Meeting Between Staff of the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and Representatives of the American Securitization Forum
February 12, 2013

Participants: David Emmel, April Snyder, Dafina Stewart (Federal Reserve Board)
FDIC and OCC staff

Scott Stengel, Stewart Cutler, Reginald Imamura, Debbie Toennies, Eric Wise, and Tom Deutsch (American Securitization Forum)

Summary: Staff of the Federal Reserve Board, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency met with Scott Stengel and other representatives of the American Securitization Forum to discuss implementation of the Basel III liquidity standards in the United States, including the treatment of securitized financing facilities and residential mortgage backed securities. A copy of the handout provided by the American Securitization Forum representatives is attached.

ASF Proposal for Treatment of Securitization Exposures in the Liquidity Coverage Ratio

FEBRUARY 12, 2013

ASF Proposal for Treatment of Securitization Exposures in the Liquidity Coverage Ratio

1. **Look-Through Approach for Committed or Conditionally Revocable Facilities in Qualifying Bank Customer Securitizations**
2. Agency and Non-Agency Mortgage-Backed Securities as High-Quality Liquid Assets
3. Appendix I Look-through Language of CRD IV
4. Appendix II Bankruptcy Law References
5. Appendix III Look-Through Consistent With Quantitative Analysis
6. Appendix IV Definition of Qualifying Bank Customer Securitization

Proposal: Look-Through Approach for Committed or Conditionally Revocable Facilities in Qualifying Bank Customer Securitizations

Adopt a look-through approach for committed or conditionally revocable facilities in Qualifying Bank Customer Securitizations ("QBCS")

- Ensures internationally consistent treatment in the LCR for facilities to the same type of bank client and enables banks to continue to supply reasonably priced committed credit and liquidity facilities to real-economy businesses
  - For QBCS (as defined in Appendix IV), look through to the bank client entity to determine the drawdown rate
    - QBCS Non-Financial Corporate committed facilities – 10% drawdown treatment
    - QBCS Financial Institutions committed facilities – 40% drawdown treatment

- Under this approach, QBCS would receive the same drawdown treatment as other committed facilities

Entity Type	Guidance Ref	LCR Drawdown	Proposed LCR Drawdown
Retail and Small Business	131a.	5%	5%
Non-Financial Corporates	131b.	10%	10%
Banks subject to Prudential Supervision	131d.	40%	40%
Other Financial Institutions	131e.	40%	40%
Other Legal Entities	131g.	100%	100%
QBCS Non-Financial Corporates			**10%**
QBCS Financial Institutions			**40%**

Proposal: Look-Through Approach for Committed or Conditionally Revocable Facilities in Qualifying Bank Customer Securitizations

Rationale

- Customer-sponsored securitizations and other forms of bank client commitments should receive uniform treatment under the LCR guidelines
  - Data provided by the ASF (Appendix III) support this conclusion
  - The significance of customer-sponsored securitizations has rightly prompted separate look-through treatment, to the underlying servicer, bank client, in the current draft of CRD IV (Appendix I)
  - Paramount to acknowledge in the United States, where debtor-friendly bankruptcy laws compel the use of Special Purpose Entities ("SPEs") to mitigate risk (Appendix II)

- Use of a conservatively tailored definition, QBCS, would ensure that the look-through approach cannot be abused
  - Overly complex securitizations that contributed to the recent financial crises would not meet the definition of qualifying bank customer securitizations

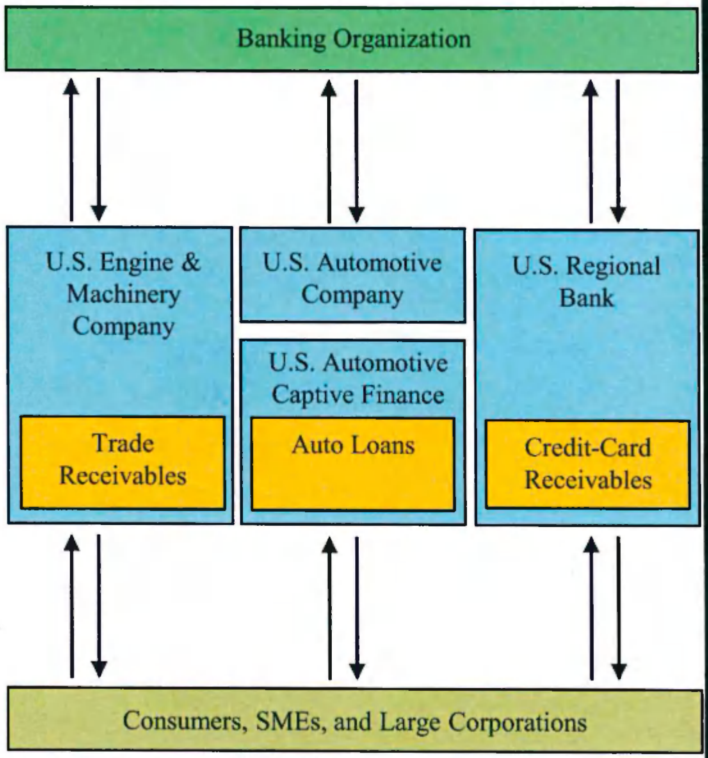
- Combined cost of the LCR will be significant for securitized financing
  - Cost for acquisition and regulatory capital on the HQLAs

In developing and managing their financing plans, the treasurers of companies driving the real economy rely on committed credit and liquidity facilities from banks.

- Real economy fueled by credit extended in the ordinary course of consumer and commercial business
  - Includes sale of machinery, use of autos loans, and use of credit cards
  - Corporations, captive-finance companies, and financial-services providers that extend credit rely on banks for financing through committed unsecured, secured, or securitized facilities

- Unsecured and secured financing exposes banks to bankruptcy and general credit risk of the bank client (e.g. corporation, captive-finance company, or financial-services counterparty)
  - For this risk, banks (1) prudently provide smaller commitments and (2) require higher pricing

Standard Corporate Revolver



Securitized financing facilities, in contrast, enable banks to expand credit availability and lower pricing.

