Meeting Between Federal Reserve Board Staff and Representatives of Bank of America September 14, 2010

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Summary: Staff of the Federal Reserve Board met with representatives of Bank of America to discuss securitization risk retention requirements under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Act"). Bank of America's representatives provided Federal Reserve Board staff with a presentation on their overall views on risk retention requirements. A copy of the handout provided by Bank of America at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.

RISK RETENTION ISSUES

September 14, 2010

Bank of America

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Introduction

Harmonization and Consistency Needed, Fragmentation Appears to have No Benefits and Many Risks

About Bank of America.

Bank of America is one of the world's largest financial institutions, and is actively engaged in facilitating the provision of credit to individual consumers, small and middle market businesses, and large corporations. With total assets of over $2.3 trillion, we serve clients in all 50 states and more than 150 countries worldwide. Bank of America continues to act as a leader in the securitization market, having served as issuer of the first publicly registered offering of non-agency residential mortgage pass-through certificates in 1977. Today Bank of America and its affiliates are leaders in many different aspects of the securitization markets, including serving as

- ✓ Issuer across many, if not virtually all, products (card, residential and commercial mortgage, auto, ABCP)
- ✓ Underwriter and Dealer across many, if not virtually all, products
- ✓ Loan originator and servicer
- ✓ Derivative counterparty
- ✓ Trustee, master servicer, and custodian
- ✓ Investor

We believe that securitization helps Main Street by supporting lending and allowing for an efficient redeployment of capital and new credit creation.

Introduction

Harmonization and Consistency Needed, Fragmentation Appears to have No Benefits and Many Risks

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was enacted. The Federal banking agencies (OCC, the Fed and the FDIC) and the SEC are required to jointly prescribe regulations to require "securitizers" to retain an economic interest in a portion of the credit risk of any securitized asset. In addition, the Federal banking agencies, the SEC, HUD and the Federal Housing Finance Agency (FHFA) are required to jointly prescribe similar regulations focused specifically on residential mortgage securitizations.

Certain of the provisions of the Act, including risk retention provisions, will significantly affect the securitization industry. In addition, several other regulatory initiatives currently are in process, including the SEC's proposed changes to its asset-backed securities rules (17 CFR Parts 200, 229, 30 et al., published in the Federal Register on May 3, 2010) ("Reg. AB II Proposed Rule") and the Notice of Proposed Rulemaking by the FDIC entitled "*Treatment by the Federal Deposit Insurance Corporation as Conservator or Receiver of Financial Assets Transferred by an Insured Depository Institution in Connection with a Securitization or Participation after September 30, 2010*". These initiatives have conflicting and/or overlapping requirements and need to be harmonized. Until the various agencies begin releasing proposed rules, it will be difficult to fully understand the impact of the Act. Moreover, the results of certain studies and reports mandated by the Act may influence the direction of these initiatives in ways that are difficult to predict, and may have a chilling effect on the markets.

Regulations addressing risk-retention standards should be formulated so that there is a single consistent standard for all market participants. The creation of duplicative or potentially contradictory sets of regulations create unnecessary confusion and conflict, and may frustrate the restoration of the secondary market.

Risk Retention Recommendations

Many Paths to the Mountaintop – Flexible Rules can Achieve Objectives

The requirements concerning risk retention established in the Act, the Reg. AB II Proposed Rule and the FDIC securitization safe harbor should be reevaluated from the perspectives of both process and substance. While we understand that future ABS issuances will include risk retention features, the contours of this obligation would benefit from further refinement and harmonization.

Process. The risk retention requirements arising out of the Act should be harmonized with the initiatives of the FDIC and SEC to avoid duplicative or conflicting requirements. Market regulation of securitization transactions should be accomplished in a collaborative and coordinated way, which facilitates the core credit intermediation functions of banking organizations. A single, national standard, implemented by joint interagency regulatory rulemaking, will best achieve the goal of preventing a recurrence of a financial crisis. A fragmented approach to regulating these markets, in which various regulatory bodies codify slightly different rules governing the exact same subject matter, is likely to produce inefficient results for the securitization markets.

