

# CORPORATE CREDIT UNION GUIDANCE LETTER

No. 1999-04

DATE: November 8, 1999

TO: The Corporate Credit Union Addressed

SUBJ: Section 704.6(d)(3) of NCUA Rules and Regulations (Asset Backed Securities Credit Ratings - Distinction between "+" and "-")

It has come to our attention that there may not be a clear, consistent approach being taken by corporates and corporate examiners when encountering credit ratings with a designation of "+" or "-", or "1,2,3" (Moody's) as part of the nationally recognized statistical rating organization (NRSRO) rating. These symbols are used to delineate long-term graduation quality. The regulation's lack of definitive description may have led to the incorrect interpretation that there is no distinction between a "+," flat, or "-", or 1,2,3 rating designation.

Section 704.6(d)(3) requires that, at the time of purchase, all Asset Backed Securities (ABS) be rated no lower than AAA (or equivalent). Expanded authorities allow AA ratings for Part I and II authorities. The regulation makes no distinction beyond AAA or AA ratings.

The regulation is to be interpreted literally. A "+" or "1" is an indication of quality exceeding the AAA, or AA rating. Conversely, the "-" or "3" designation is indicative of a poorer, or lower quality instrument. ABS exhibiting a AAA- or AAa3 (Base or Base-plus authority) or AA- or Aa3 (Part I or II authority) rating are considered an impermissible investment.

The table below is provided for your information and convenience as a reference to NRSRO credit ratings.

Long Term Ratings Industry Definitions

Rating Agency					Description of Long-term Rating*
S&P	Fitch	Moody's	Duff & Phelps	IBCA	
AAA**	AAA**	AAa**	AAA**	AAA**	Highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.
AA	AA	Aa	AA	AA	High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic factors.
A	A	A	A	A	Protection factors are average but adequate. However, risk factors are more variable and greater in periods of economic stress.
Gradation Quality					
+, -	1,2, 3	+, -	+, -	+, -	These symbols used to provide more detailed gradation of quality
AA- CCC	AA-C	Aa-B	AA-B	AAA- C	Range of ratings for which quality gradations are provided.

\* Descriptions are from Duff & Phelps. Rating agencies tend to use similar definitions, though disagreements can occur on an individual rating.

\*\* ABS must be rated no lower than AAA (or equivalent) at time of purchase.

The Office of Corporate Credit Unions (OCCU) plans to review this section of the regulation as it reviews Part 704 for possible revisions.

If you have any questions, please contact this office at (703) 518-6640.

Sincerely,

Robert F. Schafer  
Director  
Office of Corporate Credit Unions

OCCU/PCJ:pj  
SSIC 3500

cc: State Supervisory Authorities  
NASCUS  
ACCU

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