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Proposal: 1411 (Ver 2) (RIN 7100-AD70) - Credit Risk Retention

Subject: Credit Risk Retention

Comments:

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Proposal: Credit Risk Retention [R-1411]
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Your comment: The reproposal on risk retention requires 5%. The financial crisis is the best evidence that numerical hurdles can be gamed. Why not have a retention period instead? For primary residence (household) mortgages, particularly for first-time home buyers, the risk of default is certainly most acute in the first 5 years. Why not require originators to retain the mortgages for the most risky period before securitizing? Another solution could be to prohibit securitization of primary residence mortgages entirely, and instead permit originators to borrow against their own mortgage receivables, and allow a secondary market in these loans made to primary mortgage originators (collateral for which is the underlying mortgage receivables still in the hands of the originator). This would allow originators to borrow, which is the principal purpose of securitization, but would force the originator to retain the risk. The collateral for origination platform loans could include the goodwill, licenses, and assets of the borrower, as many commercial loans (to non-bank borrowers) require, and the "lender" would certainly require one or more types of insurance or other credit enhancement. This origination platform loan structure would not have to apply to commercial mortgages, car loans, or other securitization vehicles supported by non-residential credit instruments. Thank you for your effort on behalf of the nation on this complex issue.