

SECURITIZATION REFORM

(as of March 23, 2010)

Securitization of sub-prime mortgages was identified as contributing to the financial crisis. The shift of credit risk to off-balance sheet vehicles was a major focal point for regulators. As a result, earlier this year, the FASB revised accounting rules and provided guidance relating to sales of financial assets and consolidation of certain off-balance sheet entities. In December 2009, the FDIC announced proposed rulemaking amending its securitization safe harbor rules to require financial institutions to retain more of the credit risk from securitizations and to reflect the recent accounting changes. On March 18, 2010, President Obama signed into law the Hiring Incentives to Restore Employment Act, which will impose a 30% withholding tax on foreign financial institutions, including offshore securitization vehicles in certain circumstances. Below are the key securitization reform measures we expect Congress to address in 2010.

	The Wall Street Reform and Consumer Protection Act of 2009, passed by the House on December 11, 2009	Senate Discussion Draft released by Senator Dodd on November 10, 2009	Senate Draft Bill: Restoring American Financial Stability Act, released by Senator Dodd on March 15, 2010
Credit Risk Retention	<ul style="list-style-type: none"> - 5%—originators or securitizers (initial draft of bill required 10%) - Percentage retained can be raised or lowered based on underwriting standards used and/or due diligence procedures followed - Loans made by certain government agencies are exempt from the credit risk retention requirement - No hedging or transfer of risk (without consent of applicable regulator) 	<ul style="list-style-type: none"> - 10%—securitizers only - Securities issued by the U.S. government, any U.S. government agency, or any U.S. government sponsored entity are exempt from the credit risk retention requirement - No hedging or transfer of risk (without consent of applicable regulator) 	<ul style="list-style-type: none"> - 5%—to be allocated between originators and securitizers; allocation determined by whether assets have reduced credit risk, whether form or volume of transactions creates incentives for imprudent origination, and based on potential impact or retention on extending credit - Percentage retained can be lowered based on underwriting standards used - Exemptions available at regulators’ discretion - No hedging or transfer of risk (without consent of applicable regulator) - Creation of different asset classes, which may be subject to different regulations
Disclosure	<ul style="list-style-type: none"> - Asset-level or data-level detail, including data with unique identifiers relating to loan brokers or originators, the nature and extent of the compensation of the broker or originator of the assets backing the security, and the amount of risk retention of the originator or securitizer of such assets - Fulfilled repurchase requests across all trusts aggregated by an originator, so investors may identify originators with clear underwriting deficiencies 	<ul style="list-style-type: none"> - Asset-level or data-level detail, including data with unique identifiers relating to loan brokers or originators, the nature and extent of the compensation of the broker or originator of the assets backing the security, and the amount of risk retention of the originator or securitizer of such assets - Fulfilled repurchase requests across all trusts aggregated by an originator, so investors may identify originators with clear underwriting deficiencies - Due diligence analysis must be performed by securitizer and provided to investors 	<ul style="list-style-type: none"> - Asset-level or data-level detail, including data with unique identifiers relating to loan brokers or originators, the nature and extent of the compensation of the broker or originator of the assets backing the security, and the amount of risk retention of the originator or securitizer of such assets - Fulfilled and unfulfilled repurchase requests across all trusts aggregated by originator, so investors may identify originators with clear underwriting deficiencies - Due diligence analysis must be performed by securitizer and provided to investors

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Reps and Warranties

- Credit rating agencies must explain, in reports accompanying credit ratings, reps, warranties, and enforcement mechanisms available to investors and how they differ from reps, warranties and enforcement mechanisms in similar issuances
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Other

- FASB is required to perform a study of the impact of FAS 166 and FAS 167 on securitizations and consolidation
- Securitizers liable for rescission for loans that violate “ability to pay” and “net tangible benefit” standards under amended Truth in Lending Act
- Regulations relating to credit risk retention requirements will become effective 1 year from enactment for residential mortgage assets and, effective 2 years from enactment for all other asset classes