminating references to credit ratings. The purpose of the statutory requirement, essentially, is to remove the previous reliance on credit ratings and to impose rigid internal credit analysis requirements, especially relative to investments and counterparty transactions.

NAFCU understands that generally, an overreliance on credit ratings is not appropriate, especially with respect to risky investments. While the association understands that changes should be made to rules governing credit rating agencies by the appropriate federal regulators, we believe that credit ratings are an important tool for credit evaluation and credit unions should be able to continue to employ them in assessing investments and counterparty transactions.

To address this issue, we have urged NCUA to work with the other members of the Federal Financial Institutions Examination Council (FFIEC) to seek statutory changes to the Dodd-Frank Act. In this regard, we have suggested that the FFIEC pursue legislation that would eliminate the

statutory requirement for regulators to remove references to credit ratings from their regulations. Rather, the affected FFIEC agencies should be granted the *discretion* to replace the current requisite credit ratings for some types of investments and counterparty transactions with appropriate standards of credit analysis that the regulators deem appropriate. The discretionary authority should include the ability of regulators to allow credit ratings to remain part of the credit evaluation process.

NAFCU stands ready and willing to work with the Federal Reserve and the other FFIEC members in seeking the legislative changes discussed above.

Government Sponsored Enterprises and Qualified Residential Mortgages

The Dodd-Frank Act also directed the Federal Housing Finance Agency (FHFA) to create parameters for “qualified residential mortgages” (QRM). The FHFA issued a proposed rule that would generally require securitizers to retain at least five percent of the risk for home mortgages. The proposed rule would eliminate this requirement for mortgages that meet certain underwriting standards and that thus qualify as QRMs. Among other things, the QRM exception requires a down payment of 20 percent. While credit unions are technically exempt, the rule’s impact will nevertheless be felt by any participant in the mortgage market. Accordingly, NAFCU opposes the 20 percent down payment requirement, as it would inevitably decrease the availability of mortgage financing for moderate- and low-income borrowers.

Moreover, the QRM proposal raises the broader question regarding the long-term health and viability of the secondary mortgage market. Credit unions rely heavily on the secondary market to make mortgage loans. Without a healthy secondary market, credit union mortgage lending would decrease significantly. The government should take steps to ensure there is a healthy and vibrant secondary market.