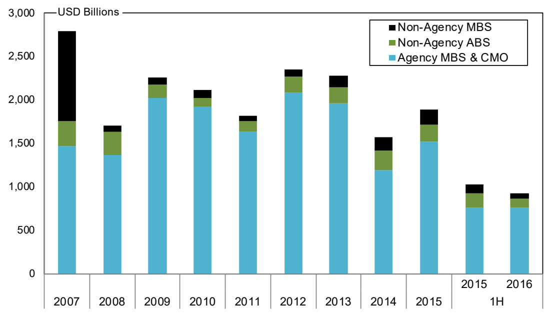
U.S. SECURITIZATION

FIRST HALF 2016

TABLE OF CONTENTS

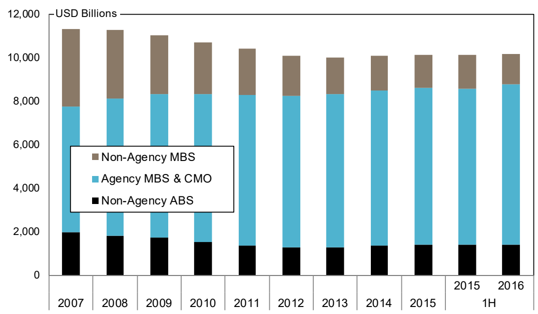
SECURITIZATION OVERVIEW

Securitization Issuance
2007 - 2016:1H



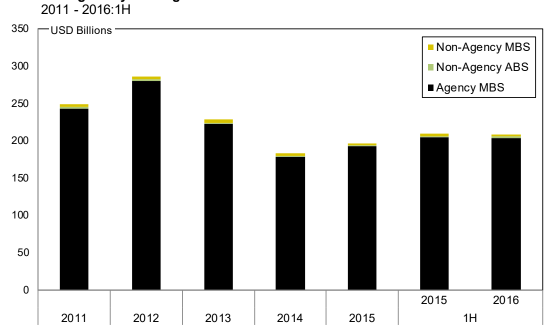
Source: Bloomberg, Dealogic, Thomson, Fannie Mae, Freddie Mac, Ginnie Mae, SIFMA

Securitization Outstanding
2007 - 2016:1H



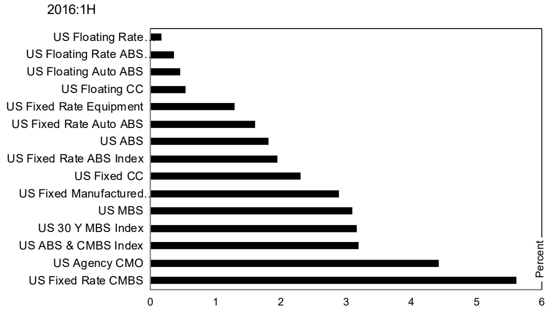
Source: Bloomberg, Dealogic, Thomson, Fannie Mae, Freddie Mac, Ginnie Mae, SIFMA

Average Daily Trading Volume
2011 - 2016:1H



Source: FINRA Trace

Total Return
2016:1H



Source: BAML

Issuance and Outstanding

Securitization issuance, including agency and non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS), totaled $919.5 billion in the first half of 2016, a 10.4 percent decline from the first half of 2015 ($1.0 trillion). The decline was driven almost entirely by the decline in non-agency issuance, as non-agency ABS issuance volumes fell by 35.6 percent year-over-year (y-o-y) and non-agency MBS volumes fell by 43.2 percent y-o-y. Agency volume for the first half of 2016 stayed relatively stable, falling by 0.5 percent y-o-y.

Outstanding volume rose slightly to $10.18 trillion, an increase of 0.3 percent y-o-y, driven entirely by agency MBS and CMO volumes, while non-agency outstanding volume fell 1.0 percent y-o-y and 10.4 percent, respectively, for non-agency ABS and MBS.

Average daily trading volume was $208.1 billion in the first half of 2016, a decline of 0.8 percent y-o-y, with non-agency volumes falling to a greater extent than agency MBS. Non-agency MBS and ABS volumes fell 21.5 percent and 17.3 percent, respectively, y-o-y, compared to agency MBS declines of 0.3 percent y-o-y.

