Meeting Between Federal Reserve Board Staff
and Representatives of Mortgage Bankers Association (MBA)
September 24, 2010

Participants: Matthew Eichner, William Treacy, Geng Li, Benjamin McDonough, and Flora Ahn (Federal Reserve Board)

Josh Denney, Gail Cardwell, James Gross, George Green, Michael Fratantoni, Kathy Marquardt, Steve O'Connor, and Mike Carrier (MBA)

Summary: Staff of the Federal Reserve Board met with representatives of MBA about mortgage-backed securities and the Federal Reserve Board's responsibilities under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. MBA's representatives provided Federal Reserve Board staff with a presentation on their overall views of risk retention requirements with respect to securities backed by residential and commercial mortgages and, in particular, about the treatment of such securities under FAS 166 and FAS 167. A copy of the handouts provided by MBA at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.

MORTGAGE BANKERS ASSOCIATION
Investing in communities

MBA's Meeting with Fed on Risk Retention Study

September 24, 2010

2:00 PM to 3:30 PM

Agenda

I. Introduction of MBA staff (Steve O'Connor)

II. Summary of retained risk proposals (Mike Carrier)

III. Primer on FAS 166 and FAS 167 (Jim Gross)

IV. Primer on Commercial Mortgage-backed Securities (CMBS) (Gail Cardwell)

V. Interaction of CMBS with FAS 167 (Jim Gross)

VI. Primer on Residential Mortgage-backed Securities (RMBS) (Jim Gross)

VII. Interaction of RMBS with FAS 167 (Jim Gross)

VIII. Future Rulemaking Considerations:

A. No Hedging Provision In Dodd-Frank Act (Mike Fratantoni)

B. Minimum Duration for Risk Retention (Mike Fratantoni)

C. Allocation of Risk Retention Between Securitizers and Originators (Mike Carrier)

D. Risk-based Capital Treatment of FAS 167 Assets (Jim Gross)

IX. Questions and discussion.

1717 Rhode Island, NW | Washington, DC 20036 | www.mortgagebankers.org | (202) 557-2700

MORTGAGE BANKERS ASSOCIATION
Investing in communities

Comparison of Risk Retention Proposals

	Dodd-Frank Act	**FDIC**	**SEC**
Who must retain credit risk	All securitizers, but can be assigned to originators pro rata.	Insured depository institution issuers	Shelf registration issuers
Who issues regulations	Residential mortgages: OCC, FDIC, FRB, SEC, HUD, FHFA. All other assets: OCC, FDIC, FRB, SEC.	FDIC	SEC
Enforcement authority	OCC,FDIC, FRB for depositories; SEC for nondepositories	FDIC	SEC
Retention Amount	5% of credit risk, with specific qualified residential mortgages and other statutory exemptions; regulators have broad discretion to set lower amounts, with specific exceptions articulated for CMBS in the Act.	1. 5% of each tranche, **OR** 2. Representative sample of 5% of the principal of the securitized assets.	1. 5% of nominal amount of each tranche, net of hedge positions and exposures by sponsor/affiliate **OR** 2. 5% of the nominal amount of securitized exposures.
Factors used in reducing the amount of risk retention.	1. Asset has lower risk traits 2. Form/volume of transactions causes imprudent origination 3. Impact on credit availability	N/A. Risk retention requirement set at 5%.	N/A. Risk retention requirement set at 5%.
Exceptions/ Exemptions	1. Qualified Residential Mortgages 2. Commercial mortgages 3. Underwriting 4. Public interest and investor protection 5. Farm Credit 6. U.S. Agencies	None	None
Separate rules for separate asset classes?	Yes. Regulatory discretion plus special rules for qualified residential and CMBS.	Not for risk retention but other requirements apply only to RMBS.	Not for risk retention but assets are differentiated for other requirements.

1717 Rhode Island, NW | Washington, DC 20036 | www.mortgagebankers.org | (202) 557-2700

8 Principles for Implementing Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 will usher in the most significant financial restructuring since the Great Depression. The 2,315 page bill creates new regulatory agencies, expands several existing ones, and calls for hundreds of new rules that will add up to tens of thousands of pages. This undertaking will require a massive amount of resources and time over the coming years.

