SECURITIZATION

Expanded Analysis Decision Factors

This section evaluates the significance of deficiencies or other specific concerns identified in the Core and Expanded Analyses. Click on the hyperlinks found within each of the Expanded Analysis Decision Factors to reference the applicable Expanded Analysis Procedures. If needed, proceed to the accompanying Impact Analysis.

Do Expanded Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored, and controlled?

E.1. Are the deficiencies immaterial to securitization activities? ***Refer to Expanded Analysis Procedures #1-8.***

E.2. Are the deficiencies immaterial to the institution's overall condition? ***Refer to Expanded Analysis Procedures #1-8.***

SECURITIZATION

Expanded Analysis Procedures

Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. The flexible guidelines specified for the Core Analysis also apply to the Expanded Analysis.

Internal Controls

1. **Reconcile the dollar volume of loans serviced by a third party, including a subsidiary or an affiliate that has been transferred in a securitization, regardless of whether the securitization is accounted for as a sale or a secured borrowing.**
   - **Independently verify that the amount of loans being serviced ties to the institution's records.**
   - **For on-balance sheet loans (i.e., seller's interest), verify that the dollar volume of loans on the servicing statements ties to the dollar volume of loans on the institution's records.**
   - **For securitized loans, verify that the dollar volume of loans on the servicing statement ties to the dollar volume of loans reported to the trustee.**
   - **Verify that the servicing statement ties to the supporting cash flow documentation for the bank's initial and ongoing accounting for the securitization (including the measurement of any beneficial interests held by the bank transferor in securitizations accounted for as sales).**

2. **Review monthly held-for-sale loan account reconciliations.**

Risk Identification and Measurement

3. **If there are material differences between the credit quality of loans subject to the securitization, and on-balance sheet loans that have not been securitized, investigate the reasons(s) for the performance disparity by comparing characteristics such as:**
   - **Loan-to-value ratios;**
   - **FICO or other credit scores;**
   - **Behavioral patterns or scores; and**
   - **Loan characteristics such as weighted average coupon (WAC), weighted average maturity (WAM), variable vs. fixed rate.**

Valuation and Classification of Beneficial Interests in Securitizations held by the Transferor Bank

4. **Analyze the assumptions used to value beneficial interests in the securitizations.**
   - **Review the process for determining prepayment, default, loss, and discount-rate assumptions and verify calculations.**
   - **Compare the prepayment and loss assumptions used in valuing the beneficial interest to actual performance of the underlying collateral. If the underlying collateral does not have sufficient**

performance history, compare assumptions to those of deals with substantially similar underlying assets or proxies.

- **Compare the discount rate used in valuing the beneficial interest to the discount rate that other market participants use to value beneficial interests having substantially similar characteristics.**
- **Determine whether the discount rate is applied to the actual excess interest that the trust distributes to the beneficial interest (cash-out method). The discount rate should not be applied to the excess interest that the trust receives (cash-in method).**
- **Determine whether the following items are properly reflected in the cash flow waterfall attributed to the beneficial interests:**
  - **Payments from the securitized assets;**
  - **Payments to certificate holders;**
  - **Fees (e.g., trustee, servicer, insurer);**
  - **Release of, or additions to, a reserve or overcollateralization account;**
  - **Chargeoffs and recoveries;**
  - **Insurance coverage of losses (e.g., FHA guaranteed);**
  - **Interest earned on underlying investments from credit enhancements accounts (e.g., cash collection, reserve, spread accounts);**
  - **Net settlements from embedded derivatives; and**
  - **Servicer advancements and any associated losses or unreimbursed amounts.**

5. **Using the discount rate assumption, verify the present value calculations of the expected future cash flows to the beneficial interests.**

6. **Determine whether an other-than-temporary impairment occurred. Other-than-temporary impairment on certain beneficial interests held by the transferor bank in securitizations accounted for as sales must be recognized when:**
   - **The fair value of an individual beneficial interest is below its reference amount; and**
   - **Based on current information and events, there has been an adverse change in cash flows expected to be collected on the beneficial interest.[1]**

7. **If the servicer is funding payments to the trust that are delinquent (principal or interest), in escrow, or are collection-related, determine whether the servicing advance payments are included in management's loss assumption methodology.**

8. **If possible, obtain the valuation model and substantially change one or more valuation assumption to determine whether the model functions properly.**

[1] **Reference: ASC Subtopic 325-40, Investments - Other, Beneficial Interests in Securitized Financial Assets.**

End of Expanded Analysis. If needed, Continue to Impact Analysis.

SECURITIZATION

Impact Analysis Procedures

Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition, and directs the examiner to consider possible supervisory options.

Impact Analysis Procedures
1. Assess the impact of securitization activity deficiencies on the bank's overall condition.
2. Assess the effect of credit, interest rate, liquidity, and operational and business risks on the institution's safety and soundness.
3. Assess the effect of planned securitization activities on capital, asset quality, earnings, liquidity, and sensitivity to market risk.
4. Assess management's willingness and ability to correct deficiencies.
5. Determine whether formal or informal administrative actions are warranted, formulate specific recommendations, and advise the appropriate supervisors on the nature of the concerns.
6. Investigate potential recommendations for civil money penalties.
7. Determine whether the assumptions used to value the beneficial interests lack appropriate and verifiable support,[2] in which case, the beneficial interests should be classified Loss and disallowed for regulatory capital purposes.
8. Assess the effect on the bank's overall condition of:

[2] **Refer to the *Interagency Guidance on Asset Securitization Activities* (FDIC: FIL 109-99, FRB: SR 99-37) for further discussion.**

- **An improper initial or subsequent valuation of beneficial interests obtained by the transferor bank in its securitizations accounted for as sales; and**
- **An inappropriate level for the portion of the ALLL for loans transferred in securitizations accounted for as secured borrowings (i.e., securitizations not accounted for as sales, in which case the transferred loans remain on the bank's consolidated balance sheet, normally in the held-for-investment loan account).**

End of Impact Analysis.