According to Bank of America-Merrill Lynch indices, total return for ABS and commercial mortgage-backed securities (CMBS) for the first half of 2016 was 3.19 percent, 30-year agency MBS returned 3.16 percent, and agency CMO returned 4.42 percent.

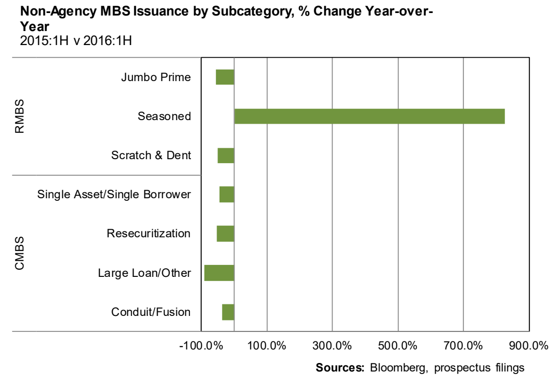
Non-Agency Mortgage-Related Securities

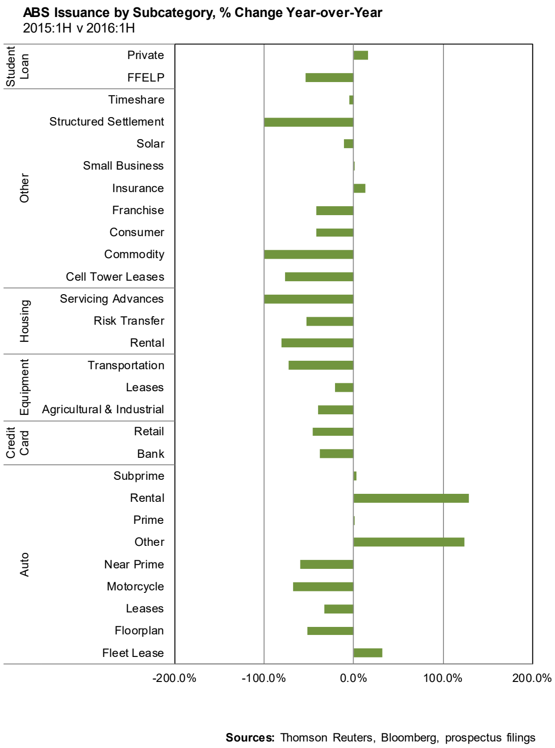
Non-agency mortgage-related issuance totaled $57.0 billion in the first six months of 2016, a decline of 43.2 percent from the prior year, comprised of $30.4 billion of CMBS, and $26.6 billion of residential mortgage-backed securities (RMBS). Outstanding volumes totaled $1.4 trillion at the end of June 2016, a decline of 10.4 percent y-o-y, comprised of $565.9 billion of CMBS and $836.1 billion of RMBS.

Non-agency CMBS issuance volumes fell by 44.9 percent from the prior year to $30.4 billion. Conduit/fusion and single asset/single borrower deals fell at similar levels, declining 38.3 percent and 44.6 percent y-o-y respectively, while large loan CMBS volumes almost vanished entirely, declining 91.9 percent. Just over half of CMBS issuance (53.3 percent) in the first half of 2016 was rated AAA, 8.3 percent rated AA, 5.7 percent A, and the balance BBB and below.

CMBS outstanding volumes totaled $565.9 billion at the end of the first half of 2016, a decline of 9.8 percent y-o-y driven heavily by paydowns from the 2006 vintages ($64.2 billion).

Non-agency RMBS volume was $26.6 billion in the first half of 2016, a decline of 41.3 percent from the first half of 2015. Declines were greater in prime jumbo deals (57.2 percent) and scratch & dent (49.9 percent); on the other hand, seasoned deals were up eightfold. Non-agency RMBS outstanding volumes were $836.1 billion, a decline of 10.9 percent from the prior year. Paydowns were concentrated in the 2005 – 2007 vintages (paying, respectively, $28.6 billion, $33.9 billion, and $28.0 billion from the 2005, 2006, and 2007 vintages).





