

**Meeting Between Staff of the Federal Reserve System and Representatives of the Securities Industry and Financial Markets Association (SIFMA), Citigroup, and Goldman Sachs
April 9, 2026**

Participants: Tara Hofbauer, Brian Kesten, Hillel Kipnis, Emma Lucas, Doriana Ruffino, Rye Salerno, and Stephen Zoulalian (Federal Reserve Board); Patrick deFontnouvelle (Federal Reserve Bank of Boston); Nandane Ramdass (Federal Reserve Bank of New York); Jeremy Brizzi (Federal Reserve Bank of Philadelphia); Jason Schmit (Federal Reserve Bank of Minneapolis); and Christopher Hornsby (Federal Reserve Bank of San Francisco)

Carter McDowell, Joseph Seidel, and Guowei Zhang (SIFMA)

Rick Gambs and Neal Roodin (Citigroup)

Asad Naqvi, Vanessa Resnick, and Sean Thompson (Goldman Sachs)

Summary: Staff of the Federal Reserve System met with representatives of SIFMA, Citigroup, and Goldman Sachs regarding the Board's notice of proposed rulemaking to enhance the transparency and public accountability of its annual stress test, as well as the Board's requests for comments on the models for the upcoming 2026 stress test (stress test proposals). Representatives of SIFMA, Citigroup, and Goldman Sachs discussed their views on the stress test proposals, including the treatment of fair value loans in the supervisory stress test.

SIFMA FVO Loan Losses

April 2026

FVO Loans in CCAR

Background

The FVO loan models miscalibrate risk and ignore regulatory reform - this will lead to increased borrowing costs for consumers and will disincentivize prudent market-making

Background

- Loans purchased for market-making purposes (i.e., with the intent to securitize or sell) are required to be fair valued
- The CCAR Transparency Notice of Proposed Rulemaking (“NPR”) provides transparency into CCAR modeling, including into the fair-value option (“FVO”) loan loss models
- At a high level, these losses are calculated by multiplying the rate and spread duration by the rate and spread shock
- However, the assumed durations and overall loss assumptions are overly conservative and effectively ignore post-2008 financial crisis mortgage reform

Impacts

- FVO loan loss models fail to factor in post-crisis reforms and the resulting improved underlying loan quality
- Fair value loans are penalized more heavily than held-for-investment (“HFI”) which could lead to reductions in loan market-making activity
- Impacted products are residential loans held at fair value (e.g., loans purchased with intent to securitize)
- This could result in higher borrowing costs and reduced access to credit for end users



We recommend duration and spread shocks should be recalibrated to align with empirical market data

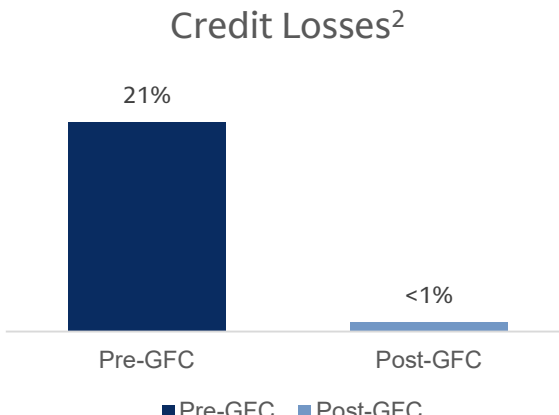
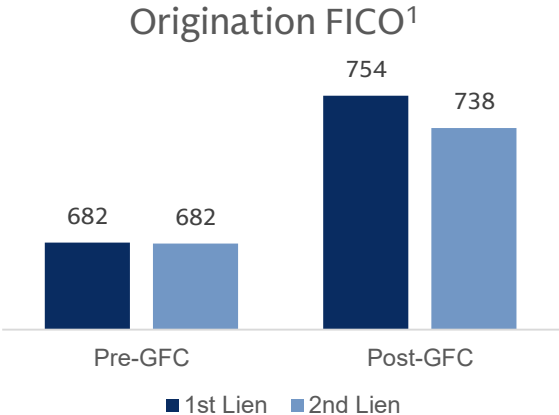
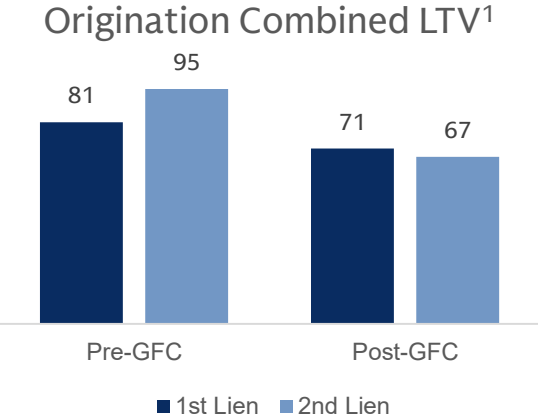
FVO Loans in CCAR

