More About that Premium Capture Kerfuffle

By Laurie Nelson

August 8, 2011

The Chairman of the House Committee on Financial Services ("HFSC") Spencer Bachus (R-AL) and the Chairman of the HFSC Subcommittee on Capital Markets and GSEs Scott Garrett (R-NJ) submitted a letter on August 2, 2011 to the joint regulators addressing the premium capture cash reserve account ("PCCRA") as proposed in the risk retention NPR. Under the proposed risk retention rules, if excess spread in a securitization is monetized, any premium received has to be put into a separate PCCRA that would absorb losses first. So a securitizer who monetizes an IO or earns a premium on the sale of P&I bonds, has to put that money in a PCCRA to serve as a first loss reserve for any losses on the collateral-- for the life of the transaction-- on top of the 5% risk retention requirement. So, basically, securitizations would be done without profit. Understandably, the PCCRA has been one of the sore spots of the risk retention NPR. The Mortgage Bankers Association ("MBA"), among many others, extensively discussed the problems with the PCCRA in its July 11 letter to federal regulators outlining MBA's views and recommendations from the commercial and multifamily mortgage finance perspective in response to the risk retention NPR.

In the August 2 letter to the regulators, the representatives stated that the proposed PCCRA was never discussed during Dodd-Frank Act deliberations and urged the agencies to "perform a rigorous cost-benefit analysis to determine the effect of the PCCRA requirement on economic growth and the vitality of the U.S. securitization market before finalizing the risk retention rule."

Stay tuned for a future post by me on this if such rigorous analysis is actually performed. My analysis sans the rigor:

- Cost of keeping the PCCRA in the rules: Big fat hindrance to the economic growth and vitality of the U.S. securitization market
- Benefit of keeping the PCCRA in the rules: Zilch