Asset Backed Securities

ABS issuance totaled $107.4 billion in the first half of 2016, a decline of 35.6 percent y-o-y, while outstanding volumes shrank by 1.0 percent to $1.40 trillion.

Auto issuance shrank slightly, with a total of $51.6 billion issued in 1H'16, down 12.1 percent from 1H'15. Fleet lease and rental fleet auto volumes saw significant growth in y-o-y issuance, with $2.7 billion issued in both categories, up 32.5 percent and 129.2 percent, respectively, from the prior year. Prime auto issuance volumes remained largely unchanged, with $19.2 billion issued in the first six months of 2016, compared to $19.1 billion in 2015. Auto ABS outstanding volume totaled $197.1 billion, an increase of 1.4 percent from the prior year.

Credit card issuance volumes totaled $10.6 billion in 1H'16, down 32.2 percent from 1H'15. Both retail and bank card securitizations fell y-o-y. Credit card securitization volumes remain at relatively low volumes compared to prior years given the continued absence of both American Express (whose last issuance was in July 2015) and Citigroup (last issuing in late 2014). Credit card ABS outstandings totaled $125.6 billion, falling 6.9 percent y-o-y.

Equipment issuance totaled $7.0 billion in the first half of 2016, a decline of 1.8 percent y-o-y. Most of the decline was driven by lack of agricultural & industrial equipment deals ($2.5 billion in 1H'16) as well as large ticket transportation deals ($1.0 billion in 1H'16), with the sectors falling 40.0 percent and 72.8 percent, respectively, y-o-y. Lease issuance was $3.1 billion, a decline of 20.6 percent. Equipment outstandings fell 10.4 percent y-o-y to $50.2 billion.

Housing-related issuance totaled $3.8 billion in the first half of 2016, a decline of 66.3 percent y-o-y, driven largely by the y-o-y decline in risk transfer deals, both public and private. Single-family rental issuance totaled $957.8 million in 1H'16, a decline of 80.9 percent y-o-y, while there were no new servicing advance securitizations in 2016. At the end of the year, housing-related outstandings rose 38.1 percent to $49.9 billion.

Student loan issuance totaled $5.6 billion in 1H'16, a decline of 34.7 percent y-o-y. While Federal Family Education Loan Program (FFELP) securitization volumes continue to fall since the termination of the FFELP program in 2010 (issuance volume in 1H'16 was $2.9 billion, a decline of 53.8 percent y-o-y), private student loans continue to climb modestly in 2016 with $2.7 billion issued in 1H'16, an increase of 16.2 percent y-o-y. Social Finance, Earnest and Commonbond continued to issue in the private student loan securitization market in 2016. At the end of the first half of 2016, student loan outstandings were $194.2 billion, a decline of 8.6 percent y-o-y.

The "other" category, or esoteric ABS, totaled $28.7 billion in 1H'16, a decline of 52.4 percent y-o-y, driven in a large part by the decline in CDO issuance stemming from risk retention rules coming into force in 2016. Excluding CDO issuance, however, esoteric ABS totaled $10.3 billion, a fall of 27.8 percent y-o-y. With the issues surrounding Lending Club, consumer/personal loan securitizations totaled $2.7 billion in 1H'16, a decline of 42.0 percent y-o-y, although Social Finance brought its first personal loan securitization to the market in June. Franchise securitizations also fell by 42 percent to $2.7 billion. Insurance rose by 13.2 percent y-o-y to $1.0 billion, while timeshare volumes fell 4.7 percent to $720.3 million. Small business securitizations remained largely unchanged y-o-y with $250.0 million issued; marketplace lender OnDeck continued to issue in 2016. "Green" finance securitizations continued to be issued in 2016, with $645.7 million in PACE (Property assessed clean energy) securitizations and $312.4 million in solar securitizations. Shortly after the end of the first half of the year, Verizon issued its first public securitization backed by smartphone contracts. "Other ABS" outstanding volumes were $781.2 billion, an increase of 0.3 percent y-o-y; excluding CDO, outstanding volumes were $138.8 billion, an increase of 11.4 percent y-o-y.

