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OCC Issues First Handbook for Banks
Engaging in Asset Securitization

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) today released its first handbook on asset securitization, a process in which loan receivables are underwritten, packaged, and sold as securities. The publication, entitled Comptroller's Handbook: Asset Securitization, is intended to give bankers and bank examiners a better understanding of the benefits and risks of securitization as well as outline procedures for effective risk management.

The OCC recognizes that by using securities markets to fund portions of their loan portfolios banks have the opportunity to allocate capital more efficiently, access diverse and cost-effective funding sources, and better manage their business risks.

Asset securitization, which is well established in the home mortgage field, is spreading rapidly to many other types of loans. Most retail lending is readily "securitizable" because cash flows from retail loans are relatively predictable, and most retail programs produce fairly homogeneous loan portfolios, according to the new booklet. The OCC anticipates that non-consumer assets are likely to be the next growth area for securitization.

The handbook can serve as a "how to" risk management guide for banks initiating or expanding asset securitization activities. In addition to identifying and discussing the specific risks involved in the securitization process, the handbook also discusses the basic structures of various types of transactions, cash flow allocations, and several important accounting, legal, and tax issues.

The booklet focuses on a bank's use of asset securitization to manage its balance sheet and generate fee income. The discussion of risk in the booklet centers on a bank's role as loan originator and servicer, rather than as an investor, in asset-backed securities. The six primary risks involved in this activity include reputation, strategic, credit, transaction, liquidity, and

compliance risk. The booklet describes each risk and suggests ways to manage them.

Other elements of the booklet include:

- A discussion of recourse, which is 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.
- A discussion of how securitization can affect a bank's risk-based capital requirements.
- Identification of the objectives of examiners in reviewing asset securitization operations in banks.
- Detailed examination procedures for a bank's operations and products in this area. The procedures focus on the bank's risk management efforts.

To obtain copies of Comptroller's Handbook: Asset Securitization, send a written request along with a check for \$15 per booklet to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.

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The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.