Statement of

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before the

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Chairman Garrett, Ranking Member Frank, and members of the Subcommittee, I appreciate the opportunity to testify for the Office of the Comptroller of the Currency this afternoon regarding the interagency proposal to implement Section 941 of the Dodd-Frank Act on risk retention in asset-backed securitization.

The agencies' risk retention proposal is designed to carry out the Congressional direction in Section 941 that securitizers have "skin in the game" to incent them to exercise diligence regarding the quality of the loans they securitize. Reflecting that premise, the exemptions from risk retention provided by the proposal are conservative and focus on demonstrably high quality loans. In order to facilitate robust securitization markets -- that include risk retention -- the proposal provides flexibility with several options for how the risk retention requirement may be satisfied.

We are very cognizant that implementing the statutory risk retention requirements presents complex issues with multiple public policy implications for competition, credit quality, credit access and credit costs. Achieving the right balance will be very

challenging. For that reason, the OCC has stressed the importance of the comment process to help the Agencies get that balance right.

My written testimony summarizes the terms and features of the proposed rule and highlights three particular issues of note.

The first issue concerns the proposed criteria for qualified residential mortgages – or "QRMs" – that are exempt from any risk retention requirement. The agencies have proposed conservative underwriting standards to define QRMs. These standards were developed through evaluation of available historical loan performance data, as directed by the statute.

The preamble discusses several possible alternatives to this approach. One would be to permit the use of private mortgage insurance for loans with LTVs higher than the 80 percent level specified in the proposed rule. The due diligence procedures and underwriting standards imposed by private mortgage insurers could be viewed as consistent with the goals of section 941 to incent careful underwriting of securitized assets.

However, to include private mortgage insurance in the QRM criteria, Congress required the agencies to determine that the presence of private mortgage insurance lowers the risk of default -- not that it reduces the ultimate amount of the loss. Thus, we will be interested in the data that commenters can provide that addresses this point.

A second issue I note is the question whether the QRM criteria should include mortgage servicing standards. The proposed rule requires inclusion of terms in the mortgage transaction documents, under which the creditor commits to have certain specified servicing policies and procedures designed to mitigate risk of default. The

agencies have included numerous requests for comment about the approach to servicing standards contained in the proposed rule.

We believe it is preferable to deal with servicing standards through a separate initiative – development of comprehensive and uniform mortgage servicing standards that apply, not just to high quality securitized loans, but to all facets of servicing, from loan closing to payoff or foreclosure. In our view, mortgage servicing standards should apply uniformly to *all* mortgage servicers and provide the same safeguards for consumers, *regardless* of whether a mortgage has been securitized.

To further this effort and discussion, the OCC developed a framework for comprehensive mortgage servicing standards, other agencies have contributed their ideas, and there is now underway an interagency effort to develop a set of comprehensive, nationally applicable mortgage servicing standards.

The third issue I note is the treatment of Fannie Mae and Freddie Mac, and the Agencies' proposal to recognize as a permissible form of risk retention the Enterprises' 100 percent guarantee of principal and interest payments on MBS sponsored by the Enterprises – for such time as the Enterprises are in conservatorship. Through this guarantee, the Enterprises effectively retain 100 percent of the credit risk in the transaction.

Treatment of the Enterprises presents a very difficult combination of issues. Imposition of a risk retention requirement under the regulation could produce results that seem contrary to current U.S. Government policies to shrink the assets of the Enterprises and appropriately manage their risk. On the other hand, absence of a risk retention requirement contributes to continuation of their distinct status. However, Congress has

begun to consider fundamental questions about that status and the future structure and role of the Enterprises, and the Agencies have committed to revisit and change the retention approach for the Enterprises as appropriate when those changes occur.

I appreciate the opportunity to appear before the Subcommittee this afternoon, and I look forward to addressing your questions. Thank you.