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

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

**Agencies Revise Proposed Risk Retention Rule**

On Wednesday, August 28, 2013, six federal agencies, including the Board of Governors of the Federal Reserve System, issued a notice revising a proposed rule requiring sponsors of securitization transactions to retain risk in those transactions. The new proposal revises a proposed rule the agencies issued in 2011 to implement the risk retention requirement in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The rule would provide asset-backed securities (ABS) sponsors with several options to satisfy the risk retention requirements. The original proposal generally measured compliance with the risk retention requirements based on the par value of securities issued in a securitization transaction and included a so-called premium capture provision. The agencies are now proposing that risk retention generally be based on fair value measurements without a premium capture provision.

As required by the Dodd-Frank Act, the proposal would define "qualified residential mortgage" (QRM) and exempt securitizations of QRMs from risk retention. The new proposal would define QRMs to have the same meaning as the term qualified mortgages as defined by the Consumer Financial Protection Bureau. The new proposal also requests comment on an alternative definition of QRM that would include certain underwriting standards in addition to the qualified mortgage criteria.

Similar to the original proposal, under the new proposal, securitizations of commercial loans, commercial mortgages, or automobile loans of low credit risk would not be subject to risk retention. Further, the rule would recognize the full guarantee on payments of principal and interest provided by Fannie Mae and Freddie Mac for their residential mortgage-backed securities as meeting the risk retention requirements while Fannie Mae and Freddie Mac are in conservatorship or receivership and have capital support from the U.S. government. This provision also is unchanged from the original proposal.

The agencies are requesting comment on the revised proposed rule by October 30, 2013.

**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-supervision/publications/district-circular-letters/.

For additional information, please contact:

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**Attachment:** Credit Risk Retention