Post-crisis reforms have significantly improved residential mortgage quality

The Federal Reserve (“Fed”) FVO models should reflect the enhanced quality, underwriting standards and transparency of residential mortgage markets

Impact of Reforms

- Since the 2008 global financial crisis (“GFC”), significant regulatory reforms have materially improved the quality, underwriting and transparency of residential mortgage lending markets. These reforms include:
 - Dodd-Frank Act Ability to Repay (“ATR”) and Qualified Mortgage (“QM”) rules, which have strengthened residential mortgage underwriting standards
 - TILA-RESPA Integrated Disclosures (“TRID”), which have enhanced disclosures and transparency for residential mortgages
- As a result, post-crisis residential mortgage loans have exhibited improved FICO scores, lower combined LTV ratios and better credit loss performance as shown below



Combined LTV is the leading driver of losses with 81% of GFC losses coming from loans with combined LTVs >80

FICO scores show a strong correlation to losses with 71% of the GFC losses from borrowers with scores < 700

Securitization credit losses decrease with improvements in underlying asset quality

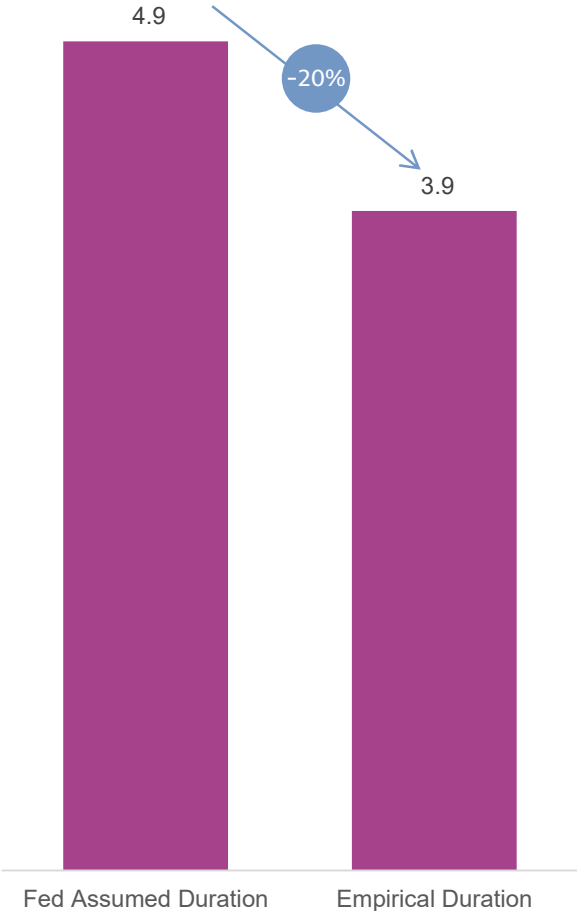
1. Metrics use all loans reported by Cotality in their origination data. The numbers are weighted on origination balance and considers all reported loans issued in 2005-2008 (Pre-GFC) or 2018-2025 (Post-GFC); LTV capped at 200
 2. Credit Losses are lifetime credit losses as of Feb 1, 2026 where Pre-GFC are for all loans issued from 2005-2008 and Post-GFC all loans issued from 2018-2025 based on Intex and Cotality data

FVO Loans in CCAR

Adjusting duration and spread assumption will better reflect loan quality post GFC regulatory reform

Duration

Recommendation: Align spread duration by vintage to empirical durations



Empirical durations are conservative as they would be expected to fall in a rates decreasing environment as contemplated by in the Severely Adverse scenario

	% of Market	Fed Assumed Duration	Empirical Duration ¹	% Reduction
Overall²	100%	4.9	3.9	-20%
<2010	36%	3.9	3.5	-11%
2010-2014	2%	4.8	3.6	-25%
2015-2019	4%	5.7	3.3	-43%
2020-2024	45%	5.7	4.4	-23%
2025	14%	NA	3.9	NA

1. All empirical duration is based on Cotality using lifetime CPR
 2. Overall metrics are a weighted average based on the percentage of the market excluding 2025

FVO Loans in CCAR

Adjusting duration and spread assumption will better reflect loan quality post GFC regulatory reform