While the regulatory process should be coordinated, nevertheless it should not result in a "one-size-fits-all" approach. As explicitly recognized in the Act, commercially distinct products with legitimately differing needs should rationally attract differing standards. For example:

RMBS. The policy goal of promoting higher quality consumer mortgages is addressed in the Act, which, unlike the Reg. AB II Proposed Rule and the FDIC proposal, does not require securitizers to retain credit risk in transactions involving certain high quality qualified residential mortgage loans. We believe the banking agencies and the SEC should conform to the Act in this regard.

CMBS. The Act also accounts for the variability in asset types, such as commercial mortgage-backed securities, where retention may be potentially satisfied through a third-party purchaser's (*i.e.*, B-piece buyer's) retention of the first-loss piece, consistent with current CMBS market practice. We believe the banking agencies and the SEC should conform to the Act in this regard as well.

Card ABS. In the case of a master trust, the Reg. AB II Proposed Rule allows risk retention through a conventional originator's interest, provided the originator's interest and the securities sold to investors are backed by the same pool of receivables and payments on the originator's interest are not less than 5% of the payments on the securities held by investors. This, too, is an approach that reflects market practice, and we support inclusion of this alternative in the implementing regulations.

Multi-Seller ABCP. Due to the unique nature of these programs, risk retention does not apply in the same manner. In these transactions retention by the loan originator may make more sense than by the securitizer because, unlike other ABS securitizations, the chain of ownership of the assets does not flow through the sponsor.

Risk Retention Recommendations *(continued)*

Many Paths to the Mountaintop – Flexible Rules can Achieve Objectives

Substance. Risk retention standards need to be practical and flexible. The various policy proposals address the same subject matter and contain some common elements, however these proposed standards also differ materially on key aspects of risk retention. When securitization risk retention standards are finally codified, it would best serve all parties if rigid mandates are avoided and flexibility in compliance is permitted.

We request a menu of options to satisfy risk retention requirements that would allow sponsors to respond to consolidation issues by selecting a retention strategy that minimizes accounting risks. The objective of aligning incentives can be accomplished with a flexible approach that allows for:

1. Vertical Slice: Retention of the requisite minimum amount of each of the tranches sold or transferred to investors, net of credit hedge positions directly related to the securities or exposures taken by the sponsor or an affiliate.

2. Horizontal Slice: Retention of a portion of the nominal amount of a specified tranche or tranches that represent the requisite minimum amount of all tranches, net of credit hedge positions directly related to the securities or exposures taken by the sponsor or an affiliate. This is particularly important for asset classes, including autos, that cannot make a REMIC tax election and must retain a degree of horizontal risk at the bottom of the capital structure to achieve debt for tax results.

3. Originator's Interest: In the case of master trusts, retention of the originator's interest of the requisite minimum amount of the securitized exposures, net of credit hedge positions directly related to the securities or exposures taken by the sponsor or an affiliate; provided that the originator's interest and securities held by investors are collectively backed by the same pool of receivables and the originator's interest ranks *pari passu* with the investors' interest in the pool of receivables. Likewise, similarly structured participation arrangements should be permitted outside of the master trust space.

4. Random Exposures: Retention of randomly selected exposures that represent the same credit risk as the securitized exposures and that represent the requisite minimum amount of the securitized exposures, net of credit hedge positions directly related to the exposures retained by the sponsor or an affiliate. For example, randomly select and retain $5 million of a pool of $105 million in loans and then securitize the remaining $100 million in loans. This is contained in the FDIC proposal.

5. Third Party Purchaser: Retention of the first loss position by a third party purchaser that specifically negotiates for such risk allocation and performs diligence on the entire pool of assets, in a manner similar to the existing practice in the CMBS market.

Risk Retention Recommendations *(continued)*

Many Paths to the Mountaintop – Flexible Rules can Achieve Objectives

6. Representations and Warranties/Strong and Clear Enforcement Mechanisms: Provision of robust representations and warranties and strong related enforcement mechanisms.

7. Qualified Residential Mortgages: Consistent with the Act, the banking agencies and SEC should exempt securitization of high quality qualified residential mortgage loans from risk retention requirements. These loans have product features that suggest a lower risk of default. The requirement that qualified residential mortgages be at least as restrictive as the "qualified mortgage" definition under TILA (as amended) is very limiting, resulting in expected benefits applying only to high quality prime mortgages. (for example, fully amortizing hybrid ARMs would not qualify). Because of this, we believe that further limitations to the scope of either "qualified residential mortgages" or "qualified mortgage" should be disfavored.