CHARTS & DATA

ISSUANCE

$ Billions

Asset Backed Securities, Issuance

	2012	2013	2014	2015	2016 YTD
Auto	88.0	88.5	94.9	97.9	51.6
Prime	40.1	38.5	41.3	35.6	18.8
Subprime	17.3	19.1	19.9	22.7	12.4
Near Prime	0.4	2.2	3.6	5.4	1.4
Leases	12.4	13.3	16.0	18.0	8.2
Floorplan	11.2	8.7	7.8	9.9	3.3
Credit Cards	30.1	33.3	52.0	23.9	10.6
Equipment	20.1	18.7	17.6	16.2	7.0
Floorplan	2.7	0.9	0.9		0.3
Transportation	3.8	6.2	5.3	5.2	1.0
Housing-Related	2.0	6.8	17.4	18.3	3.8
Single Family Rental		0.5	6.5	6.4	1.0
Servicing Advances	2.0	4.6	2.3	4.2	0.0
Other	68.8	103.5	133.0	103.6	28.7
CDO	45.9	84.3	111.8	79.9	18.5
Franchise	1.6	1.2	1.9	7.2	2.8
Consumer	0.8	3.2	5.8	8.2	2.7
Structured Settlement	0.6	0.6	0.7	0.8	
Timeshare	2.2	2.4	2.7	2.2	0.7
Student Loans	25.3	17.9	14.1	13.6	5.6
FFELP	21.0	14.4	11.4	6.8	2.9
Private	4.3	3.0	2.7	6.6	2.7

Asset Backed Securities, Issuance by Rating (2016 1H)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	33.5	2.8	2.9	2.1	10.3	51.6
Prime	15.5	0.2	0.2	0.1	2.8	18.8
Subprime	5.0	2.2	1.7	1.7	1.8	12.4
Near Prime	0.3		0.6	0.0	0.5	1.4
Leases	5.9	0.2	0.1	0.0	2.0	8.2
Floorplan	2.5	0.1			0.8	3.3
Credit Cards	10.5	0.1				10.6
Equipment	3.7	0.1	1.5	0.2	1.5	7.0
Floorplan			0.2	0.0		0.3
Transportation			0.9	0.1		1.0
Housing-Related	0.6	0.0	0.1	2.8	0.3	3.8
Single Family Rental	0.6	0.0	0.1	0.1	0.2	1.0
Servicing Advances						0.0
Other	11.5	2.2	4.3	6.3	4.4	28.7
CDO	11.1	2.2	1.6	1.8	1.8	18.5
Franchise				2.8		2.8
Consumer			1.2	0.4	1.1	2.7
Structured Settlement						0.0
Timeshare			0.6	0.1		0.7
Student Loans	2.7	1.1	0.2	0.0	1.6	5.6
FFELP	1.4	0.4			1.1	2.9
Private	1.3	0.7	0.2	0.0	0.5	2.7

Mortgage Backed Securities, Issuance

	2012	2013	2014	2015	2016 YTD
CMBS	47.8	88.0	99.8	101.5	30.4
Single Asset/Single Borrower	8.7	24.5	23.3	24.2	8.1
Conduit/Fusion	32.9	57.7	60.1	62.5	18.9
Large Loan	1.7	1.5	6.6	10.8	0.6
Resecuritization	2.8	2.2	2.0	1.0	0.3
RMBS	28.0	48.0	56.4	75.9	26.6
Jumbo Prime	3.5	13.2	8.7	14.6	3.5
Scratch & Dent	2.6	10.7	26.5	40.3	11.9
Seasoned	5.4	6.1	3.3	3.1	8.1
Subprime/Nonprime			0.1	0.4	
Resecuritization	16.5	15.5	16.3	16.7	2.0
Agency (ex. CMO)	1,756.9	1,642.7	1,000.7	1,322.5	782.1
FNMA	865.5	764.5	407.7	516.4	312.8
FHLMC	466.5	460.8	279.5	351.8	194.1
GNMA	424.9	417.4	313.5	454.3	275.2

