Statement of
FDIC Chairman
Martin J. Gruenberg
On
Risk Retention Rule
FDIC Board Meeting,
Washington, DC
October 21, 2014

Thank you. Today, as staff described, we are considering a Final Rulemaking to implement Section 941 of the Dodd Frank Act regarding credit risk retention for securitizations. This Final Rule addresses one of the major remaining provisions of the Dodd-Frank Act requiring implementation.

Specifically, Section 941 requires securitizers of asset-backed securities to retain not less than 5 percent of the credit risk of assets collateralizing the securitization, absent an exemption. This requirement to retain credit risk is intended to better align interests between securitization sponsors and investors by promoting sound underwriting in assets that underlie securitizations. In the recent crisis poor underwriting disrupted the credit markets and the chain of securitization, ultimately causing serious harm to consumers, financial institutions, investors and the overall financial system and economy.

Section 941 also requires certain risk retention exemptions and allows for others. Notably, it exempts qualified residential mortgages ("QRMs") from risk retention and directs the six Agencies involved in the rulemaking to define QRM, considering features that lower default risk. The statute expressly states that the definition of QRM "be no broader than the definition of 'qualified mortgage'", as that term is defined by the Consumer Financial Protection Bureau for purposes of the ability to repay rule.

The Agencies proposed to align the definition of QRM with the CFPB's definition of qualified mortgage, or ("QM,"), noting that the QM definition prohibits the risky features of loans that contributed to the recent crisis and that the performance of QM loans is significantly better than those that are not. This alignment also promotes compliance and minimizes costs by providing a uniform regulatory framework for underwriting and securitizing mortgages with a lower risk of default.

Commenters overwhelmingly supported this approach, and the Agencies believe that it strikes an appropriate balance between providing important protections for investors and credit markets while minimizing costs and burden for consumers and market participants.

Finalization of the Rule should go a long way towards providing clarity to the market and facilitating access to credit on sustainable terms. As mentioned in the staff presentation,

the definition of QRM will be subject to periodic review by the agencies to ensure it remains appropriate as the market evolves.

In conclusion, I'd like to thank both FDIC staff and their counterparts at the other agencies for their commitment and hard work in finalizing this important Rule.

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