

MEMO# 1244

June 29, 1989

FED PROPOSES TO PERMIT BANK HOLDING COMPANIES TO UNDERWRITE ASSET-BACKED SECURITIES OF AFFILIATES

June 29, 1989 TO: BOARD OF GOVERNORS NO. 38-89 CLOSED-END FUND COMMITTEE NO. 22-89 SEC RULES COMMITTEE NO. 32-89 UNIT INVESTMENT TRUST COMMITTEE NO. 29-89
RE: FED PROPOSES TO PERMIT BANK HOLDING COMPANIES TO UNDERWRITE ASSET-BACKED SECURITIES OF AFFILIATES

As previously reported, the Federal Reserve Board has issued orders permitting a number of bank holding companies to underwrite and deal in debt securities immediately and to review their proposed underwriting and dealing in equity securities in one year. As urged by the Institute, the orders do not extend to underwriting and dealing in mutual fund shares. (See Memorandum to Board of Governors No. 5-89, SEC Rules Committee No. 5-89, Closed-End Fund Committee No. 1-89 and Unit Investment Trust Committee No. 2-89, dated January 19, 1989.) In its orders the Fed also prohibited bank holding companies from underwriting and dealing in asset-backed securities of their affiliates (e.g., collateralized mortgage obligations, automobile loans, credit card loans, etc.), out of concern that a bank holding company "might be tempted to securitize the affiliates' least creditworthy assets." However, in the attached notice, the Fed proposes to modify its orders to permit bank holding companies to underwrite asset-backed securities of their affiliates if the securities are (1) rated by a non-affiliated nationally recognized rating agency; or (2) issued or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association. Comments on the proposed modifications must be submitted to the Federal Reserve Board by July 20, 1989.
Matthew P. Fink Senior Vice President and General Counsel Attachment