Mortgage Backed Securities, Issuance by Rating (2016 1H)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	16.2	2.5	1.7	3.5	6.4	30.4
Single Asset/Single Borrower	2.6	0.7	0.6	1.7	2.5	8.1
Conduit/Fusion	13.2	1.8	1.2	1.5	1.1	18.9
Large Loan				0.3	0.3	0.6
Resecuritization					0.3	0.3
RMBS	5.1	1.0	0.5	0.5	19.6	26.6
Jumbo Prime	2.9	0.2	0.2	0.2	0.1	3.5
Scratch & Dent	1.1	0.1	0.1	0.2	10.5	11.9
Seasoned	0.5	0.7	0.0	0.0	6.8	8.1
Subprime/Nonprime						
Resecuritization					2.0	2.0
Agency (ex. CMO)	N/A	N/A	N/A	N/A	N/A	N/A
FNMA	N/A	N/A	N/A	N/A	N/A	N/A
FHLMC	N/A	N/A	N/A	N/A	N/A	N/A
GNMA	N/A	N/A	N/A	N/A	N/A	N/A

OUTSTANDING

$ Billions

Asset Backed Securities, Outstanding

	2012	2013	2014	2015	2016 YTD
Auto	142.0	161.1	178.6	189.9	197.1
Prime	56.3	61.6	67.2	67.6	69.4
Subprime	24.0	29.6	33.8	38.3	41.2
Near Prime	0.5	2.7	6.2	9.8	9.8
Leases	18.0	20.4	23.5	25.4	24.4
Floorplan	27.7	30.3	30.4	31.0	28.6
Credit Cards	128.2	124.5	136.5	128.6	125.6
Equipment	41.8	47.5	52.6	50.8	50.2
Floorplan	3.4	4.3	5.4	4.1	3.6
Transportation	22.9	25.1	27.2	28.0	28.1
Housing-Related	3.8	8.7	25.6	42.4	49.9
Single Family Rental		0.5	7.2	14.1	15.2
Servicing Advances	3.8	6.4	6.0	5.5	5.7
Other	721.4	698.8	741.3	779.7	781.2
CDO	621.1	590.7	624.7	645.2	642.4
Franchise	3.2	4.0	5.3	11.8	14.2
Consumer	0.0	3.2	6.7	13.6	16.8
Structured Settlement	2.9	3.2	3.6	3.9	3.8
Timeshare	4.3	4.6	5.3	5.4	5.1
Student Loans	235.1	230.0	218.1	201.7	194.2
FFELP	192.0	187.9	177.7	160.4	153.1
Private	38.2	37.2	35.9	37.3	37.1

Asset Backed Securities, Outstanding by Rating (2016 1H)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	145.9	15.0	14.2	11.1	10.9	197.1
Prime	61.0	2.7	1.4	0.8	3.6	69.4
Subprime	13.6	10.2	8.1	7.9	1.5	41.2
Near Prime	7.2	0.7	0.8	0.6	0.5	9.8
Leases	20.8	0.7	0.3	0.2	2.4	24.4
Floorplan	24.8	0.5	0.9	0.3	2.0	28.6
Credit Cards	119.0	1.1	2.6	1.8	1.0	125.6
Equipment	17.6	0.9	17.7	7.1	6.8	50.2
Floorplan	3.1		0.1	0.1	0.4	3.6
Transportation	0.1	0.3	16.8	6.6	4.3	28.1
Housing-Related	11.2	1.8	3.6	16.3	17.0	49.9
Single Family Rental	7.7	1.4	1.3	1.1	3.6	15.2
Servicing Advances	3.5	0.2	0.2	0.5	1.4	5.7
Other	278.9	55.4	54.5	47.0	345.5	781.2
CDO	262.6	53.9	38.7	27.7	259.5	642.4
Franchise		0.2		13.6	0.4	14.2
Consumer			6.7	2.8	7.3	16.8
Structured Settlement	2.8	0.2	0.3	0.2	0.3	3.8
Timeshare	0.0	0.4	3.2	0.7	0.8	5.1
Student Loans	75.8	79.7	15.6	12.2	10.8	194.2
FFELP	64.0	74.4	7.6	0.9	6.3	153.1
Private	11.7	4.8	7.6	10.0	3.0	37.1