Many of these new rules will be developed jointly by multiple agencies. Scores of the rules will need to be synchronized with other simultaneous or sequential rulemakings. It is essential that this process unfold in a way that balances necessary reforms with the need for preserving an efficient financial system.

The Mortgage Bankers Association (MBA) believes the following principles are essential to striking this balance. MBA believes that the new rules should:

1. **Seek comprehensive, coordinated solutions** — Regulations in key areas, such as disclosure reform, should be accomplished in as comprehensive and coordinated a manner as possible to avoid repeated and redundant systems changes and training costs that will ultimately fall upon borrowers.

2. **Foster certainty in the marketplace** — Regulations should be clear and certain so that lenders can plan business strategies to offer sustainable financial products without fearing an unduly shifting regulatory environment. Bright line standards and safe harbors must be clearly defined to encourage broad participation in the market.

3. **Increase transparency** — Simplification and harmonization of consumer disclosures, with a goal of greater transparency for the borrower, should be a top priority. New regulations should empower borrowers to better make better informed choices. Greater transparency will also increase competition and reduce costs for borrowers.

4. **Balance the ability of the private marketplace to control lending with the application of new regulation** — New regulations should be created where necessary, but regulations should utilize private solutions where they are practical and applicable.

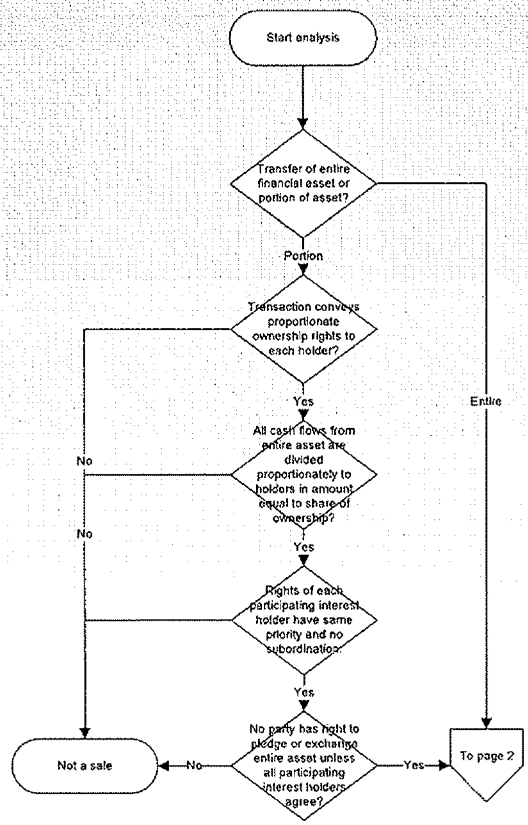
5. **Ensure market liquidity** — Changes that unnecessarily add costs or other burdens to the real estate financing process will reduce liquidity and increase costs for borrowers.

6. **Appropriately tailor solutions to the current market environment** — Real estate markets today remain fragile. Implementation deadlines should be mindful of stresses on the market and the time needed for complex operational changes.