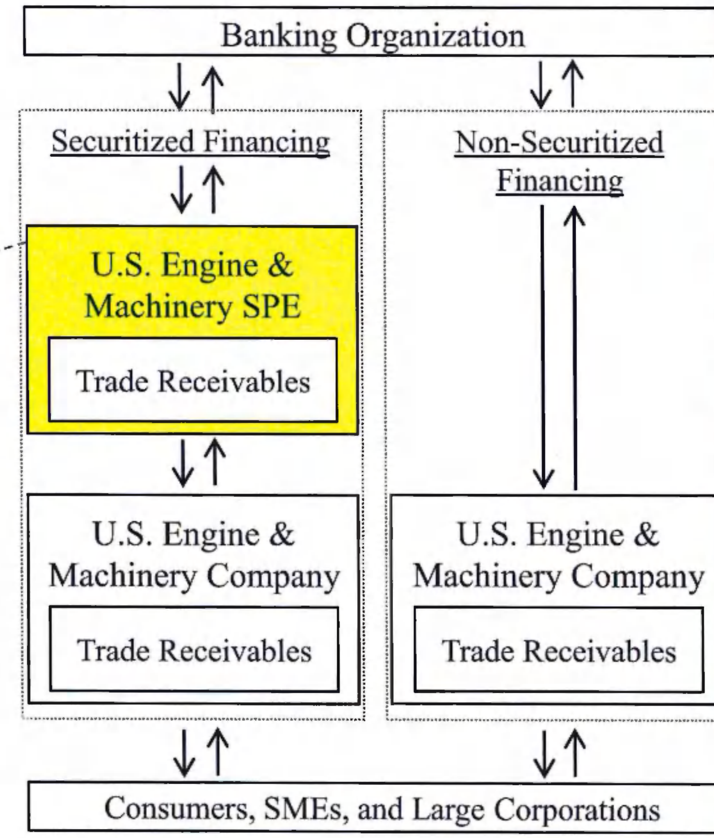
- Securitized financing improves a bank's risk profile through the use of a bankruptcy remote SPE
  - Enables banks to provide larger credit limits and charge lower rates and fees - benefitting clients and the real economy

Benefits of using an SPE

- Isolates the underlying assets (e.g. receivables) from the client's bankruptcy and credit risk
- Securitized financing requires overcollateralization (a first loss exposure retained by the borrower)
  - Excess receivables are required to provide the available borrowing base to support the client's financing needs
- Obligations are repaid by the cashflows generated from collections on a diversified pool of receivables that exceed the amount financed

- **As currently written, the LCR treatment for securitized financing has negative implications**
  - **Creates incentives for banks to engage in higher risk lending even when the opportunity to provide securitized financing is available**
  - **Contradicts policy objectives of broader financial system safety and soundness**

Comparison – Securitized Financing vs. Corporate Revolver



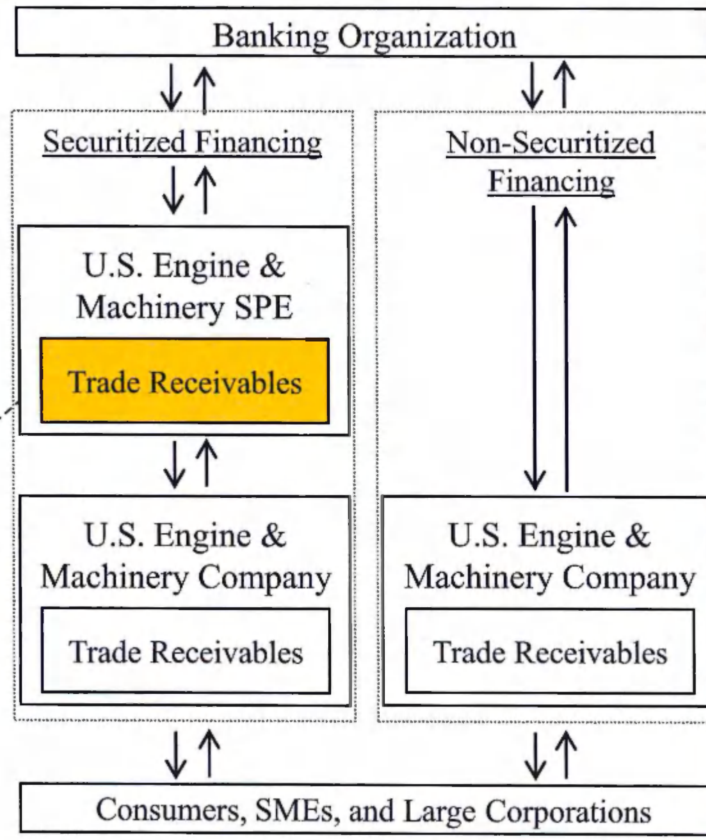
The essential features that set securitized financing facilities apart also lessen their liquidity risk.

- Working capital needs, not the structure of the transaction, drive usage decisions in unsecured, secured, and securitized client facilities
- Customer draws on securitized financing facilities are constrained during periods of liquidity stress or economic shock

Draw constraints

- Borrowing base - pool of eligible (performing and otherwise unencumbered) receivables and other assets owned by the customer's SPE establishes a limit on draws
- Required overcollateralization/first loss position - limits the available borrowing amount to the bank client
  - e.g. in a securitized financing the available amount of the borrowing is a percentage of receivables - does not equal a dollar of borrowing for a dollar of receivables
- Working capital and other financing needs of the bank client dictate draw decisions
- Receivables are generated through business sales
  - In an economic downturn, slowing sales generate fewer receivables to support funding - further constraining availability

Comparison – Securitized Financing vs. Corporate Revolver



In circumstances where the Borrower Decision-Maker is the same entity, there is a clear asymmetry in the LCR with regard to drawdown rates.