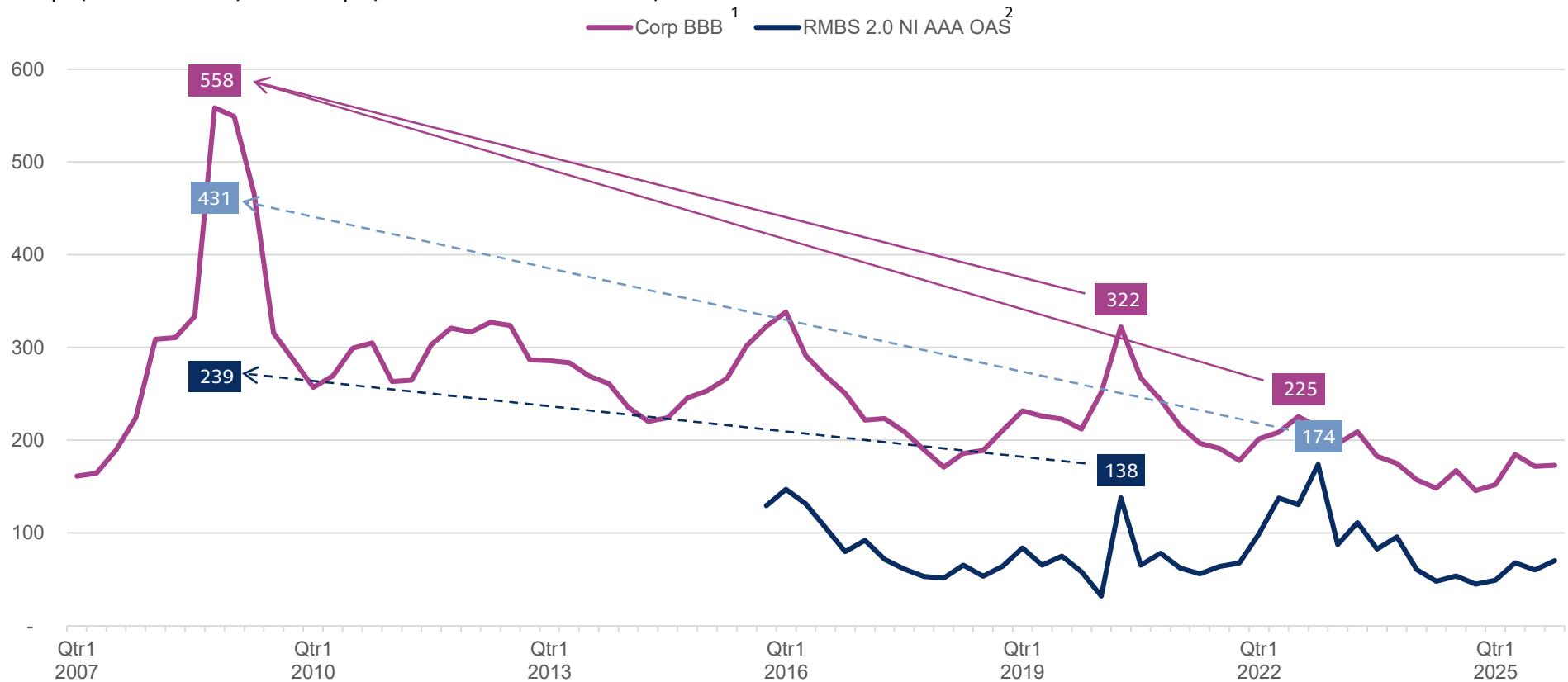
Spreads

Recommendation: Align spread shock to an implied RMBS 2.0 NI AAA OAS GFC Peak of 240-430

The below chart compares Corp BBB spreads vs RMBS 2.0 NI AAA OAS spreads historically. During more recent stress events we observed

- Corp BBB move to 322bps and RMBS 2.0 NI AAA OAS move to 138bps during Covid
- Corp BBB move to 225bps and RMBS 2.0 NI AAA OAS move to 174bps during the 2022 rate sell off

If we extrapolate this relationship back to 2008 based on the Corp BBB spreads move to 558bps, we would estimate RMBS 2.0 NI AAA OAS spreads between 239bps (based on Covid) and 431bps (based on 2022 rates sell off)



1. Corp BBB based on quarterly average spread

2. RMBS 2.0 NI AAA OAS is the RMBS 2.0 NI AAA spread minus FNMA CC Option Cost. RMBS 2.0 NI AAA calculated using notional weighted average of deal priced in a given quarter based on Finsight data. Current coupon option cost calculated using OAS and ZVO time series from Bloomberg tickers MOASFNCL and MOAZFNCL respectively