Mortgage Backed Securities, Outstanding

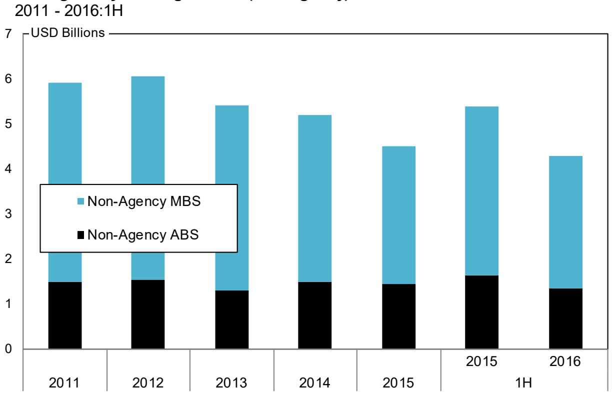
	2012	2013	2014	2015	2016 YTD
CMBS	638.4	627.3	627.2	601.2	565.9
Single Asset/Single Borrower	29.5	48.4	65.4	85.3	86.0
Conduit/Fusion	542.8	526.1	507.6	457.7	424.2
Large Loan	23.4	13.8	12.2	13.9	15.5
Resecuritization	24.7	22.5	20.1	16.6	13.6
RMBS	1,239.3	1,073.8	973.2	884.8	836.1
Jumbo Prime	183.4	151.9	133.2	119.0	110.2
Scratch & Dent	26.7	30.5	43.0	64.7	67.1
Seasoned	26.6	27.1	24.7	20.4	26.1
Subprime/Nonprime	338.7	299.4	271.5	242.2	227.7
Resecuritization	99.6	89.1	88.8	87.5	78.8
Agency (ex. CMO)	5,656.7	5,905.6	6,008.4	6,208.5	6,322.5
FNMA	2,705.0	2,803.8	2,803.6	2,823.0	2,846.0
FHLMC	1,585.5	1,621.7	1,663.2	1,742.5	1,784.0
GNMA	1,366.2	1,480.1	1,541.6	1,643.0	1,692.5

Mortgage Backed Securities, Outstanding by Rating (2016 1H)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	273.9	64.1	50.6	127.8	49.6	565.9
Single Asset/Single Borrower	39.8	10.5	8.1	17.9	9.8	86.0
Conduit/Fusion	218.4	50.6	36.3	96.9	22.0	424.2
Large Loan	7.7	2.1	1.5	6.0	1.9	19.2
Resecuritization	4.6	0.3	0.7	2.2	5.9	13.6
RMBS	38.8	13.0	16.8	605.3	162.3	836.1
Jumbo Prime	25.6	1.5	1.9	77.8	3.4	110.2
Scratch & Dent	4.5	1.1	1.7	11.8	48.0	67.1
Seasoned	5.1	5.8	0.4	0.6	14.3	26.1
Subprime/Nonprime	0.4	1.6	7.0	209.4	9.2	227.7
Resecuritization	1.3	0.7	0.5	9.6	66.8	78.8
Agency (ex. CMO)	N/A	N/A	N/A	N/A	N/A	N/A
FNMA	N/A	N/A	N/A	N/A	N/A	N/A
FHLMC	N/A	N/A	N/A	N/A	N/A	N/A
GNMA	N/A	N/A	N/A	N/A	N/A	N/A

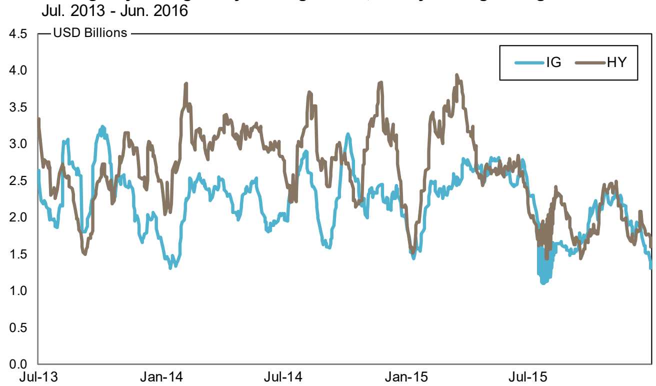
TRADING VOLUME

Average Daily Trading Volume (Non-Agency)
2011 - 2016:1H



Source: FINRA Trace

Non-Agency Average Daily Trading Volume, 20 Day Moving Average
Jul. 2013 - Jun. 2016