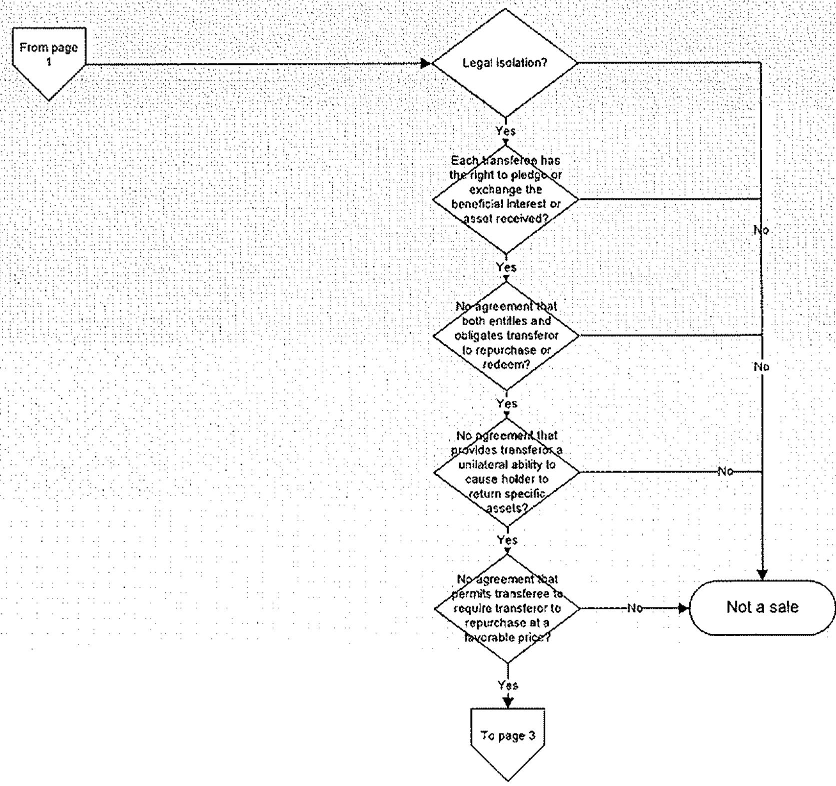
7. **Maximize competition to lower costs** — Borrowers should benefit from an array of sustainable financing choices. Regulation should be designed to promote a level playing field between lenders and foster greater competition.

8. **Promote uniformity** — Efficient markets rely on consistent and predictable standards. Rules that differ markedly across geographic boundaries or other jurisdictions can lead to higher costs for borrowers.

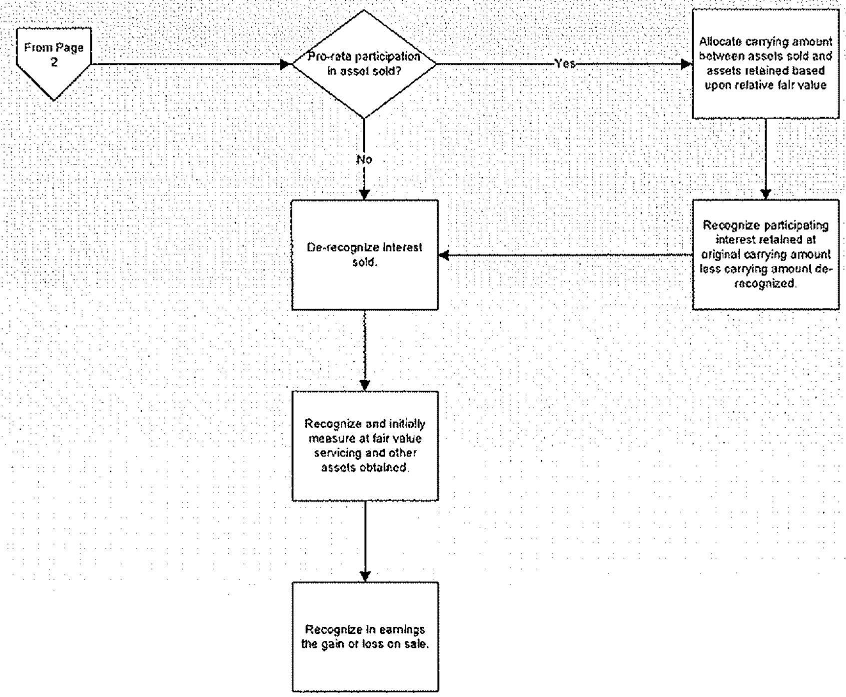
Mortgage Bankers Association
Analysis of FAS 166
Determination if Participating Interest



