



June 10, 2011

The Honorable Sheila C. Bair  
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Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

Edward J. Demarco  
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The Honorable Mary L. Schapiro  
Chairman  
Securities and Exchange Commission  
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Washington, DC 20549

The Honorable Ben S. Bernanke  
Chairman, Board of Governors  
Federal Reserve System  
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The Honorable Shaun Donovan  
Secretary  
Department of Housing and Urban  
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John G. Walsh  
Acting Comptroller of the Currency  
Department of the Treasury  
250 E Street, SW  
Washington, DC 20219

RE: Credit Risk Retention Proposed Rule  
RIN 3064-AD74  
RIN 7100-AD-70  
RIN 2590-AA43  
RIN 3235-AK96  
File No. S7-14-11  
RIN 1557-AD40

Dear Sir or Madam:

The Asset Management Group (the AMG) of the Securities Industry and Financial Markets Association (SIFMA)<sup>1</sup> appreciates the opportunity to provide comments on the

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<sup>1</sup> SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that strengthen markets and encourage capital availability, job creation and economic growth while building trust and confidence in the financial industry. This letter has been prepared by the Asset Management Group (the AMG) of SIFMA, the voice for the buy side within the securities industry and the broader financial markets. Collectively, the members of the AMG represent over \$20 trillion of assets under management. The clients of AMG member firms include, among others, registered investment companies, state and local government pension funds, universities, 401(k) plans, and similar types of retirement funds and private funds, such as hedge funds and private equity funds.

proposed rule issued by the Securities and Exchange Commission, the Treasury Department, the Board of Governors of the Federal Reserve, and other agencies (the Agencies), regarding credit risk retention when issuing asset-backed securities. Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) requires the Agencies to prescribe regulations to require a securitizer to retain an economic interest in a portion of the credit risk for any asset that the securitizer, through the issuance of an asset-backed security, transfers, sells, or conveys to a third party. The regulations must require the retention of at least 5% of the credit risk for assets other than those subject to an exemption or exception (such as for qualified residential mortgages, or QRMs). The Agencies published its proposed Credit Risk Retention regulations (the Proposal) on April 29, 2011.

American and global securitization market participants are eager to engage in a vibrant, reinvigorated private securitization market that is a viable alternative or supplement to the government-guaranteed securitization market. We believe that the governing principle underlying the Proposal—the alignment of economic interests between asset securitizers and investors through risk retention—is a critical step to the robust return of the private securitization market. A healthy risk retention requirement, with only narrowly construed exemptions such as for qualified residential mortgages (“QRMs”), also furthers the intent of Congress to create a “gold standard” for prudent underwriting. Accordingly, as we detail below, we believe the exemptions to risk retention should be narrow, the risk retained by the securitizer should not be materially diluted, and the types and features of risk retention should accurately reflect the economics of the marketplace.

We appreciate the challenge of considering the Proposal without regard to the overall condition of the capital markets for residential housing finance – risk retention in securitizations is a piece of a much larger puzzle. There presently is virtually no private securitization market. The government sponsored enterprises (the GSEs) are in conservatorship, their future is uncertain, and they are narrowing their purchase criteria and increasing their guaranty fees. Yet Fannie Mae and Freddie Mac (along with Ginnie Mae) still represent an unprecedented share of the market. Although many agree that their oversized role should be carefully constrained and reduced, it is likely that some form of the Proposal will be finalized before the ultimate fate of the GSEs is resolved. The natural consequence is that neither the private investor community, the GSEs, nor public policy makers will be able to develop an integrated approach to the reform of the capital markets that will encourage the return of private investors.

SIFMA’s AMG has been in frequent contact with those policymakers – those in Congress, within the Treasury Department, and at other financial regulatory agencies – providing important input to help define the future infrastructure of mortgage finance. There are as many economic predictions about the prognosis for the return of private securitizations as there are theories for resolving the GSEs. There is simply no way to know exactly the impact on the availability and affordability of residential mortgage loans if, for example, the GSEs’ “wrap” around the market (through their guarantees that are supported by the U.S. Treasury) were removed or significantly reduced. Similarly, there is no way to predict exactly the impact of requiring risk retention on mortgage loans other than QRMs that would be subject to the fulsome underwriting requirements in the Proposal. Perhaps most importantly, it is still unclear how the harmonization of risk retention and the resolution of GSEs will affect the TBA market. AMG strongly suggests that the Agencies take into account the effect on the TBA market when deciding on the final version of the rule.

