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Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
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Office of the Comptroller of the Currency
250 E. Street, S.W., Mail Stop 2-3
Washington, D.C. 20219
Docket Number OCC 2011-0002

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
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Washington, D.C. 20551

Robert E. Feldman, Executive Secretary
Attention: Comments
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RIN 3064-AD74

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA43
Federal Housing Finance Agency
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Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street, S.W., Room 10276
Washington, D.C. 20410-0500
RIN 2501-AD53

**Re: Credit Risk Retention**

Ladies and Gentlemen:

Vanguard[1] appreciates the opportunity to provide our comments to the Securities and Exchange Commission (the "Commission"), Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Federal Finance Housing Agency; and Department of Housing and Urban Development (together, the "Agencies") on the proposal to jointly implement the credit risk retention requirements of Section 15G of the Securities Exchange Act of 1934, as added by Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the

[1] Vanguard is an SEC-registered investment adviser that offers more than 170 U.S. mutual funds with assets of approximately $1.7 trillion. Our fixed income funds have approximately $615 billion in assets under management, including $28 billion invested in asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities.

"Dodd-Frank Act").[2] Vanguard strongly supports the Agencies' efforts to craft rules that properly align the interest of securitizers of asset-backed securities, commercial mortgage-backed securities, and residential mortgage backed-securities (collectively, "ABS") with those of investors in ABS. As we have stated in a previous comment letter to the Commission, we are in favor of risk retention across all ABS asset classes.[3] We believe risk retention is a vital part of providing alignment of interest, incentives, and accountability for securitizers.

We do, however, recognize that for some ABS, risk retention may not be necessary. Section 15G provides an exemption from the risk retention requirements for very high quality ABS subject to strict credit standards, such as those collateralized solely by "Qualified Assets," which would include Qualified Residential Mortgages ("QRMs"), qualified commercial real estate loans, qualified commercial loans, and qualified consumer automobile loans.[4] The Agencies were tasked with jointly defining what types of Qualified Assets would be exempt from the risk retention requirement. Although our comments focus specifically on the QRM standard, we support excluding only the highest quality "Qualified Assets" from the risk retention requirement.[5] For QRMs, the Agencies were directed to take into account certain residential mortgage underwriting standards and product features that historical performance data indicate result in a lower risk of default.[6]

As purchasers of ABS securities, we believe that QRMs should be the "gold standard" of mortgages, satisfying the highest underwriting standards. For the reasons set forth below, we believe that the QRM standard proposed by the Agencies will accomplish this goal.

**A QRM should represent only the highest quality mortgages**

As discussed above, Vanguard believes that risk retention should be required across the ABS market, but we also recognize that for certain ABS, an exemption from these requirements may be appropriate. Any such exemption, however, should balance the primary goal of risk retention – the alignment of interests among investors and securitizers – with the need to maintain a robust and liquid market for these assets. Only QRMs that meet these criteria should be exempted from the risk retention requirements. QRMs should not include any of the product features that contributed to the high levels of delinquencies and foreclosures during the financial crisis.

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[2] *Credit Risk Retention,* Securities Exchange Act Release No. 64148 (March 30, 2011), available at http://www.sec.gov/rules/proposed/2011/34-64148.pdf (the "Proposing Release").

[3] Vanguard Comment Letter, *Asset-Backed Securities*, Release No. 33-9117 (Aug. 27, 2010), available at http://www.sec.gov/comments/s7-08-10/s70810-154.pdf.

[4] Section 15G(e)(4).

[5] In addition, Vanguard joins in the comments of the Investment Company Institute ("ICI") with respect to bank-sponsored asset-backed commercial paper programs ("ABCP") and municipal tender option bond programs ("TOBs"). ICI Comment Letter (July 29, 2011), *available at http://sec.gov/comments/s7-14-11/s71411-184.pdf.* We support an exemption from the risk retention requirements for bank-sponsored ABCP programs meeting the criteria outlined by the ICI, however, we would emphasize that detailed, up-to-date investor reporting must be an integral part of these criteria. We also join the ICI and other commenters in requesting that the Agencies clarify that municipal TOBs are not the types of securities Section 15G was intended to address, nor would it be in the public interest to apply the proposed risk retention requirements to TOBs.

[6] Section 15G(e)(4).

The QRM standard proposed by the Agencies will accomplish these goals. The minimum down payment, debt-to-income, loan-to-value, and credit history requirements contained in the proposed QRM standard are higher than the "norm" in the mortgage market. This is appropriate for mortgages that are to be exempted from the risk retention requirements imposed by the Dodd-Frank Act. Broadening the QRM definition will only result in securitizers having less "skin in the game" with respect to ABS thus increasing the risk exposure of investors in ABS. Over the long-term, investors will be better-served by a narrow QRM standard that accurately aligns the risk appetites of investors with the risk profile of the underlying assets.

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Vanguard commends the Agencies for their efforts to develop a QRM standard that exempts from the risk retention requirements of Section15G only those ABS collateralized by the highest-quality mortgages. We believe that risk retention is an important improvement to the ABS market. Any exemption from this requirement should be narrow to avoid repeating the mistakes in loan securitization that gave rise to the 2008 financial crisis. If not, investors may again be exposed to inappropriate risks in otherwise "high quality" ABS securities.

We appreciate the opportunity to comment on the Agencies' proposal. If you have any questions about Vanguard's comments or would like any additional information, please contact Bob Auwaerter at (610) 669-6341, or Bob Behal at (610) 669-8391.

Sincerely,

/s/ Gus Sauter

Managing Director
and Chief Investment Officer
Vanguard

cc: Honorable Mary L. Schapiro, Chairman
Honorable Kathleen L. Casey, Commissioner
Honorable Elisse B. Walter, Commissioner
Honorable Luis A. Aguilar, Commissioner
Honorable Troy A. Paredes, Commissioner