Source: FINRA Trace

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UPDATE ON KEY POLICY ISSUES

EVOLUTION OF THE GOVERNMENT SPONSORED ENTERPRISES

Credit Risk Transfer

Summary of Issue: In 2012, the Federal Housing Finance Agency (FHFA) initiated a strategic plan to develop a program of credit risk transfer to reduce Fannie Mae's and Freddie Mac's overall risk. In 2015, Fannie Mae and Freddie Mac (collectively, the GSEs or Enterprises) continued to grow the credit risk transfer programs. In June 2016, the FHFA released two documents pertaining to the credit risk transfer programs. *The Single-Family Credit Risk Transfer Progress Report* provided an overview of the credit risk transfer (CRT) programs. The paper included year-end 2015 data, a discussion of which Enterprise loan acquisitions are targeted for the credit risk transfer programs, and an overview of investor participation information. The second section of the Progress Report provided information on scenario-based estimates for the cost of certain credit risk transfer transactions.

FHFA also released a request for input (RFI) in regards to the CRT programs. *The Single-Family Credit Risk Transfer Request for Input* discussed FHFA's principles of credit risk transfer and sought feedback from stakeholders on proposals to adopt additional front-end structures, such as a deeper mortgage insurance structure, as well as on other credit risk transfer policy issues.

SIFMA Advocacy: In previous advocacy on CRT, SIFMA has focused on how to improve the liquidity of this market, and how to remove obstacles to greater issuance of credit risk transfer transactions. This advocacy included a letter to key members in Congress that outlined our suggestions to improve this market.

A SIFMA working group is drafting a response to FHFA's most recent consultation on CRT.

Links and Documents:

- **SIFMA Submits Comments to Congress on CRT – December 7, 2015**

Single Security

Summary of issue: In August of 2014, the Federal Housing Finance Agency sought public input on a proposal that would implement a single form of MBS to be issued by Fannie Mae and Freddie Mac, with the goal of this common form of security being traded in unified, single To Be Announced (TBA) market. In 2015, FHFA issued "*An Update on the Structure of the Single Security*," which detailed progress on the single mortgage-backed security (Single Security) and sought further feedback on the initiative.

The current timeline for implementation is as follows:

- Release 1: In 2016, implement the Common Securitization Platform (CSP) for Freddie Mac's existing single class securities;
- Release 2: In 2018, implement the Single Security on the CSP for both Fannie Mae and Freddie Mac.
- In 2016, the GSEs will publish an aligned timeline for implementing the Single Security on the CSP for both Enterprises in 2018. The timeline must provide stakeholders with at least 12 months' notice prior to implementing the Single Security.

In July 2016, FHFA released the Update on Implementation of the Single Security. The update addressed three key topics:

- Milestones that the Enterprises and CSP must achieve in order to implement the Single Security and FHFA's expectations about when these milestones will be achieved;
- The final Single Security features and disclosures, including how privacy risks related to loan-level disclosures will be addressed; and
- How the Enterprises and FHFA review potential changes in Fannie Mae and Freddie Mac programs, policies, and practices to help ensure the continuation of the current close similarity of the prepayment rates of the Enterprises' MBS.

SIFMA Advocacy: SIFMA continues to be the leading voice in the discussion of a single security. SIFMA held several meetings with members and representatives of FHFA, Fannie Mae, and Freddie Mac, Treasury, the White House and others in effort to recommend the most effective path to implementation of a single security for the TBA market and provide guidance to FHFA and the GSEs. SIFMA also responded to FHFA's requests for comment with a number of specific, actionable recommendations. SIFMA has also hosted a number of focus group meetings for the GSEs and FHFA.

The key message is that policy, practice, and performance alignment must be top priority. The effective alignment of policies and practices, so as to achieve a continuing alignment of security performance, is the single most important factor in the success (or lack thereof) of this initiative. SIFMA members strongly believe that all of the GSEs' policies or practices that could impact prepayment speeds in a material way must be aligned. This includes, but is not limited to: buyout policies, streamlined refinancing program policies (e.g. HARP and any future programs like it), implementation of new underwriting and servicing initiatives, servicing compensation, and loan level price adjustments/adverse market delivery fees.

