FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

CAPITAL STANDARDS

FIL-52-2002
May 23, 2002

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Interagency Guidance on Implicit Recourse in Asset Securitizations*

The Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision have jointly issued the attached "Interagency Guidance on Implicit Recourse in Asset Securitizations." Implicit recourse exists when a bank supports a securitization above and beyond its contractual obligations. The guidance highlights the agencies' fundamental concern that implicit recourse may expose a bank's earnings and capital to potential losses. The guidance sets forth a range of supervisory actions that may be taken against a bank that provides implicit support to its securitizations.

A bank that provides noncontractual support generally does so to preserve the bank's reputation and, ultimately, its future access to securitization markets. By protecting investors from losses, the bank is exposed to higher levels of credit risk and liquidity risk. Such actions will generally be viewed as evidence that the asset sale did not result in risk transfer and supervisors will therefore generally require the bank to hold risk-based capital against the underlying assets in the securitization (as though the assets had not been sold). Supervisors may take additional actions as the situation requires, particularly if the bank provides noncontractual support on a regular basis.

For more information, please contact Robert F. Storch, Chief, Accounting Section (202-898-8906), or Jason C. Cave, Senior Capital Markets Specialist (202-898-3548), in the Division of Supervision.

Michael J. Zamorski
Director

Attachment: Interagency Guidance On Implicit Recourse In Asset Securitizations

Distribution: FDIC-Supervised Banks (Commercial and Savings)

NOTE: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (800-276-6003 or (703) 562-2200).