- Example to the right demonstrates the asymmetric treatment for securitized financing relative to an unsecured revolver with the same bank client
  - Current LCR required drawdown for facilities with an SPE increases by:
    - $67.5MM for Non-Financial Corporates
    - $45MM for Financial Institutions
- **The SPE does not change the borrower decision maker and does not impact the client's liquidity needs**
  - **No change to the client's working capital needs**
  - **Improves the overall credit quality of a bank's committed facility**
- Proposed look-through approach applies LCR treatment more consistently for the same type of bank client
- Language effecting this look-through approach for committed and conditionally revocable credit and liquidity facilities could be as simple as the following: "In a qualifying bank customer securitization, the banking organization should assume the drawdown percentage that would be applicable if the facility were provided directly to the customer"

Scenario	
Commitment	$100MM
Borrowed Amount	$25MM
Unfunded Amount	$75MM
Borrower Decision-Maker	**Bank Client-Treasurer**

Non-Financial Corporate	Unsecured Revolver	Securitized Financing
Borrower	Bank Client	Bank Client's SPE
Conditions Precedent to Borrow	None	Eligible Assets (Borrowing Base)
Available Borrowing Base [1]	N/A	$25MM
Available Borrowing Capacity	$75MM	$0
Current LCR Drawdown (para. 131)	**10% = $7.5MM**	**100% = $75MM**
Proposed LCR Drawdown - Look-Through Approach	**10% = $7.5MM**	**10% = $7.5MM**

Financial Institution	Unsecured Revolver	Securitized Financing
Borrower	Bank Client	Bank Client's SPE
Conditions Precedent to Borrow	None	Eligible Assets (Borrowing Base)
Available Borrowing Base [1]	N/A	$25MM
Available Borrowing Capacity	$75MM	$0
Current LCR Drawdown (para. 131)	**40% = $30MM**	**100% = $75MM**
Proposed LCR Drawdown - Look-Through Approach	**40% = $30MM**	**40% = $30MM**

(1) Required to borrow under securitization.

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Agency RMBS

- Under the Basel LCR released on January 7, 2013, Fannie Mae ("FNMA") and Freddie Mac ("FHLMC") securities, which receive a risk weight for capital purposes of 20%, fail to qualify as a Level One High Quality Liquid Assets ("HQLA").
- Instead these securities will qualify as Level 2A assets which will result in an overall limitation in their inclusion as follows:
  - Total HQLA may include no more than 40% (when combined with all other Level 2 Assets) for these assets.
  - In addition, due to the limitation on Level 2 Assets, banks will be required to haircut values for these securities by 15% prior to calculating these caps.
- This will have a significant impact on bank's desire to own these securities especially when combined with the proposed treatment of AOCI where banks will be subject to capital risk as a result of owning these securities.
- There are a total of $2.4 Bln FNMA and $1.4 Bln FHLMC securities currently outstanding in the market of which currently 15-20% is held by banks with most of these securities held in the Available-for-sale classification.

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Private Label RMBS LCR Eligibility

- Under Basel LCR released on January 7, 2013, "Higher Quality" private label MBS can count against short-term liabilities, but NOT MBS backed by ANY mortgage loans that do have full legal recourse back to the borrower.

- 12 US States do not allow mortgage loan recourse back to the borrower

- LCR also requires AA credit rating or above for eligibility of private label RMBS as HQLA.

- Credit ratings or other measures of credit worthiness appropriately account for non-recourse risks & severities without separate recourse requirement above credit worthiness requirement.

2012 Private Label RMBS Deals-Totals App. US $3.5 Billion

Redwood SEMT 2012-1	$420,354,886.38
SEMT 2012-2	$329,546,692.09
SEMT 2012-3	$294,579,853.47
SEMT 2012-4	$315,334,199.16
SEMT 2012-5	$321,521,985.00
SEMT 2012-6	$301,969,084.00
Credit Suisse MC 2012-CIM1	$753,860,776.43
CSMC 2012-CIM2	$429,895,338.95
CSMC 2012-CIM 3	$331,677,448.67

Non-Recourse Mortgage States

- US States with non-recourse mortgage loan laws and the percentage of the aggregate principal balance of Redwood SEMT 2012-6 pool:
  - Alaska – 0%
  - Arizona – 0%
  - California – 44.90%
  - Connecticut – 0.64%
  - Idaho – 0%
  - Minnesota – 0.26%
  - North Carolina – 1.47%
  - North Dakota – 0%
  - Oregon – 0.75%
  - Texas – 10.74%
  - Utah – 0.35%
  - Washington – 6.24%

- Total % of principal balance of pool in non-recourse states: 65.35%

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Securitized financing facilities do not appear to have been specifically considered in the LCR. But their significance has rightly prompted separate look-through treatment in the current draft of CRD IV.

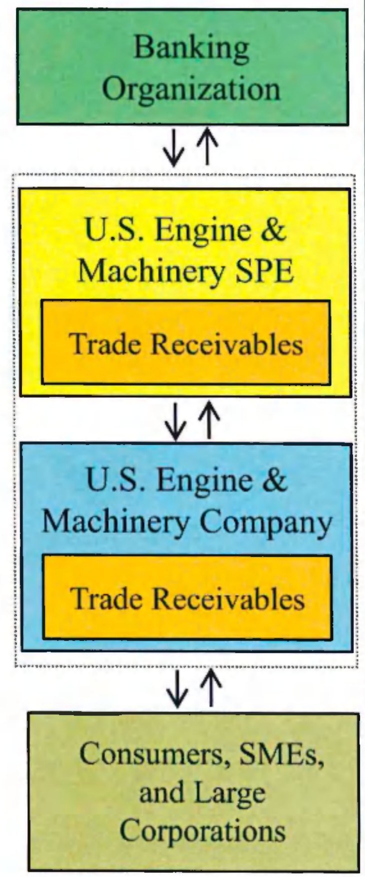
We are not aware of the BCBS having considered customer-sponsored securitizations in finalizing the LCR.