8. Government Credit: In addition, the agencies should exempt the securitization of loans or securities issued or guaranteed by the United States government or an agency of the government from the risk retention requirements, in a manner consistent with the standards established under the Act. GSE credit is excluded from this definition, but presumably that could change depending on the results of GSE reform.

9. Other Options: The final rules should also accommodate other exceptions, calibrations, and qualifications to required risk retention developed during the rulemaking that will occur under the Act. For example, the agencies should consider the development of "low credit risk" underwriting standards for each asset class, which could result in satisfaction of risk retention requirements in a manner similar to the qualified residential mortgage standard. Risk retention should be allowed to reside with the securitizer, the sponsor, the loan originator (for example, in multi-seller ABCP), or a consolidated affiliate. Additionally, risk retention should be permitted to occur through some combination of the various methods described above (including, for example, risk retention combinations of vertical slice and horizontal slice, resulting in an "L" shaped risk retention obligation).

Our recommendation is for the risk retention requirements of the FDIC, the SEC and under Dodd-Frank to be consistent and harmonized. However, in case they are not harmonized, and duplicative standards arise that create cumulative risk retention burdens that are greater than the intended recourse requirements of any one regulation, GAAP deconsolidation and related capital relief will likely be less achievable. Because of this foreseeable risk of a lack of regulatory harmonization, we believe that it is even more important that Dodd-Frank risk retention options include qualitative, rather than merely quantitative, strategies for satisfying risk retention obligations, such as random exposure, third party purchaser, representations and warranties, and qualified residential mortgages, that are less likely to create negative unintended consequences concerning aggregate cumulative risk exposure and recourse retention difficulties.

GAAP and Regulatory Capital Concerns.

It is presently not clear how risk retention requirements will affect financial and regulatory accounting treatment and legal true sale analysis, which affect a sponsor's regulatory capital requirements and FDIC safe harbor protections. Although the SEC has stated that it does not believe that risk retention in itself will require the consolidation of the securitization entity onto the sponsor's balance sheet, it also concluded that final determinations are facts-and-circumstances-based, leaving open the question of whether a sponsor may have increased capital costs as a result of the required retention requirement.

We believe that it is important that products that today may enjoy the possibility of off balance sheet GAAP accounting treatment under FAS 166 and 167 (for example, RMBS and CMBS) continue to have clear paths to such treatment notwithstanding risk retention requirements. Accordingly, the risk retention options of a third party B-piece purchaser, qualified residential mortgages, and random exposure are particularly important. Risk retention should not frustrate otherwise expected GAAP deconsolidation results, and related capital and balance sheet benefits.

Federal banking regulators should work with the SEC and FASB to ensure that if a company has the power to direct the significant activities of a securitization vehicle, but its only (or overwhelming) variable interest is the required risk retention, then sale accounting would not be precluded. The FASB could issue an Accounting Standards Update to clarify this point.

Please refer to Annex A for a hypothetical illustration of how GAAP consolidation and resulting capital requirements could affect prime jumbo consumer mortgage securitization.

Conclusion.

Responsible securitization of high-quality loans helps homeowners, consumers, and Main Street by supporting lending and allowing for an efficient redeployment of capital and new credit creation. However, significant regulatory uncertainty and the prospect of undue compliance costs threaten the viability of an active and efficient private securitization market.

Unless risk retention standards are harmonized and calibrated, it may be difficult for large institutions that play a central role in re-starting the credit markets to rationalize continued participation in securitization, especially in light of other options available to satisfy their funding and capital needs. If three separate, competing risk retention standards are adopted without adjustment, it may also discourage appropriate risk mitigation transactions and reduce credit availability to homeowners, consumers, and Main Street. The alternative to securitization is a banking market funded, to a larger degree, by deposits and wholesale funding – an outcome that would not best facilitate the restoration of credit or the efficient management of bank assets and liabilities.

Unless banks and other business organizations return to more normalized volumes of non-agency securitization activity, high concentrations of credit risk will continue to be held by the Federal Housing Administration, the Government National Mortgage Association, and institutions (Fannie Mae and Freddie Mac) regulated by the Federal Housing Finance Agency (and, in some cases, supported by the United States Treasury). Responsible, efficient, and transparent non-agency securitization markets should be viewed as a powerful tool to help gradually reduce concentrations of these risks in governmental agencies. For this reduction to be done in scale, workable modernization of market regulation should be developed in a consistent, coordinated way that balances the needs and desires of issuers, investors, financial intermediaries, supervisory authorities, and the public at large.

