

SCHWARTZ & BALLEN LLP
1990 M STREET, N.W. • SUITE 500
WASHINGTON, DC 20036-3465
WWW.SCHWARTZANDBALLEN.COM

TELEPHONE
(202) 776-0700

FACSIMILE
(202) 776-0720

MEMORANDUM

March 31, 2011

To Our Clients and Friends

Re: Proposed Rule on Credit Risk Retention

The Federal financial institution agencies (“Agencies”)¹ are proposing rules that implement the credit risk retention requirements relating to sponsors of asset-backed securities (“ABS”) under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”).² Comments are due by June 10, 2011.

As required by the Dodd-Frank Act, the proposed rules generally require sponsors of ABS to retain at least five percent of the credit risk of the assets collateralizing the securities. Sponsors of ABS would be prohibited from hedging credit risk or transferring interests or assets it is required to retain to any person other than an affiliate whose financial statements are consolidated with those of the sponsor. The proposed rules permit 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.

The Dodd-Frank Act includes various exemptions from the risk retention requirement for U.S. government-guaranteed ABS and ABS that are collateralized exclusively by “qualified residential mortgages” (“QRMs”). The Agencies propose to define QRMs as a first lien one-to-four family residential mortgage with an original maturity of no more than 30 years, and with a down payment of at least 20 percent of the purchase price. In addition, a creditor has to verify that the borrower’s credit history meets specified criteria. The loan may not provide for negative amortization, interest-only payments or significant interest rate increases. These underwriting standards

¹ The Agencies are the Federal Reserve Board, Federal Deposit Insurance Corporation, Comptroller of the Currency, Securities and Exchange Commission, Department of Housing and Urban Development and Federal Housing Finance Agency.

² Institutions covered by the Dodd-Frank Act credit risk retention provision include depository institutions, bank holding companies, registered broker-dealers, Fannie Mae and Freddie Mac.

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include maximum front-end and back-end debt-to-income ratios of 28 percent and 36 percent, respectively. The Agencies are not proposing to include any criteria regarding mortgage guarantee insurance or other types of insurance or credit enhancements.

A copy of the proposed rule can be found at our website at <http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker or Lauren Bianchini at (202) 776-0700.