- Entities with a "special purpose" are discussed indiscriminately and at times inconsistently: *e.g.*, ¶ 109 uses special purpose vehicle and conduit individually; ¶ 125 uses special purpose vehicle, conduit, and structured investment vehicle as examples of a special purpose entity; ¶ 129 uses special purpose entity and conduit as examples of a special purpose funding vehicle; ¶ 131(g) uses special purpose entity, conduit, and special purpose vehicle individually; and Annex 4 uses "ABCP, SIVs, conduits, SPVs, etc."

It is for this reason, we believe, that a look-through approach is found in the European Union's current draft of CRD IV: "The committed amount of a liquidity facility that has been provided to an SSPE for the purpose of enabling such SSPE to purchase assets other than securities from clients that are not financial customers shall be multiplied by 10% to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn is contractually limited to the amount of assets currently purchased." (Article 412(3a).)

With the revised LCR now specifying a 40% drawdown for banks subject to prudential supervision, it would be reasonable to expect that this look-through approach will be expanded accordingly.

Securitized Financing



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The need to distinguish securitized financing facilities in the LCR is even more paramount in the United States, where debtor-friendly bankruptcy laws compel the use of special purpose entities to mitigate risk.

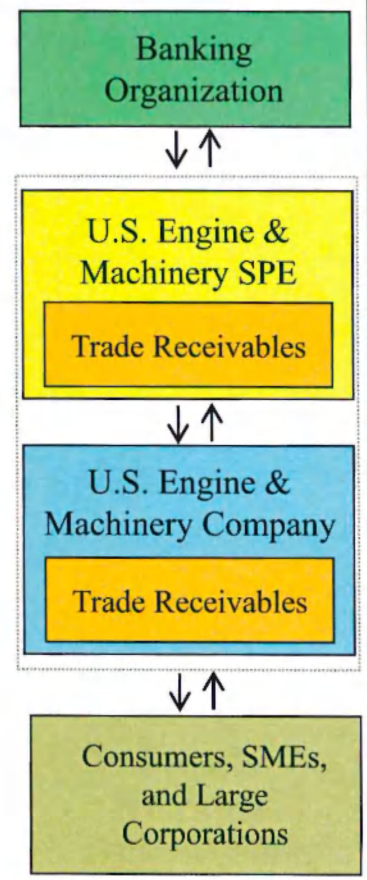
The need for a look-through approach is especially acute in the United States.

- Despite recent changes to the insolvency laws of some European jurisdictions to facilitate the rescue of troubled companies, the U.S. Bankruptcy Code is still by far the most debtor-friendly. (*See, e.g.*, Marco Polo Seatrade (Netherlands), Almatis (Germany/Netherlands), Yukos Oil (Russia), and Lyondell (Netherlands).)

- "In some jurisdictions it may be possible to achieve the goal of isolating the assets from the insolvency risk of an originator by structuring transactions using secured loans (first-priority perfected security interest) as opposed to a true sale of assets." S&P EUROPEAN LEGAL CRITERIA FOR STRUCTURED FINANCE TRANSACTIONS § 4.4 (2008).

For a banking organization operating in the United States, a customer-sponsored special purpose entity is usually the only viable means of reducing the risk profile presented by its customer and, in that way, supplying more available credit with lower pricing.

Securitized Financing



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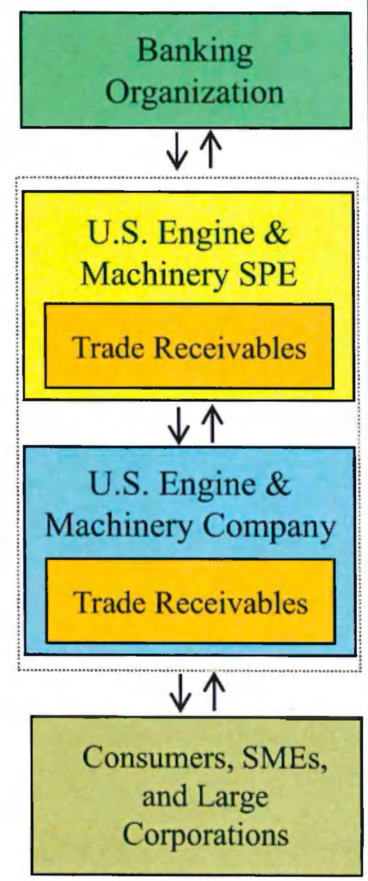
This reduced liquidity risk is borne out in analyses of data taken from before, during, and after the recent financial crises.

Such a look-through approach is consistent as well with our quantitative findings, which also were presented last year, that actual surges in draws in customer-sponsored securitizations were limited even during the recent crises.