Nevertheless, the Agencies are presently tasked with implementing one facet of that reform – the Act’s risk retention requirements and the boundaries of the QRM exemption. As a

threshold issue, AMG generally believes that at some price the market will participate in loans that require risk retention (i.e., non-QRMs), although in the absence of a government guarantee it is possible that some of the market will not participate at any price. There is an investor appetite for quality assets at attractive yields. That appetite will be supported by exemptions from risk retention that are drawn narrowly and clearly. First, creating a solid QRM exemption from risk retention will instill disciplined underwriting at origination, which will support the market for “gold standard” loans. In addition, it will create a clear benchmark for understanding and pricing non-QRM securitizations. We believe the alignment of economic interests and the origination discipline that will be fostered by risk retention will facilitate the return of private investors to the market. Public policy, and the Agencies, should encourage such a return.

In providing the comments below, we note that the underlying policy rationale of risk retention – namely, the need to align incentives to produce quality loans through risk sharing – applies with equal force regardless of the asset classes. The methods of achieving these objectives, however, need to account for the unique features of different asset classes, which some believe may require different risk retention provisions. Our comments below primarily relate to the residential mortgage backed securities market. We think certain of the points are applicable to other asset classes, but some are not. For example, securities backed by commercial mortgages (CMBS) create significantly different issues related to risk retention than those backed by residential mortgages and, as a result, should be considered separately.

## **I. APPLICABILITY OF RISK RETENTION REQUIREMENTS**

### **A. Exemption for Qualified Residential Mortgages**

The Agencies recognize the balance between the construction of QRM and the availability and cost of mortgage credit. Setting the QRM thresholds conservatively may result in the higher costs of risk retention for a larger set of non-QRMs being passed on to borrowers. However, setting conservative thresholds, such that QRM represents the clear and certain “gold standard” for mortgage loan underwriting, may create a sturdier, healthier, and more liquid secondary market for non-QRMs, which could result in downward pressure on costs and support availability; of course, no one knows for sure what the impact will be. As discussed above, these results heavily depend on the uncertain future of government support of a large portion of the market.

While there are many unknowns, on the question of the scope of QRM, AMG supports the Proposal’s establishment of a narrow exemption from the risk retention requirement. A strict construction of the QRM exemption is not a prohibition on non-QRMs, although risk retention for non-QRMs will affect the costs and availability of affordable residential mortgage credit for those borrowers. Nonetheless, AMG believes that the Proposal’s definitions of QRM are a reasonable starting point and generally reflect a set of loans for which historical data show that the risk of default is significantly lower. With the exception of the servicing standards, as discussed below, the QRM parameters and the rules on risk retention largely are appropriate, so that there will be a balance between correctly aligned incentives for securitizers (and originators) and the availability of mortgage loans to non-QRM home buyers and refinancers.

We appreciate the concerns about access to affordable credit, but we urge the Agencies to resist encouraging a return to the loose underwriting of the non-conforming mortgage space during the mortgage credit bubble. The presence of risk retention will provide a disciplining effect on that segment of the mortgage market.

## 1. Exclusion from QRM for Nontraditional Loan Types

The Proposal would provide that QRMs could not include loans with certain nontraditional repayment terms. The Proposal would prohibit QRMs from having, among other features, repayment terms that include interest-only payments, negative amortization, or balloon payments. In addition, a QRM may have a fixed or adjustable rate, but the rule would limit the amount by which adjustable interest rates may increase. The Proposal also would prohibit a QRM from having a prepayment penalty.

AMG strongly supports these criteria for QRMs. As mentioned above, AMG is confident that defining QRMs to exclude certain nontraditional loan types will not result in an undue restriction of affordable mortgage credit.

## 2. Quantitative Underwriting Formulas and Down Payment Requirement

The Proposal also establishes clear, bright-line formulas for QRM underwriting ratios. As above, AMG believes relying upon those ratios largely results in mortgage loans with a significantly lower risk of default. Even more importantly, however, AMG strongly supports the use of clear and objective standards that promote certainty in compliance and execution. While the Agencies are likely to receive many comments on the proposed ratio values themselves, it is critically important for securitizers and investors to have certainty at the outset that a particular loan meets or does not meet the QRM standards. In that sense, AMG members are most concerned that the ratios, once properly set, be inviolable.