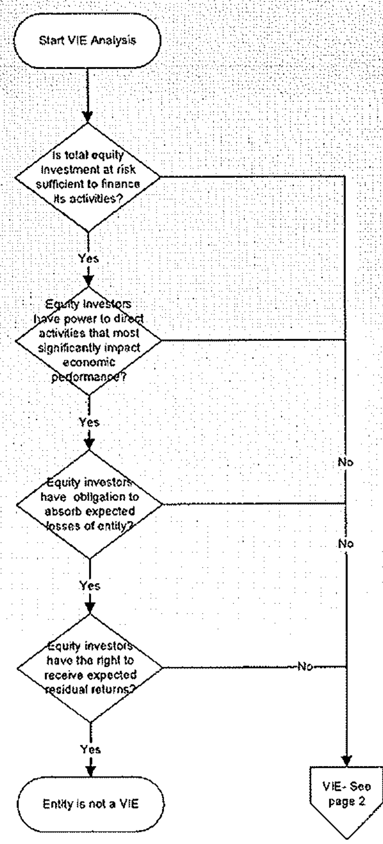
Mortgage Bankers Association
Analysis of FAS 166
Determination if Surrender of Control



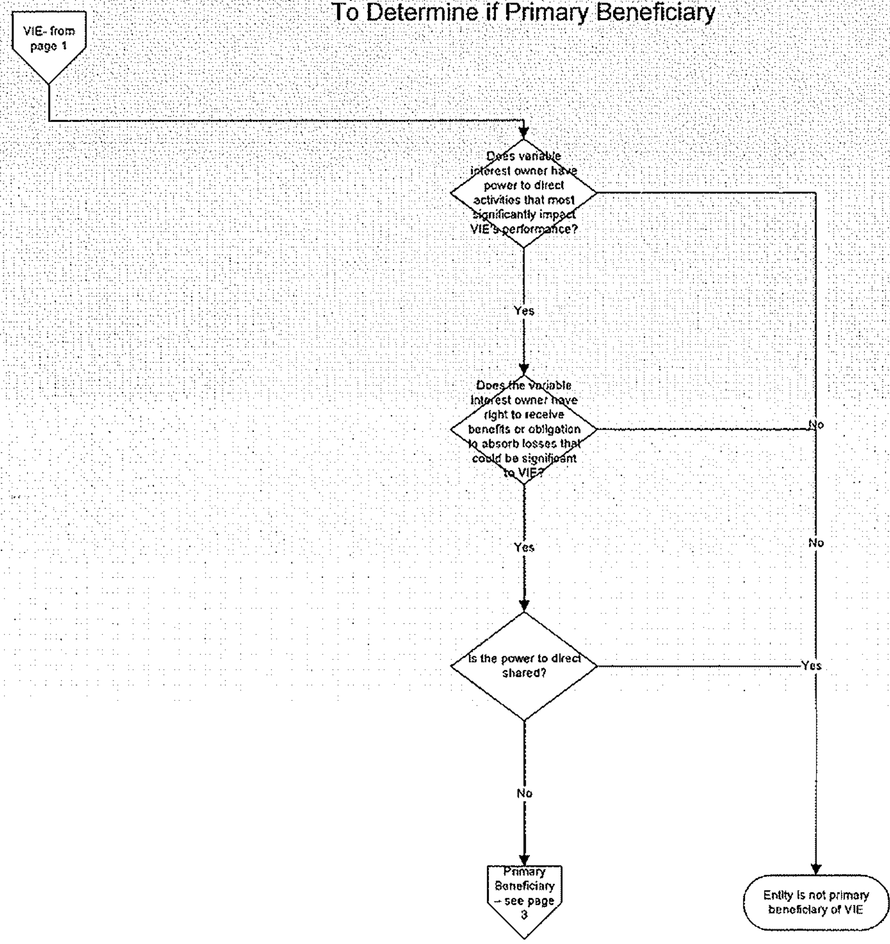
Mortgage Bankers Association
Analysis of FAS 166
Sale Accounting



Mortgage Bankers Association
Analysis of FAS 167
To Determine if Variable Interest Entity (VIE)



Mortgage Bankers Association
Analysis of FAS 167
To Determine if Primary Beneficiary



Mortgage Bankers Association
Analysis of FAS 167
Primary Beneficiary's (PB) Accounting