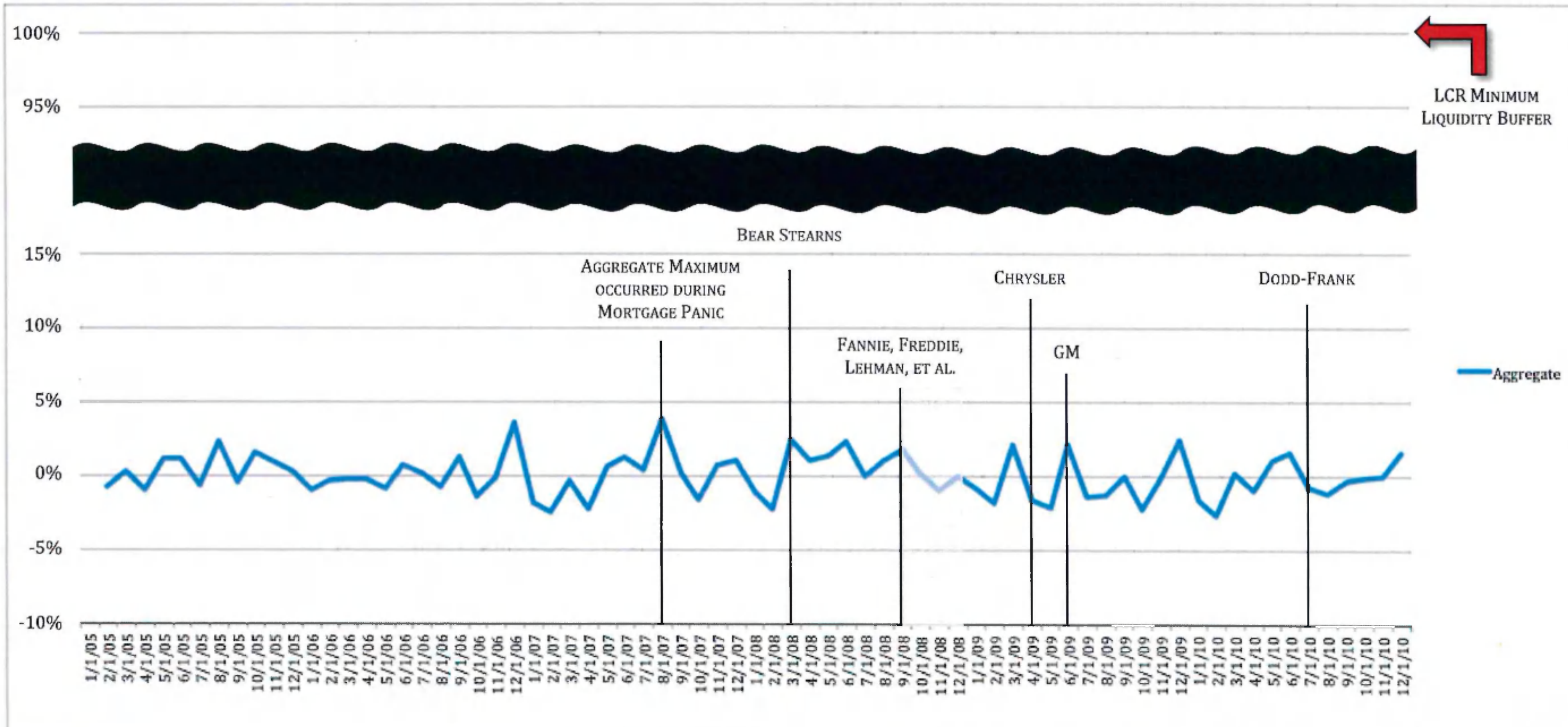
- Based on our analyses of data supplied by 12 North American and European banks that sponsored ABCP conduits between January 2005 and December 2010, we found that the aggregate monthly change in customer usage as a percentage of total commitments never exceeded 3.84% (August 2007).
- Based on this same data, we discovered that the monthly change in usage as a percentage of total commitments never exceeded 4.63% for financial-institution customer sponsors (December 2006) and 4.39% for non-financial customer sponsors (September 2006).
- Our analyses also highlighted the idiosyncratic (non-systemic) nature of usage in customer-sponsored securitizations.
- Dividing 3.84% by 31.32% (the average unused percentage of total commitments in the data set) yields a draw-down of 12.26% at the worst of the crises.

Securitized Financing



This limited risk of a surge in draws is borne out by our analysis of the aggregate change in customer usage of committed ABCP facilities.

Based on data supplied by 12 North American and European banks that sponsored ABCP conduits between January 2005 and December 2010, we found that the aggregate change in customer usage as a percentage of total commitments – even during periods of significant liquidity stress – ***never exceeded 3.84% (August 2007)***.



