

## Risk Assessment Principles for Non-Mortgage-Backed ABS

The purpose of the Federal Reserve Bank of New York's risk assessment process is to ensure that bonds pledged to TALF meet three general standards.

1. **Credit quality:** The bond is of the highest credit quality with de minimis risk of default and a low probability of a material deterioration in credit quality.
2. **Transparency:** Sufficient information is available to allow investors to make informed judgments about the credit risk of the collateral underlying the bond as well as the level of due diligence on the collateral performed by the issuer.
3. **Simplicity of structure:** The relationship between the performance of the underlying collateral and bond payments is clear and uncomplicated.

In determining whether a proposed transaction satisfies each of the principles above, the Federal Reserve Bank of New York recognizes that appropriate structural and transactional features may differ significantly across asset categories. Within an asset category, however, bonds will be reviewed relative to generally accepted prudent market practices in the areas of: credit support; issuer and servicer strength; underwriting; diversification (geographic, borrower, or other); and simplicity of structure.

The Federal Reserve Bank of New York will identify transactions that may not meet these standards and, in as timely a manner as possible, alert the issuer of specific concerns.