

Statement of
John Walsh
Acting Comptroller of the Currency
To the
Federal Deposit Insurance Corporation Board of Directors
Regarding the
Proposed Rulemaking on Credit Risk Retention Requirements
March 29, 2011

Securitization provides an important mechanism for making credit available for businesses and households. When done correctly, it contributes to financial stability and sustainable growth by improving market liquidity and credit availability, and by transferring credit risk to a wider pool of investors. Prior to the crisis, securitization accounted for about 30 percent of credit extension in the U.S. and, in some sectors such as home mortgages, it was much higher.

Securitization has taken place through a diverse set of asset classes, a variety of deal structures, and differing groups of originators, securitizers, and investors. The proposed risk retention rule is designed to support revival of the securitization markets by accommodating this diversity.

But while the rule is drafted to provide flexibility, it is important to bear in mind that its purpose is to implement a risk retention requirement. All the risk retention options create financial disincentives against packaging loans that are poorly underwritten or stripping out premium payments needed to protect investors against

future loan losses. And because risk retention is the rule's focus, any exemption from risk retention is intended to be narrow, and include only loans of high credit quality. This should ensure that normal securitizations thrive because risk retention requirements are of a type, and in an amount, consistent with the protection investors will demand.

This balance is important. Expanding exemptions too broadly could cause credit availability outside the exempt category to evaporate. I have already signed the rule on behalf of the OCC, and I commend the six-agency collaboration that developed it.

There are certain parts of the proposal that are worthy of particular mention, especially the treatment of residential mortgage loans under the "qualified residential mortgage," or QRM, criteria. The QRM has a loan-to-value ratio of 80 percent or less – a very high standard – so securitizations comprised entirely of QRMs are exempt from risk retention. The definition is an exemption, not intended to set a new national standard for mortgages.

The definition makes no allowance for increases in the ratio where the difference is backed by private mortgage insurance, but the proposal requests comment on various alternatives in this area. Private mortgage insurers with adequate financial resources might provide investor protection against losses, and applying conservative loan-by-loan underwriting criteria for mortgages would foster securitization of high-quality assets.

Both outcomes are consistent with the objectives of the statute, and the proposal encourages commenters to submit data that would support the relationship between mortgage insurance and lower risk of borrower default, which is the standard the statute imposes in the context of the QRM criteria.

The QRM definition also contains a focused set of mortgage servicing standards that are designed to reduce the risk of default on a mortgage loan. Given the dislocations and breakdowns that have occurred in mortgage servicing, regulators must promulgate comprehensive mortgage servicing standards, applicable to all mortgages and to both bank and nonbank servicers. That effort would extend well beyond securitized QRMs and well beyond securitization to the entire servicing process.

An interagency effort is now underway to develop such a set of standards, on a timetable to complete its work well before the proposals before us today can take effect. These broader standards cover the quality of customer service provided throughout the life of a mortgage; the processing and handling of customer payments; foreclosure processing; operational and internal controls; and servicer compensation and payment obligations.

Just as mortgage servicing standards should be comprehensive and universal, I remain convinced that reemergence of the securitization markets depends on a single, straightforward set of federal requirements on securitization risk retention, structure, and disclosure that applies to all markets, all products, and all securitizers.

It was for this reason that I voted in opposition to this Board's decision last September to condition the FDIC's receivership safe harbor for securitizations on compliance with numerous conditions that overlap with the content of the proposal we consider today. And I am therefore very pleased to vote in favor of the current package proposing a uniform approach among all involved agencies.

I would add, in that regard, that when we considered the receivership safe harbor, I understood that it was the intention of the Board to conform the FDIC's risk retention

provisions to the terms of the current rulemaking once it is finalized. It is not clear to me whether that conformance process will be comprehensive with respect to the securitization terms contained in the safe harbor, or more limited, but I urge the Board to review these issues and to be comprehensive in this regard.