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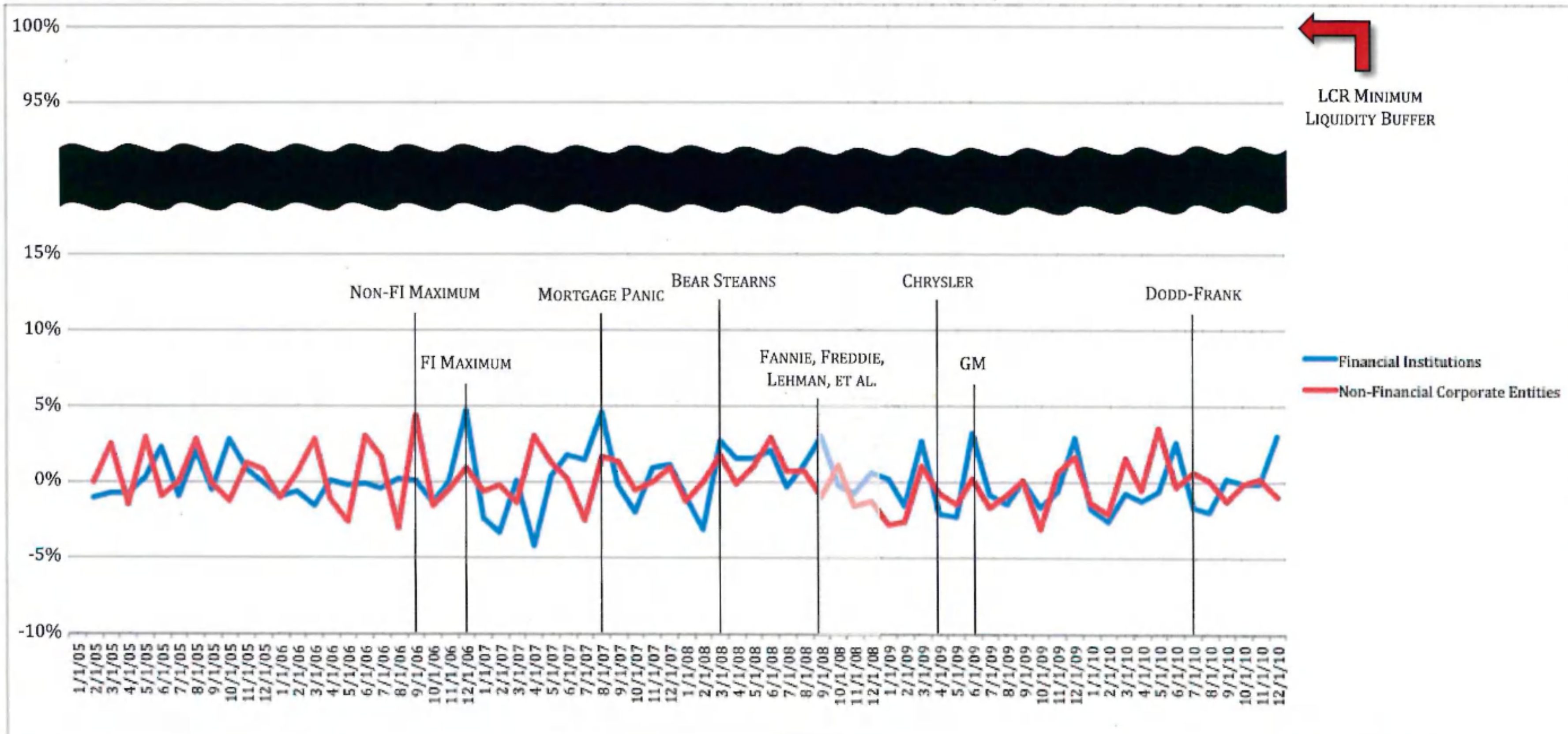
We also found no meaningful variance in the risk of a surge in draws when separating out customer-sponsor types.

Based on this same data, we found that the change in usage was not volatile and did not meaningfully vary by the type of customer-sponsor. The change in usage as a percentage of total commitments ***never exceeded 4.63% for financial institutions (December 2006) and 4.39% for non-financial corporate entities (September 2006)***.

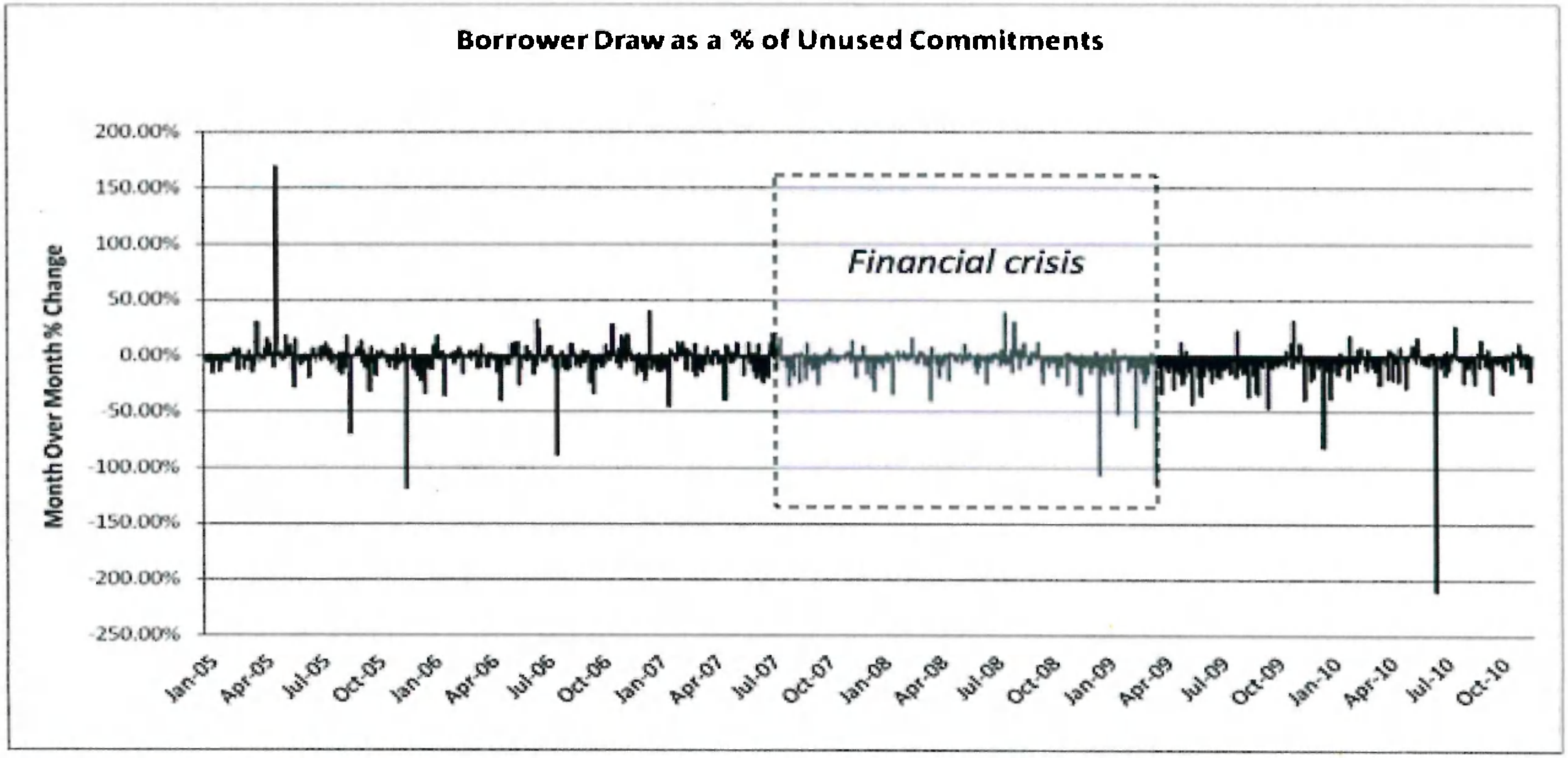


Client draw activity is uncorrelated across time and not associated with market pressures.

