Meeting Between Federal Reserve Board Staff and
Representatives of Bank of America/Merrill Lynch
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Participants: Anna Lee Hewko, Art Lindo, Jonathan Tkach, Pat Soriano and Juan Climent (Federal Reserve Board)

Mary Stone, Bill Hobbs and Alan Levy (Bank of America/Merrill Lynch)

Summary: Staff from the Federal Reserve Board met with representatives of Bank of America/Merrill Lynch to discuss the potential capital and accounting treatments for transfers of mortgage servicing rights (MSRs) under the Basel III standards. Specifically, Bank of America/Merrill Lynch wanted to discuss a proposal that would allow banks to sell an economic interest (including a transfer of some risks; e.g., interest rate prepayment risk and servicer substitution risk on MSR portfolios) in the profit arising from their servicing portfolio in exchange for an upfront payment from the investor. Under the proposed structure, the MSRs would continue being included in the balance sheet under GAAP because the de-recognition criteria of the MSR would not likely be met. An important part of the rationale for their proposal is that hedging the interest rate risk related to the MSR position under Basel III could be punitive.