

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

March 29, 2011

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

**Federal Reserve Proposes Rule Requiring Sponsors of Asset-Backed Securities to Retain at Least 5 Percent of the Credit Risk of the Assets Underlying the Securities**

The Federal Reserve Board on March 29, 2011 proposed a rule that would require sponsors of asset-backed securities (ABS) to retain at least 5 percent of the credit risk of the assets underlying the securities.

The rule, which will be proposed jointly with five other federal agencies, would provide sponsors with various options for meeting the risk-retention requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In drafting the proposed rule, staff at the Federal Reserve Board and at the other agencies sought to ensure that the amount of credit risk retained is meaningful, while taking into account market practices and reducing the potential for the rule to negatively affect the availability and cost of credit to consumers and businesses.

As required by the Dodd-Frank Act, the proposed rule includes a variety of exemptions from these requirements, including an exemption for U.S. government-guaranteed ABS and for mortgage-backed securities that are collateralized exclusively by residential mortgages that qualify as "qualified residential mortgages" (QRMs). The proposal would establish a definition for QRMs--incorporating such criteria as borrower credit history, payment terms, down payment for purchased mortgages, and loan-to-value ratio--designed to ensure they are of very high credit quality. The proposed rule would also allow Fannie Mae and Freddie Mac to satisfy their risk-retention requirements as sponsors of mortgage-backed securities through their 100 percent guarantees of principal and interest for as long as they are in conservatorship or receivership with capital support from the U.S. government.

Comments must be received by June 10, 2011. The notice will be published in the *Federal Register* after approval from all agencies including the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the U.S. Securities and Exchange Commission, the Federal Housing Finance Agency, and the Department of Housing and Urban Development.

**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:** [Proposed Rule](#)