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.
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.
## Comparison of Risk Retention Proposals

<table>
<thead>
<tr>
<th>Who must retain credit risk</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>All securitizers, but can be assigned to originators pro rata.</td>
<td>Insured depository institution issuers</td>
<td>Shelf registration issuers</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who issues regulations</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages: OCC, FDIC, FRB, SEC, HUD, FHFA. All other assets: OCC, FDIC, FRB, SEC.</td>
<td>FDIC</td>
<td>SEC</td>
<td></td>
</tr>
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<table>
<thead>
<tr>
<th>Enforcement authority</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCC,FDIC, FRB for depositories; SEC for nondepositories</td>
<td>FDIC</td>
<td>SEC</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Retention Amount</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
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</thead>
<tbody>
<tr>
<td>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.</td>
<td>1. 5% of each tranche, OR 2. Representative sample of 5% of the principal of the securitized assets.</td>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors used in reducing the amount of risk retention.</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Asset has lower risk traits 2. Form/volume of transactions causes imprudent origination 3. Impact on credit availability</td>
<td>N/A. Risk retention requirement set at 5%.</td>
<td>N/A. Risk retention requirement set at 5%.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exceptions/Exemptions</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
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</thead>
</table>

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<thead>
<tr>
<th>Separate rules for separate asset classes?</th>
<th>Dodd-Frank Act</th>
<th>FDIC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes. Regulatory discretion plus special rules for qualified residential and CMBS.</td>
<td>Not for risk retention but other requirements apply only to RMBS.</td>
<td>Not for risk retention but assets are differentiated for other requirements.</td>
<td></td>
</tr>
</tbody>
</table>
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

Start analysis

Transfer of entire financial asset or portion of asset?

Yes

Transaction results in proportionate ownership rights to cash holders?

Yes

Allocation to holders in amount equal to proportion of ownership?

Yes

Rights of each participating interest holder have same priority and no subordination?

Yes

No party has right to pledge or exchange entire asset unless all participating interest holders agree?

Yes

To page 2

No

To page 7

No

No

Not a sale
Mortgage Bankers Association Analysis of FAS 166 Sale Accounting

From Page 2

Pro-rata participation in asset sold?

Yes

Allocate carrying amount between assets sold and assets retained based upon relative fair value.

No

Recognize participating interest retained at original carrying amount less carrying amount derecognized.

De-recognize interest sold.

Recognize and initially measure at fair value servicing and other assets obtained.

Recognize in earnings the gain or loss on sale.
Mortgage Bankers Association
Analysis of FAS 167
To Determine if Variable Interest Entity (VIE)

Start VIE Analysis

Is total equity investment at risk sufficient to finance its activities? YES. Then
Equity investors have power to direct activities that most significantly impact
economic performance? YES
Equity investors have obligations to absorb expected losses of entity? NO
Equity investors have the right to receive expected residual returns? NO
Entity is not a VIE

VIE: See page 2
Mortgage Bankers Association
Analysis of FAS 167
To Determine if Primary Beneficiary

VIE from page 1

Does owner have power to direct activities that most significantly impact VIE's performance?

Yes

Does owner have right or obligation to absorb losses or receive benefits in VIE?

Yes

Is the power to direct shared?

Yes

Primary Beneficiary – see page

No

Entity is not primary beneficiary of VIE

No

Entity is not primary beneficiary of VIE

No

Entity is not primary beneficiary of VIE

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

From page 2

Consolidate VIE's assets, liabilities and equity in PB's balance sheet.

Eliminate intercompany assets, liabilities and equity.

Consolidate VIE's income and expenses with PB's.

Eliminate intercompany income and expenses.

Note: For most securitization entities, the assets and liabilities of the consolidated VIEs would be shown in separate lines in the consolidated financial statements.