Comptroller of the Currency
Administrator of National Banks

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To: All Comptroller's Handbook Subscribers

The enclosed booklet, "Asset Securitization," is part of an ongoing update and revision of the Comptroller's Handbook. It is a new addition to the handbook.

This booklet will help bank examiners and bankers to better understand the benefits and inherent risks of securitization as well as the systems needed for effective risk management. The booklet serves as an introductory guidebook for banks embarking on securitization activities and an overview for institutions expanding them. It discusses accounting, legal, and tax issues; basic structures of asset-backed securities; how various types of transactions are structured; and how the cash flows of these instruments work.

The booklet focuses on a bank's use of asset securitization to manage its balance sheet and to generate fee income. The discussion of risk in the booklet centers on a bank's role in securitization as loans originator and servicer rather than investor. The six primary risks involved in this activity are reputation, strategic, credit, transaction, liquidity, and compliance risk. The booklet describes them and suggests ways to manage them.

The booklet defines the objectives of the examiners who review asset securitization activities in banks and provides detailed examination procedures for reviewing a bank's operating and risk management processes. Examiners will exercise judgment in determining which procedures are appropriate for the activities of an individual bank. The scope of each OCC review will largely depend on the size and complexity of a bank's securitization activities and the effectiveness of the bank's risk management process. The handbook also discusses recourse — the risk of loss that a bank may retain when it sells assets to a trust or other entity established to issue asset-backed securities. Even if the bank does not contract to support such securities, implicit recourse may exist if a bank acts to improve the credit quality of an asset-backed security after the assets are sold. Both explicit and implicit recourse require capital support.