Comparison of the Key U.S. Initiatives

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Basic Provision	Provides for adoption of regulations requiring a securitizer (or originator) to retain an economic interest in a portion of the credit risk of any asset (except certain residential mortgages) that the securitizer, through the issuance of an ABS, transfers, sells or conveys to a third party. Bank regulators and the SEC are granted significant discretion in respect of the regulations to be adopted under the Act; accordingly, the final risk retention requirements will be shaped to a large extent by the regulations.	Requires a sponsor or its affiliate to retain a net economic interest in certain securities or, in certain circumstances, the underlying assets. Not a general requirement for all transactions; would be required for access to the US Securities Act shelf registration process in respect of publicly offered ABS.	Requires a sponsor to retain an economic interest in a material portion of the credit risk of the financial assets. Not a general requirement for all transactions; would be required as a condition to the availability of the new safe harbor for financial assets transferred by an FDIC-insured depository institution in connection with a securitization (including both public and private transactions). The FDI C intends the retention requirements to be consistent with the requirements included in the SEC proposed rule, although there are differences between the proposals and the Act.

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Scope	Applies to securitizers that are insured depository institutions and all other entities that issue ABS or organize and/or sponsor ABS transactions. Applies in respect of deals involving the issuance of "asset-backed securities", with a new definition of relevant securities that is broader than Regulation AB. There is no express exemption for GSE transactions, but definitive conclusions on this may not be clear until finalization of rulemaking, or finalization of GSE reform. Applicability to existing deals is not entirely clear although the provisions appear to be intended to apply to new securitizations in general.	Applies to the public issuance of "asset-backed securities" as defined in Regulation AB under a shelf registration statement, regardless of the identity of the issuer, originator or sponsor; would not apply if the transaction is private or is not offered through a shelf registration process. Existing ABS issuances would be grandfathered, with the retention requirements applicable to new issuances following the effective date.	Applies to transfers of financial assets by an FDIC-insured depository institution in connection with a securitization , as a condition for the new safe harbor to apply. New safe harbor is relevant for securitizations (i) for which transfers of financial assets are made on or after September 30, 2010 or (ii) for revolving trusts, for which obligations were issued on or after September 30, 2010. Transfers completed prior to September 30, 2010 in respect of securitizations and participations would be grandfathered (if covered by the prior safe harbor).
Exceptions to Risk Retention	<u>Public Interest/Investor Protection</u>: The regulators may provide for total or partial exemption of any securitization, as may be appropriate in the public interest and for the protection of investors.	None.	None.

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Exceptions to Risk Retention (*continued*)	Regulatory Discretion. The SEC and banking agencies are permitted to jointly adopt or issue exemptions, exceptions or adjustments for classes of institutions or assets to the rules on risk retention, including the prohibition on hedging. Qualified Residential Mortgages: No risk retention requirement for any asset included in an ABS if all the assets backing the ABS are "qualified residential mortgages." Federal banking agencies, the SEC, HUD and FHFA must jointly define "qualified residential mortgages", taking into consideration underwriting and product features that historical data indicates result in a lower risk of default. QRM may not be defined more broadly than a "qualified mortgage" under TILA. This exception would not be available for resecuritizations. Underwriting Guidelines: Securitizers can retain less than 5% credit risk if the originator meets underwriting standards to be established for the relevant asset class (*e.g.*, residential mortgage, commercial mortgage, commercial loans, auto loans, and other classes the federal banking agencies and the SEC deem appropriate), which specify terms, conditions and characteristics of a loan within each asset class that indicate a low credit risk.		