In order to utilize capacity under conduit commitments, clients must source and deliver assets subject to borrowing base calculations.

In times of market stress, clients are not likely to draw more than in normal markets.

As a result, draws are uncorrelated or negatively correlated to market stress conditions.



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A conservatively tailored definition of securitized financing facilities – which we call "qualifying bank customer securitizations" – would ensure that the look-through approach cannot be abused.

To ensure that such a look-through approach could not be used inappropriately, we have proposed that a "qualifying bank customer securitization" be conservatively defined as a traditional securitization:

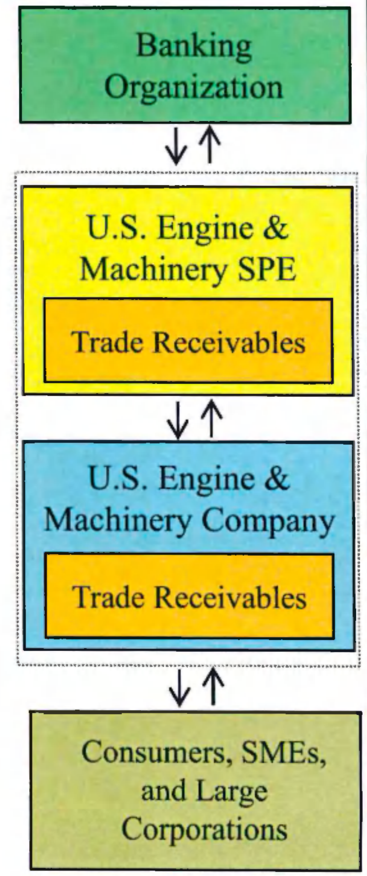
(a) that is sponsored by a financial or non-financial customer of one or more banks,

(b) through which the customer obtains financing either (i) directly from one or more of such banks or (ii) through one or more ABCP conduits that are supported with liquidity facilities from one or more of such banks with commitment amounts (together with commitment amounts from other financial institutions, governmental agencies and government-sponsored entities) that at least cover the face amount of the ABCP used to fund such financing,

(c) where the customer is not one of such banks, or an affiliate of one of such banks, extending the financing or providing a liquidity facility to an ABCP conduit that is extending the financing,

(d) where one or more of such banks or ABCP conduits, or an agent on its or their behalf, negotiates and agrees to the terms of the financing directly with the customer or its special purpose entity,

Securitized Financing



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A conservatively tailored definition of securitized financing facilities – which we call "qualifying bank customer securitizations" – would ensure that the look-through approach cannot be abused.

(e) where the eligible primary underlying exposures have been originated or acquired by the customer to further a long-term business objective,

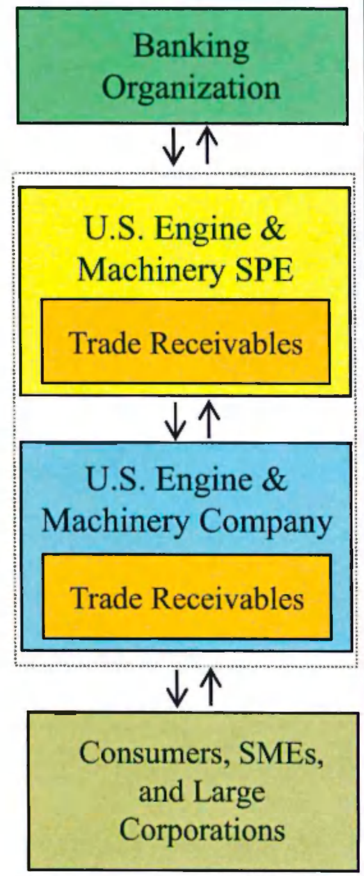
[(f) where, for at least 95% of the eligible primary underlying exposures, the obligor is not a bank,]

(g) where the terms of the financing are not subject to market value triggers that require eligible primary underlying exposures to be sold,

(h) that contains terms requiring compliance with all applicable laws governing credit risk retention by sponsors of traditional securitizations, and

(i) where, after its initial financing is extended, none of such banks or ABCP conduits are required to fund any commitment to such customer or its special purpose entity unless eligible primary underlying exposures exist and are available to secure such additional funding as required by the terms of the financing (which is called the "available borrowing base").

Securitized Financing



Securitization structures in the context of the "qualifying bank customer securitization" definition.