It may be beneficial for the Agencies to establish a mechanism for revising the ratios in the future, if (for example) tax rates were to be significantly revised, or unusual inflation is experienced in certain sectors. While we agree that setting those ratios at the appropriate level, and resetting them as necessary, is important, the objectiveness and certainty of established underwriting ratios is required to facilitate the proper functioning of the residential mortgage backed securities (RMBS) markets.

The Proposal also includes a strict requirement for a 20% down payment, requiring that consumers bring cash (including in the form of gifts under certain circumstances) to cover the transaction's closing costs; 20% of the lesser of the property's estimated market value or the purchase price; and if the estimated value is lower than the purchase price, the difference between those amounts. We understand that this proposal is controversial, and that many believe the Agencies should allow a consideration of private mortgage insurance. While some argue the benefits of, for example, allowing a QRM to require a smaller down payment along with private mortgage insurance, we strongly support a significant down payment requirement. Not only is the 20% down payment requirement clear, objective, and relatively easy to implement, AMG believes that it represents an important factor in determining whether the loan will result in default. The borrower's equity commitment aligns the parties' interests and cannot be substituted by a surety provided by an outside insurer; in fact, the presence of the mortgage insurance infers the weakness of the borrower's primary investment.

In addition, mortgage insurers have, like many in the mortgage industry, suffered tremendously during the recent recession. Any allowance for private mortgage insurance to replace a solid down payment requirement would necessarily entail a credit rating measurement of the insurers. As with our concern expressed below about allowing originators to share some of the risk retention burden in certain circumstances, AMG believes that allowing mortgage insurance to replace a portion of the consumer's interest in the transaction would lead to

complexity and uncertainty, and increases (rather than diminishes) system risk. AMG believes that lower down payment residential mortgage loans will still be available, even outside the strict realm of QRMs (including through Federal Housing Administration-insured loans), and that originators and securitizers will have an incentive (including legal risk) to approach those loans with underwriting discipline.

We do, however, believe that the proposed criteria based on credit history are too restrictive in their reliance on late payments on any type of debt, not just mortgage debt. Under the Proposal, for example, a late payment on any debt within the last 30 days disqualifies the loan from being a QRM. Under that standard, one mistakenly missed payment deadline on a small consumer debt would disqualify the loan from being a QRM, although such a mistake does not necessarily indicate a risk of default on the mortgage loan. We suggest that these QRM credit history provisions be revised to require no 30-day lates within the past 12 months on mortgage debt, no 60-day lates within past 24 months on mortgage debt, and no 60-day lates on any other debt at the time of closing.

### 3. Servicing Standards Required in Underlying Loan Contracts

AMG has significant concerns about the servicing parameters that are imposed upon this risk retention exception. As a threshold matter, we find nothing in the statute that authorizes the Agencies to include those provisions, which essentially address what happens after a default, not how to minimize the risk of default based on the original loan terms. Requiring mortgage loan documents to expressly provide for loss mitigation activities within 90 days of a delinquency is unprecedented and ill-conceived. It will result in moral hazard of the most blatant kind, nearly begging consumers not to worry about their financial responsibilities and encouraging them to enter into important obligations while bearing little risk of consequences. While the Act and the Proposal are intended to create appropriate incentives for disciplined originations and securitizations, these servicing standards do not instill any incentive upon the borrower to consider their undertaking seriously.

Rigorous loss mitigation strategies are certainly important, not just for consumers who are otherwise facing costly and devastating foreclosures, but for the investors in their mortgage loans, and for the economy at large. However, no one would permit a mortgage loan in which the borrower contracts to, for example, offer up “excess equity” if property values were to appreciate more than expected; or to make higher payments for their loan if they otherwise enjoy improved financial circumstances. We are only being somewhat rhetorical; it is similarly inappropriate to require investors in mortgage loans to agree up-front to provide a counterparty a unilateral right to amend the contract based in part on the counterparty’s failure to perform under the original terms of the contract. That notion turns contract law on its head. We believe loss mitigation is better left to other regulatory initiatives in the servicing arena. If the objective in part is to bring private investors back to the market place, giving consumers the up-front, contractual right to reduce their obligations based on their own failure to perform according to the original terms is a certain way to undermine the achievement of that objective.