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Exceptions to Risk Retention *(continued)*	Commercial Mortgage Loans: Regulations must specify, with respect to commercial mortgages, the permissible types, forms and amounts of risk retention, which may include (i) retention of a specified amount or percentage of total credit risk of the assets, (ii) retention of a first loss position by a 3rd party purchaser that specifically negotiates for the purchase of the first loss position, holds adequate financial resources to back losses, performs due diligence on all the pool assets prior to issuance of the ABS and meets the same standards for risk retention as the regulators require of the securitizer, (iii) determination by the federal banking agencies and the SEC that the underwriting standards and controls for the assets are adequate, and (iv) provision of adequate representations and warranties and related enforcement mechanisms. Governmental Guarantee Exclusion: Credit risk retention provisions do not apply to: (i) any loan made, insured, guaranteed or purchased by any person subject to supervision by the Farm Credit		

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Exceptions to Risk Retention *(continued)*	Administration, including the Federal Agricultural Mortgage Corporation; and (ii) any residential, multifamily or healthcare facility mortgage loan asset, or securitization based directly or indirectly on such asset, which is insured or guaranteed by the U.S. or any agency of the U.S. Fannie Mae and Freddie Mac are NOT agencies of the U.S. for this purpose.		
Credit Risk Retention Percentage Baseline	5% (but may be less than 5% for certain asset classes as determined in the implementing regulations).	5% , (however, the retention requirement doesn't apply to non-shelf offerings, *i.e.*, public deals registered on Form SF-1 and private offerings).	5%.
Type of Risk Retained	To be specified in regulations.	An interest in (i) each tranche sold to investors or (ii) in the case of a revolving asset master trust, an originator's interest, provided the originator's interest and the securities sold to investors are backed by the same pool of receivables and payments on the originator's interest are not less than 5% of the payments on the securities held by investors collectively.	An interest (i) in each tranche sold to investors or (ii) in a representative sample of the securitized financial assets equal to not less than 5% of the principal amount of the transferred assets.
Duration of Risk Retention	To be specified in regulations.	As long as non-affiliates of the depositor hold any of the securities.	The term of the securitization.

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Risk Sharing	Yes. Risk can be allocated between a securitizer and an originator as jointly deemed appropriate by the federal banking agencies and the SEC, considering whether (i) the assets have terms, conditions and characteristics that reflect low credit risk, (ii) the form or volume of transactions in securitization markets creates incentives for imprudent origination of that type of asset and (iii) the potential impact of the risk retention obligations on access of consumers and businesses to credit on reasonable terms.	Risk can be maintained by the sponsor or an affiliate.	None is permitted.
Prohibition on Hedging	Securitizers are prohibited from directly or indirectly† hedging or otherwise transferring the credit risk.	Credit hedge positions directly related to the securities retained or exposures taken by the sponsor or affiliate are counted against the 5%.	The retained interest may not be transferred or hedged for credit risk during the term of the securitization.
Related due diligence and/or underwriting standards	New regulations under the Securities Act of 1933 require the SEC to adopt regulations requiring ABS issuers (1) "to disclose, for each tranche or class of security, information regarding the assets backing that security" and for regulations setting standards for	Proposed rule includes changes to the disclosure requirements for ABS offerings and ongoing reporting, including asset- level information (including filing and format requirements) and enhanced information on asset underwriting (*e.g.* steps undertaken to verify information).	Proposed rule requires a contractual undertaking to comply with disclosure and reporting requirements for all ABS issuances (including privately placed deals) of Regulation AB or any successor disclosure requirements (such as the SEC proposed rule, if adopted).

† Regulations should clarify the exact contours of "indirectly" in this context. While schemes to accomplish indirectly hedging that is not permitted directly should not be allowed, the potential scope of "indirect" is expansive and troubling. Perhaps violations for "indirect" hedging should require a showing of an affirmative and specific intent to manipulate the rule.

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Related due diligence and/or underwriting standards (continued)	the format of the data provided by issuers "which shall, to the extent feasible, facilitate comparison of such data across securities of similar types of asset classes" and include "at a minimum to disclose asset-level or loan-level data necessary for investors to independently perform due diligence" and (2) to "perform a review of the assets underlying the asset-backed security" and disclose the nature of the review. Provision is also included for the SEC to require certain information to be disclosed in the rating agency report on representations/warranties and enforcement mechanisms and to require securitizers to disclose fulfilled and unfulfilled repurchase demands.	For delayed shelf transactions offered on Form SF-3, the proposal would require the CEO of the depositor to provide a certification concerning the characteristics of the collateral.	Proposed rule also requires sponsors of securitizations of residential mortgages to affirm compliance with applicable statutory and regulatory standards for the origination of mortgage loans, although the FDIC has indicated that "technical non-compliance with some standards, or occasional limited non-compliance with origination standards" will not be regarded as affecting the availability of the safe harbor. Securitized loans must be underwritten at the fully indexed rate, with full documentation and income verification. The proposed rule requires a 5% of proceeds cash reserve requirement for RMBS transactions to cover representation and warranties breaches.