Proposed Qualifying Bank Customer Securitization Criteria	Qualifying Bank Customer Securitization: Bank Sponsored Multi-Seller Conduit[1] Funded	Qualifying Bank Customer Securitization: Direct Bank Funded	Conduits with Repo Features: Non-Bank Multi-Seller	Conduits with Repo Features: Collateralized CP	Conduits with Repo Features: Traditional Repo Conduit	Securities Arbitrage
Does it have unfunded exposure?	**YES**	**YES**	YES	DEPENDS[2]	NO	DEPENDS
A) Bank customer	**PASS**	**PASS**	FAIL – Not Bank	DEPENDS[3]	PASS	FAIL
B) Underlying exposures acquired by customer for long term business objective, not market arbitrage	**PASS**	**PASS**	PASS	DEPENDS[3]	PASS	FAIL
C) Financed directly through bank or ABCP conduit(s) supported with min 100% liquidity facility	**PASS**	**PASS**	PASS	DEPENDS – Not all have liquidity facilities	FAIL	PASS
D) Not financing own bank's assets	**PASS**	**PASS**	PASS	DEPENDS[3]	PASS	DEPENDS
E) Individually negotiated customer transactions	**PASS**	**PASS**	PASS	DEPENDS[3]	PASS	FAIL
F) Transaction level bank credit approval required before funding occurs	**PASS**	**PASS**	FAIL – Not Bank	DEPENDS[3]	FAIL	FAIL
G) Active performance monitoring of underlying assets	**PASS**	**PASS**	PASS	PASS	PASS	PASS
H) No market value triggers forcing liquidation	**PASS**	**PASS**	PASS	PASS	PASS	PASS
I) Requires compliance with credit risk retention laws	**PASS**	**PASS**	DEPENDS	FAIL – Not funding securitizations	FAIL – Not funding securitizations	PASS
J) Available borrowing base required for additional funding against unused commitment	**PASS**	**PASS**	PASS	DEPENDS[2]	FAIL – No unfunded commitments	DEPENDS
Passes All Categories?	**PASS**	**PASS**	**FAIL**	**FAIL**	**FAIL**	**FAIL**

[1] Includes both on- and off-balance sheet. [2] Note one program with a liquidity facility in place has ability to have unfunded exposure.
[3] Note that some programs may fund repo assets from a bank's balance sheet or newly originated repo assets directly from a client.

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Securitization structures in the context of the "qualifying bank customer securitization" definition.

Proposed Qualifying Bank Customer Securitization Criteria	Qualifying Bank Customer Securitization		Single Seller Entities				
			100% Liquidity Structure			<100% Liquidity Structure	
	Bank Sponsored Multi-Seller Conduit[1] Funded	Direct Bank Funded	3rd Party Liquidity Provider[2]	Bank Sponsor	Non-bank Sponsor	Bank Sponsor	Non-bank Sponsor
Does it have unfunded exposure?	**YES**	**YES**	YES	YES	YES	YES	YES
A) Bank customer	**PASS**	**PASS**	PASS	FAIL	FAIL – Not Bank	FAIL	FAIL – Not Bank
B) Underlying exposures acquired by customer for long term business objective, not market arbitrage	**PASS**	**PASS**	PASS	PASS	PASS	PASS	PASS
C) Financed directly through bank or ABCP conduit(s) supported with min 100% liquidity facility	**PASS**	**PASS**	PASS	PASS	PASS	FAIL	FAIL
D) Not financing own bank's assets	**PASS**	**PASS**	PASS	FAIL	PASS	FAIL	PASS
E) Individually negotiated customer transactions	**PASS**	**PASS**	PASS	FAIL	FAIL	FAIL	FAIL
F) Transaction level bank credit approval required before funding occurs	**PASS**	**PASS**	PASS	PASS	FAIL – Not Bank	PASS	FAIL – Not Bank
G) Active performance monitoring of underlying assets	**PASS**	**PASS**	PASS	PASS	PASS	PASS	PASS
H) No market value triggers forcing liquidation	**PASS**	**PASS**	PASS	PASS	PASS	PASS- if Cash Flow structure FAIL-if MV structure	PASS- if Cash Flow structure FAIL-if MV structure
I) Requires compliance with credit risk retention laws	**PASS**	**PASS**	PASS	DEPENDS[3]	DEPENDS[3]	DEPENDS[3]	DEPENDS[3]
J) Available borrowing base required for additional funding on unused commitment	**PASS**	**PASS**	PASS	PASS	PASS	PASS	PASS
Passes All Categories?	**PASS**	**PASS**	**PASS**	**FAIL**	**FAIL**	**FAIL**	**FAIL**

[1] Includes both on- and off-balance sheet. [2] Liquidity to Ford's FCAR Program. [3] Depends if entities fund securitizations or other structures.

Securitization structures in the context of the "qualifying bank customer securitization" definition.

Proposed Qualifying Bank Customer Securitization Criteria	Qualifying Bank Customer Securitization: Bank Sponsored Multi-Seller Conduit[1] Funded	Qualifying Bank Customer Securitization: Direct Bank Funded	Cash Flow ABS CDO	Market Value ABS CDO	SIV	SIV-lite
Does it have unfunded exposure?	**YES**	**YES**	NO	YES	NO	NO
A) Bank customer	**PASS**	**PASS**	FAIL	FAIL	FAIL	FAIL
B) Underlying exposures acquired by customer for long term business objective, not market arbitrage	**PASS**	**PASS**	FAIL	FAIL	FAIL	FAIL
C) Financed directly through bank or ABCP conduit(s) supported with min 100% liquidity facility	**PASS**	**PASS**	FAIL	FAIL	FAIL	FAIL
D) Not financing own bank's assets	**PASS**	**PASS**	PASS	PASS	PASS	PASS
E) Individually negotiated customer transactions	**PASS**	**PASS**	FAIL	FAIL	FAIL	FAIL
F) Transaction level bank credit approval required before funding occurs	**PASS**	**PASS**	FAIL	FAIL	FAIL	FAIL
G) Active performance monitoring of underlying assets	**PASS**	**PASS**	PASS	PASS	PASS	PASS
H) No market value triggers forcing liquidation	**PASS**	**PASS**	PASS	FAIL	FAIL	FAIL
I) Requires compliance with credit risk retention laws	**PASS**	**PASS**	PASS	PASS	PASS	PASS
J) Available borrowing base required for additional funding on unused commitment	**PASS**	**PASS**	FAIL – No unfunded commitments	YES	FAIL – No unfunded commitments	FAIL – No unfunded commitments
Passes All Categories?	**PASS**	**PASS**	**FAIL**	**FAIL**	**FAIL**	**FAIL**

[1] Includes both on- and off-balance sheet.