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OCC Issues Asset Securitization Guidelines

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency today issued its first guidelines to banks involved in asset securitization activities. The guidelines focus on the need for bankers to understand fully the risks involved in securitization and to take steps to manage those risks effectively. OCC issued the bulletin on securitization because a growing number of banks are increasing their reliance on securitization to diversify funding sources and efficiently manage liquidity and capital.

Bank management should understand the risks of securitization under current, projected and stressed market conditions, according to the OCC. Securitization can benefit banks by enabling them to manage their exposure to credit risk in pools of assets. However, the OCC noted, because securitized asset performance is public information and monitored by market participants, securitization has the potential to highlight problems in a bank's overall portfolio performance. Performance of securitized assets that deviates from expectations will reflect poorly on the bank's underwriting and risk assessment capabilities. Poor asset performance may limit the bank's future access to the securitization market or affect the price of subsequent issues.

The OCC also noted that a bank's transaction risk exposure increases when it does not fully understand or fulfill its responsibilities under the terms of the servicing agreement. Servicing difficulties, such as incorrect loan and payment processing, inefficient collection of delinquent payments or inaccurate investor reporting, expose the bank to transaction risk. Effective servicing can be a key component in maintaining the credit quality of receivables.

The eventual return of revolving credit balances to the balance sheet, as a result of either scheduled or early amortization, raises liquidity management issues. These issues should be factored into a bank's normal liquidity management process, including liquidity contingency planning, the OCC said. Plans should outline funding alternatives, recognizing that a complete withdrawal from the securitization market or reduction of credit availability may affect the bank's reputation with investors and borrowers.

The bulletin also emphasizes that the OCC's existing policy on capital requirements on assets sold with recourse has not changed. For regulatory capital purposes, national banks are required to provide risk-based capital support for assets sold with recourse, whether or not the assets have been removed from the balance sheet. For securitization activities, recourse typically involves the risk of loss that a bank, as seller, retains in connection with a sale of assets to a trust established to issue asset-backed securities.

The federal bank regulatory agencies are currently reviewing the regulatory capital treatment for sales with recourse.

For a copy of OCC Bulletin 96-52 -- Securitization: write to Comptroller of the Currency, Communications Division, Washington, DC 20219; or fax your request to (202) 874-4448; or go to the OCC's web page at http://www.occ.treas.gov; or call (202) 974-5043 to order by phone; or visit the OCC's Public Reference Room at 250 E Street, S.W. in Washington, D.C. (9 a.m. - noon and 1-3 p.m., Monday-Friday).

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