### 4. Three Percent Limit on Points and Fees

It is not clear why a 3% cap on up-front points and fees in any way relates to the alignment of incentives between securitizers and investors or lessens the risk of default; the provision seems to be more directed at protecting the consumer against up-front costs. The Act does not explicitly require this element for a QRM. Although the Act provides that QRM may not be broader than a “qualified mortgage” (a QM), for which the Act also imposes a 3% limit on

points and fees, the Act's limitations in that regard nonetheless are driven by its primary purpose for QRMs and risk retention, which is that the securitizer should retain risk except in the case of a strictly construed set of mortgage loans that pose little risk of default. Thus, since the 3% limitation on fees does not relate to the risk of default, AMG believes it is unnecessary in the QRM definition. Alternatively, if the Agencies elect to retain the 3% restriction on points and fees, we ask that it exclude compensation paid by an employer to its employee. We believe the Act's original inclusion of loan originator compensation was intended to address back-end compensation paid by lenders to mortgage brokers, such as yield spread premiums, and not compensation paid by a lender to its own employees. In any event, such compensation is already reflected in the loan's pricing, and thus would not, in itself, relate to an increased risk of default. We believe the inclusion of this provision may result in the unnecessary exclusion of loans from the QRM exception that otherwise strictly adhere to the Proposal's conservative underwriting criteria.

#### 5. Relationship to QM

Under the Act, QRMs may be no broader but may be narrower than QMs in the context of the ability to repay requirements and the former imposes an economic credit risk of loss while the latter imposes a legal risk of loss. The willingness of persons to make, finance, sell, purchase, securitize, and service non-QRMs and non-QMs of course will depend on the ultimate definition of the terms and their related treatment in the final regulations. The market will view the terms as inextricably tied together because of the legal and economic consequences of falling outside of the exceptions.

It is unfortunate that the rulemaking for QM and QRM are not on parallel tracks and do not involve all of the same federal agencies. While it is possible that the final rules will come out at the same time, the calendar for notice and comment is not the same. The risk is that final regulations for QRM and for QM will be released at different times, creating the possibility that the definitions will not be synchronized and potentially rendering the QRM definition obsolete or unworkable. We urge the agencies to recognize the link between the two terms in issuing final regulations.

#### B. Exemption for Fannie Mae and Freddie Mac Securities

The risk retention requirement does not apply to government securities. The Proposal would also exempt securities guaranteed by Fannie Mae and Freddie Mac, for the duration of their conservatorship under the Federal Housing Finance Agency (FHFA), even though such an exemption is contrary to the Act's explicit provisions.

AMG understands the rationale for applying the risk retention rules only to the non-conforming mortgage market. However, we stress that if the GSEs emerge from their conservatorship, and/or are re-engineered or replaced by a new government-sponsored entity in any manner (and particularly if they retain their funding advantage resulting from their U.S. Treasury capital commitment and line of credit), the Agencies must consider and implement risk retention requirements for those resulting entities.

#### C. Exemptions for Other Qualified Assets

We urge the Agencies to use their discretion to create other exemptions for other qualified assets only in connection with true "gold standards" for those assets, similar to the tight

lines for QRMs. Any exemptions should be sharply limited to permit the risk retention rules to be activated and facilitate the return of private capital to the market place.

## **II. HOLDER OF RISK**

The Proposal reflects the Act's intention to impose the risk retention requirement upon the person responsible for orchestrating and designing the securitization, by generally imposing the requirement on the sponsor of a securitization transaction, as defined in Regulation AB. The Proposal would, however, permit the sponsor and the originator (i.e., the original creditor) of the securitized assets to agree to shift some of the risk retention obligation to the originator under certain circumstances, namely if the originator contributed at least 20% of the assets in the pool. The Proposal would require that the amount of risk allocated to the originator under those circumstances be at least 20%.

AMG members generally support the sponsor's retention of the full scope of the risk in the securitized transaction. As long as the originator "funds" its portion of the risk up front, though, we are not opposed to the ability of the securitizer to share the risk of loss with the originator, at least in the case of horizontal risk retention. We feel differently in the case of vertical risk retention. In that case the securitizer and originator may agree that the originator will retain an additional portion of risk, beyond that required by the Act. However, the discipline and incentive alignment that are at the core of the Act's risk retention requirements can only result from requiring the securitizer to retain the full portion of the economic credit risk as the rule requires. In order to achieve the Act's purposes in this regard, the sponsor must remain "on the hook," and the amount of risk that the sponsor is required to retain must not be decreased.

