

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

November 24, 2009

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, and Foreign Bank Offices
in the Twelfth Federal Reserve District

Federal Reserve Announces Changes to Procedures for Evaluating Asset-Backed Securities Pledged to the Term Asset-Backed Securities Loan Facility (TALF)

The Federal Reserve Board announced on October 5, 2009 two changes to the procedures for evaluating asset-backed securities (ABS) pledged to the Term Asset-Backed Securities Loan Facility (TALF). The TALF, which was authorized by the Board on November 24, 2008, helps market participants meet the credit needs of households and businesses by lending to investors in highly rated ABS and commercial mortgage-backed securities (CMBS).

First, the Federal Reserve Board announced that it has proposed a rule that would establish criteria for the Federal Reserve Bank of New York to determine the Nationally Recognized Statistical Rating Organizations (NRSROs) whose ratings are accepted for determining the eligibility of ABS to be pledged as collateral at the TALF. A Notice of Proposed Rulemaking, attached, will be published in the *Federal Register* for public comment. The proposed rule, which would require a certain minimum level of experience in rating deals of any particular type, would likely result in an expansion of TALF-eligible NRSROs for ABS. It is intended to promote competition among NRSROs and ensure appropriate protection against credit risk for the U.S. taxpayer.

Second, starting with the November subscription, in addition to continuing to require that collateral for TALF loans receive two triple-A ratings from TALF-eligible NRSROs, the Federal Reserve Bank of New York will conduct a formal risk assessment of all proposed collateral--ABS in addition to CMBS, which are already subject to a formal risk assessment. The change to the collateral review process will enhance the Federal Reserve's ability to ensure that TALF collateral complies with its existing high standards for credit quality, transparency, and simplicity of structure.

To facilitate the risk assessment, each issuer wishing to bring a TALF-eligible ABS transaction to market will be required to provide, at least three weeks prior to the subscription date, information including, but not limited to, all data on the transaction the issuer has provided to any NRSRO.

Instructions and timelines for issuers of ABS as well as a statement of principles describing the standards guiding the risk assessment of TALF collateral, attached, are available on the Federal Reserve Bank of New York's website. Issuers of ABS complying with the TALF terms and conditions and the statement of principles may reasonably expect an indication of acceptability based on the Federal Reserve Bank of New York's risk assessment at least one week before the applicable subscription date.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

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Attachment: *Federal Register* notice: [HTML](#) | [PDF](#)

[Frequently asked questions](#)

[Terms and conditions](#)

[Risk assessment principles](#)