Meeting Between Federal Reserve Staff  
and Representatives of Morgan Stanley  
November 10, 2010  

Participants: Lawrence Rufrano, Molly Mahar, Matthew Eichner and Flora Ahn (Federal Reserve Board); and Diane Maurice (Federal Reserve Bank of New York)  

Steve D’Antonio, Vishwanath Tirupattur, David Moffitt, Lydia Foo, Su Bai, Jim Lee and Soo-Mi Lee (Morgan Stanley)  

Summary: Staff of the Federal Reserve met with representatives of Morgan Stanley to discuss mortgage-backed securities and the Federal Reserve Board’s responsibilities under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Representatives of Morgan Stanley provided Federal Reserve Board staff with a presentation of their overall views on credit risk retention requirements. A copy of the handout provided by Morgan Stanley at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.
Securitization is an Important Source of Credit Intermediation

Trends in Credit Intermediation
(Share of Private Nonfinancial Debt Outstanding, Percent)

- Intermediated Through Securities Markets
- Intermediated Through Depository Institutions

Source: Federal Reserve

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Securitization Issuance by Year and Product Type

Year: 2000
- CMBS: 25
- Non-Agency: 75
- Consumer: 20
- Agency CMO: 150

Year: 2001
- CMBS: 35
- Non-Agency: 175
- Consumer: 215
- Agency CMO: 385

Year: 2002
- CMBS: 35
- Non-Agency: 250
- Consumer: 225
- Agency CMO: 495

Year: 2003
- CMBS: 65
- Non-Agency: 375
- Consumer: 230
- Agency CMO: 575

Year: 2004
- CMBS: 195
- Non-Agency: 430
- Consumer: 220
- Agency CMO: 330

Year: 2005
- CMBS: 175
- Non-Agency: 730
- Consumer: 300
- Agency CMO: 325

Year: 2006
- CMBS: 200
- Non-Agency: 710
- Consumer: 275
- Agency CMO: 295

Year: 2007
- CMBS: 180
- Non-Agency: 600
- Consumer: 300
- Agency CMO: 225

Year: 2008
- CMBS: 0
- Non-Agency: 30
- Consumer: 130
- Agency CMO: 140

Year: 2009
- CMBS: 3
- Non-Agency: 15
- Consumer: 140
- Agency CMO: 265

Year: 2010
- CMBS: 3
- Non-Agency: 0
- Consumer: 75
- Agency CMO: 325

Source: SIFMA, TREPP, Bloomberg, Commercial Mortgage Alert, Morgan Stanley

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## Performance of Broad Categories of Securitized Products

<table>
<thead>
<tr>
<th>Category</th>
<th>Low To Date</th>
<th>High To Date</th>
<th>Low Lifetime</th>
<th>High Lifetime</th>
<th>Outstanding Market Size (Billion $)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ABS CDO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Mezzanine ABS CDO (2005-07 vintages)</td>
<td>60%</td>
<td>70%</td>
<td>75%</td>
<td>90%</td>
<td>80</td>
</tr>
<tr>
<td>- High Grade ABS CDO (2005-07 vintages)</td>
<td>30%</td>
<td>35%</td>
<td>60%</td>
<td>70%</td>
<td>170</td>
</tr>
<tr>
<td><strong>Non-Agency RMBS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sub prime (2005-07 vintages)</td>
<td>5%</td>
<td>15%</td>
<td>15%</td>
<td>45%</td>
<td>467</td>
</tr>
<tr>
<td>- Alt-A (2005-07 vintages)</td>
<td>5%</td>
<td>15%</td>
<td>15%</td>
<td>35%</td>
<td>626</td>
</tr>
<tr>
<td>- Jumbo prime (2005-08 vintages)</td>
<td>0%</td>
<td>2%</td>
<td>3%</td>
<td>10%</td>
<td>341</td>
</tr>
<tr>
<td><strong>Agency RMBS</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>6,739</td>
</tr>
<tr>
<td><strong>CMBS (2005-2007 vintages)</strong></td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>15%</td>
<td>769</td>
</tr>
<tr>
<td><strong>CLO (2004-08 vintages)</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>319</td>
</tr>
<tr>
<td><strong>Credit Card ABS</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>222</td>
</tr>
<tr>
<td><strong>Auto loan ABS</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>129</td>
</tr>
<tr>
<td><strong>Student loan ABS (FFELP)</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>249</td>
</tr>
<tr>
<td><strong>Student loan ABS (Private Credit)</strong></td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>35%</td>
<td>(included above)</td>
</tr>
</tbody>
</table>

### Notes:

1. Losses to investment grade tranches have been calculated using estimates of pool losses and applying a generic capital structure for each category of securitized products.
2. Investment grade tranches defined as tranches originally rated BBB/Baa and higher.
3. Outstanding market size for Agency RMBS includes $5,446 billion of pass-throughs and $1,270 billion of agency CMOs as of Q2 2010. Market size estimates are based on data from SIFMA and S&P for all categories except CLO and ABS CDOs which are Morgan Stanley estimates. 2005-2007 vintage issuance of ABS CDOs were $140 billion and $260 billion for mezzanine and high grade ABS CDOs respectively.
4. ABS CDO losses are based on Morgan Stanley estimates.
7. For Jumbo Prime, pool losses to date are based on PrimeX indices - PRM1 for low and ARM2 for high. Expected life time losses are based on “Prime Jumbo RMBS Loss Projection Update: January 2010”, Moody’s Investors Service, Jan 20, 2010.
8. No credit losses assumed due to government guarantees for Agency RMBS. There may be losses in premium bonds due to prepayments.
9. CLO, credit card, auto and student loan ABS losses are based on Morgan Stanley estimates.

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An Illustration of ABS CDO Securitization

Subprime ABS Capital Structure

- AAA: 100%
- AA: 24%
- A: 17%
- BBB: 9%
- Equity: 5%

Mezzanine ABS CDO Capital Structure

- AAA Super senior: 9%
- AAA: 8%
- AA: 7%
- A: 6%
- BBB: 5%

Source: Morgan Stanley

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