On December 3, 2012, representatives of the National Association of Federal Credit Unions (NAFCU) met with Vice Chair Janet Yellen to present the association’s views on the usefulness of credit ratings in certain types of credit evaluation. NAFCU submitted written views, which are provided below.

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.