## **III. METHODS OF RISK RETENTION**

AMG strongly supports the Proposal's provision of options for the retention by the securitizer of economic risk, through horizontal, vertical, or L-shaped "slices." Those options will generally allow flexibility in executing securitizations with different originators and asset pools. However, we describe below our concerns that relate particularly to the premium capture cash reserve account, and its relationship to the horizontal, first-loss risk retention option, specifically in the context of residential mortgage backed securities.

### **A. Premium Capture Cash Reserve Account**

The Agencies' Proposal expresses concern that a securitization sponsor effectively may avoid its risk retention obligations on premium or interest-only tranches by monetizing up-front the excess spread that was expected to be generated by the securitized assets over time thereby leaving other tranches to absorb any unexpected losses.

In order to prohibit this result, the Proposal would require that the premium or purchase price received on the sale of the tranches that monetize the excess spread be placed, as cash, into a premium capture cash reserve account. The amount in the account would be used to cover losses on the underlying assets before those losses can be allocated to any other interest or account. While the premium capture is required, as applicable, when a sponsor retains credit risk under the Proposal's vertical, horizontal, L-shaped, or revolving asset master trust risk retention options, it would effectively only be needed in the case of a horizontal retained interest.

As the Agencies expect, this premium capture requirement likely will deter sponsors from structuring securitizations with premium or interest-only tranches, or other structures that monetize excess spread up-front. AMG members are strongly concerned that the requirement for a premium capture cash reserve account as presently configured presents a serious obstacle to structuring securitizations, including residential mortgage securitizations, by taking away a legitimate source of funds to enable sponsors to recoup costs and generate a reasonable return. We believe that the reserve account as proposed likely will undermine any hopes of reviving the private market for those securities. Moreover, this premium capture cash reserve account is not required by the Act.

We believe that the proposed methodology for the calculation of required risk retention has the potential to address the concern that up-front income would effectively erase the risk that must otherwise be retained. By applying the risk retention requirement to the market value instead of the face value of the securities, the existing framework already captures some of the income resulting from premium pricing, although we think market value is an awkward, subjective standard to apply. In this context, we recommend the deletion of the premium cash reserve account. Another alternative, as described below, would be to require that horizontal slices must amortize no faster than the remaining tranches.

## B. Types of Risk Retention

The Proposal provides for a variety of forms of risk retention that we generally support. While we address below our comments regarding representative sample risk retention and revolving asset master trusts, our major comments are reserved for horizontal and vertical interests.

### 1. Horizontal Risk Retention

The Agencies' Proposal indicates that a qualifying horizontal interest must be allocated to all losses on the securitized assets until the par value of the class is reduced to zero and has to be the most subordinated claim to payments of principal and interest. Until all other interests in the issuing entity are paid in full, the horizontal interest generally cannot receive any payments of principal made on a securitized asset, although it may receive its proportionate share of scheduled payments of principal on the assets in accordance with the transaction documents. (Alternatively, the sponsor may establish a horizontal cash reserve account to be maintained until the other interests are paid.) The prohibition against unscheduled payments to the horizontal interest is intended to ensure that payoff of the horizontal slice is not accelerated relative to the other interests.

As the Agencies recognize, AMG members are very concerned that requiring a securitizer to retain a 5% horizontal slice of risk is meaningful only if that slice or tranche amortizes at a rate no faster than the higher tranches. If cash flows of principal and interest are allocated at a faster rate to the lowest tranche and it is repaid immediately or quickly, the retained risk obviously evaporates. Thus, the final rule must provide that an eligible horizontal slice must remain available to absorb losses for the duration of the securitization. It must amortize no more quickly than the other tranches. In addition, the coupon associated with the horizontal slice must not be higher than the highest coupon on any issued securities. AMG strongly supports these restrictions for an eligible horizontal interest and requests that they be incorporated into the final regulations.



To address the concern that that the premium capture reserve account is designed to resolve, we recommend that the 5% risk retention apply to the greater of the actual face value of the securities or the proceeds from the sale of the securities.

## 2. Vertical Risk Retention

We suggest that the vertical slice form of risk retention be available only in cases where the sponsor is also the servicer, to align investor and servicer interests. In such a case we recommend a hybrid form of risk retention that takes on some of the characteristics of an L-shaped form of risk retention. Specifically, in the case of vertical risk retention we nonetheless believe the requirement should consist of the sum of (i) a vertical slice constituting 5% of the greater of the actual face value of the securities and the proceeds from the sale of the securities; plus (ii) a horizontal slice constituting a specified percentage (we suggest 25%) of the sales proceeds in excess of the face value of the securities. Like the Agencies, we are trying to balance the needs of the sponsor to recoup costs and generate a reasonable return up-front and of the investors to ensure the sponsor is leaving potential income on the table as an incentive to produce quality securitizations. We believe requiring a type of L-shaped risk retention under these circumstances approaches the appropriate balance.

