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**AGENCIES ISSUE GUIDANCE ON ASSET SECURITIZATION  
ACTIVITIES; CONSIDER REGULATORY RESTRICTIONS**

The four federal banking agencies today issued the attached joint statement addressing the agencies' supervisory approach to asset securitization activities. The statement reminds financial institution management and examiners of fundamental risk management practices that should be in place at institutions that engage in securitization activities.

The statement highlights the risks associated with retained interests in securitization activities. It also details current supervisory concerns about the valuation and reporting of these assets, and concentrations of these assets relative to capital.

Given the risks presented by these activities, the bank regulatory agencies are actively considering the establishment of regulatory restrictions that would limit or eliminate the amount of certain retained interests that may be recognized in determining the adequacy of regulatory capital.

Reported values for retained interests should be reasonable, conservative and supported by objective and verifiable documentation. Institutions should ensure that sufficient capital is held to support the risks associated with securitization activities and are expected to place concentration limits on retained interests relative to equity capital. The statement reiterates that institutions should establish and implement an adequate and independent audit function to effectively oversee securitization activities.

The statement is issued as part of the agencies' ongoing review of securitization activities at insured depository institutions. The agencies continue to review banking institutions' valuation of retained interests and the concentrations of these assets relative to capital. As applicable, the agencies will provide further guidance on the liquidity risk associated with over-reliance on asset securitization as a funding source and on implicit recourse obligations.

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