Comparison of the Key U.S. Initiatives *(continued)*

Some Similarities, But Many Differences

	Dodd-Frank Act	SEC Proposed Rule	FDIC Safe Harbor
Penalties	Specific penalties are not specified; this may be addressed in the Implementation regulations, and the usual enforcement mechanisms and penalties available to relevant authorities would presumably apply.	Eligibility for shelf registration would not be established if the retention requirements were not satisfied.	Availability of the new safe harbor for the specific transaction would not be established (or presumably maintained) if the retention requirements were not satisfied. Note that the consequences of failure to maintain risk retention – the loss of safe harbor treatment – could fall on investors in specific transactions.
CDOs/other highly leveraged products†	The implementing regulations must address the risk retention provisions for these products. It is foreseeable that the regulations will require risk retention for these products in excess of the baseline 5% level.	Out of scope, as these products are not offered in SEC registered shelf transactions.	Not specifically addressed.
Timing	Act was enacted on July 21, 2010. Implementing risk retention regulations are to be issued within 270 days after the date of enactment. Regulations are to become effective (i) one year after final rules published for ABS backed by residential mortgages and (ii) two years after such rules are published for all other ABS.	The comment period for the proposed rule expired on August 2, 2010. Timing of implementation is under consideration; phased implementation is proposed but SEC has indicated that compliance should not extend past a year after adoption of the new rules.	The comment period for the proposed rule expired on July 1, 2010. The current transitional safe harbor is scheduled to expire on September 30, 2010. The FDIC is expected to publish the final rule soon (unless it extends the current safe harbor pending joint rulemaking).

† There are good reasons to distinguish traditional CLOs and re-REMIC transactions from CDOs for these purposes. CLOs and re-REMICS provide companies with useful funding, liquidity , and capital management tools not tied to the financial crisis. Often, however, CLOs and re-REMICS rely upon an exemption from 1940 Act registration found under Section 3(c)(1) or 3(c)(7), so accommodations concerning the Volcker provisions should be considered.

Annex A

Hypothetical illustration of how GAAP consolidation and resulting capital requirements could affect consumer mortgage securitization

- The jumbo prime consumer mortgage market has been significantly reduced by the economic crisis and the structural changes that have followed, with production decreasing in excess of 80% from approximately $480 billion in 2006 to approximately $92 billion in 2009.
- During the same period the aggregate conforming mortgage volume increased from approximately $990 billion in 2006 to approximately $1.18 trillion in 2009, reflecting in part a shift away from a market supported by private investors and toward one subsidized by government guarantees.
- As the private markets normalize they offer the opportunity to realign the current production paradigm, direct mortgage exposure away from government entities and back to private investors, and offer financing to credit worthy borrowers who are both ineligible for agency programs and not attractive to portfolio lenders.
- This potential has begun to be realized as originators start to explore securitization as an alternative to holding prime jumbo loans in portfolio.
- Deconsolidation of securitized mortgages is perhaps the most compelling aspect of prime jumbo RMBS issuance as it allows securitizers to free up balance sheet capacity, provides a source of funding new loans, and allows risk to be managed through asset sales.
- Any form of risk retention which precludes accounting true sale will risk making securitization unattractive to large depository institutions because an on-balance-sheet securitization is effectively a financing of the assets which can be more cheaply achieved using deposits and provides no capital relief.
- Assuming the required form of risk retention does not present consolidation issues or legal true sale impediments a private jumbo MBS market could develop in the relatively near term that could accommodate a good share of what was a nearly $100 billion market in 2009.
- Assuming that this 2009 production can be securitized in off-balance sheet structures, it will result in a release of approximately $100 billion in balance sheet and $4 billion in bank Tier 1 capital that can be devoted to other goals (lending, higher capital standards, or other purposes).
- The near-term access to capital relief that securitization can afford will likely be dwarfed as RMBS markets normalize, the cost of liquidity charged by the market for new originations decreases, and overall economic conditions improve accelerating demand for mortgages. A vibrant RMBS market may be necessary to support increased consumer demand, provide liquidity for a portion of the loans currently being securitized into agency or government programs, and to resume established loan programs such as home equity lines of credit that have limited support in the current markets.

Source of Data: Inside Mortgage Finance.