## 3. Representative Samples and Revolving Asset Master Trusts

The Agencies also propose to allow a securitization sponsor to meet its risk retention requirements by retaining a randomly selected representative sample of assets that is equivalent, in all material respects, to the full pool of assets, subject to certain conditions. AMG believes, however, that risk retention by holding a representative sample of assets is inappropriate for use with certain types of assets – particularly residential mortgage loans. The Agencies indicate that this method of risk retention has been used in connection with securitizations involving automobile loans where the underlying loans are not originated purely for distribution, but are securitized by the sponsor as part of a broader funding strategy. Thus, the Agencies should provide in their final rule that this type of risk retention is available only for portfolio securitizations, and is not available for securities that are intended for other types of securitizations.

Similarly, the Proposal provides that securitizations backed by revolving lines of credit, such as credit card accounts or dealer floor plan loans, often are structured using a revolving master trust, that may issue more than one series of securities backed by a single pool of the revolving assets. The sponsor then typically holds an interest known as a “seller’s interest.” The seller’s interest is pari passu with the investors’ interest in the receivables backing the securities until an early amortization event. The rule states that a seller’s interest is a direct, shared interest with all of the investors in the performance of the underlying assets, exposing the sponsor to the credit risk of the pool or receivables. The Agencies should indicate in the final rule that risk retention through a seller’s interest is available only for revolving credit transactions

### C. Prohibition Against Hedging

AMG supports the Proposal’s implementation of the Dodd Frank Act’s prohibition against a securitizer hedging its retained risk. We believe the Proposal appropriately reflects the intention of Congress that the securitizer must not be allowed to purchase or sell securities or other financial instruments, or enter into separate insurance or other agreements, if payments on those instruments or agreements are materially related to the credit risk of one or more

particular interests that the securitizer is required to retain, or if the instrument or agreement in any way reduces or limits the securitizer's financial exposure to that risk. AMG agrees that securitizers may, however, purchase positions in nonrelated assets tied to overall market movements, such as movements of general market interest rates, currency exchange rates, home prices, or of the overall value of a particular broad category of asset-backed securities.

#### D. Enforcement

We note that the Proposal does not provide a mechanism to enforce these risk retention requirements on those who evade the Act's requirements to retain risk. We urge that the final regulations address this issue.

### IV. **NEW RULEMAKING**

The proposed regulations reflect the complexity of the Act's risk retention provisions. The proposals are long and comprehensive, and we assume that the public comments will share that same characterization. We are concerned that adequate consideration of the many disparate comments and answers to the many questions will result in a final proposal that materially varies from the original proposal and as to which we will have no advance opportunity to critique. We appreciate the Agencies providing the public additional time to comment on the Proposal. However, we request that after considering those comments, the Agencies issue a revised proposal, soliciting and considering another round of public comment, once the Agencies reach a consensus.

### V. **CONCLUSION**

We appreciate the extraordinary effort and thoughtfulness with which the Agencies have approached the Proposal. This is a very complicated subject, and the introduction of risk retention into the securitization marketplace essentially is a new paradigm as to which we only can speculate on the market consequences. As we note above, we are concerned that the original Congressional intent of QRM as the "gold standard" for prudent underwriting not be diluted. We think the quantitative aspects of the proposed underwriting standards relating to income, assets to close and property valuations for QRMs are a good starting point given the available historical default data. We believe the application of the risk retention requirements to premium pricing will offset the need for a premium capture cash reserve account. While we believe that loss mitigation is critically important to the servicing of pooled loans, we believe that giving defaulting borrowers the contractual right to reduce their debt is a fundamentally bad idea and will undermine the return of private capital to the residential securitization marketplace.

As indicated above, we also appreciate the extension of the deadline to submit comments to the Proposal. While we believe it is appropriate to submit comments within the original time frame, we reserve the right to supplement this comment letter particularly in response to other comments that might be filed.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. Cameron', with a long horizontal flourish extending to the right.

Timothy W. Cameron  
Managing Director, Asset Management Group  
Securities Industry and Financial Markets Association (SIFMA)