SIFMA also believes that it is imperative that the FHFA and GSEs develop a standard protocol to evaluate new programs and changes to existing programs to ensure that any modification is reviewed for its potential impact on security performance, and that any change with a material impact on security performance is implemented in an aligned manner by the GSEs. The 2016 scorecard shows promise in this regard.

We expect to be extremely active on this topic throughout 2016 and 2017 as focus shifts from concept to implementation.

Links and Documents

- **SIFMA Submits Comment to FHFA on the Structure of the Single Security Update** – August 21, 2015
- **FHFA's 2016 Scorecard for the GSEs**
- **An Update on Implementation of the Single Security and the Common Securitization Platform**

SECONDARY TRADING UNDER THE VOLCKER RULE FOR SECURITIZATIONS, EXCHANGE-TRADED PRODUCTS (ETPS) AND COVERED BONDS

SIFMA Project to Classify RMBS/ABS, Covered Bonds and Exchange Traded Products

Summary of Issue: The Volcker rule in large part defines a "covered fund" by reference to two specific exemptions from the ICA – 3(c)(1) and 3(c)(7). Many securitization transactions use 3a-7 or 3(c)(5), but others (such as managed CLOs and CDOs, and many synthetic transactions), may use 3(c)(7). More importantly, prior to the issuance of final rules, U.S. transaction documentation did not typically refer to a specific exemption – it would simply state that the transaction was exempt. Foreign transactions generally don't contemplate the ICA at all. There is significant spillover from the Volcker Rule's Covered Funds restrictions beyond the hedge fund and private equity products at which they are targeted towards into securitization and other related asset classes. Accordingly, Volcker covered fund status was unclear for tens of thousands of securities, but is a necessary piece of information for banks who trade or invest in these securities.

SIFMA Advocacy: To help alleviate the lack of clarity regarding covered fund status, SIFMA's Securitization Group engaged KPMG and Cleary Gottlieb to undertake a major project to identify and classify these tens of thousands of securities into covered fund status categories (e.g., 'cannot be excluded from being a covered fund', 'not a covered fund', 'legal review required'). The project scope includes U.S. and foreign securitizations, foreign ETPs and covered bonds. This project was executed in close coordination with Bloomberg's effort to develop a covered fund classification tool that is available to Bloomberg users (their "VCF" screen). The first phase of this project was completed in the summer of 2015. Work continues to refine and expand the decision logic and application of the project.

On September 17, 2015 the Volcker regulators (Federals Reserve, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC)) issued guidance in the form of a frequently asked question which effectively blessed the use of third party tools, such as Bloomberg's VCF, in a Volcker Rule compliance program, with appropriate auditing and controls. SIFMA was pleased to see this publication and continues to work with its members to enhance the ability of market participants to identify and classify securities in other asset classes.

Links and Documents

- Federal Reserve Volcker Rule FAQ

SECURITIZATION DERIVATIVES

Margin Requirements for Uncleared Securitization Swaps – Final Rules Will Require Securitization SPVs to Post Variation Margin

Summary of Issue: On September 3, 2014 the Federals Reserve, OCC, FDIC, FHFA and Farm Credit Administration (FCA) proposed a rule on margin requirements for non-centrally cleared swaps and security-based swaps. The CFTC followed suit as regards non-securities based swaps on September 18. While these proposed rules would have generally excluded securitization transactions from requirements to post initial margin, they would explicitly include securitizations as entities that must post variation margin.

On October 22, 2016 and December 16, 2016 the prudential regulators and the CFTC, respectively, finalized their rules. Both rule sets would apply variation margin requirements to securitization SPVs' uncleared swaps transactions. (Initial margin is technically applicable as well, but the threshold is quite high and not likely to be triggered in most cases). The second phase of the margin rules have an effective date of March 1, 2017.

SIFMA Advocacy: SIFMA argued in its comments on the rule proposals and in subsequent meetings with regulators that securitization vehicles that are swap counterparties do not present the same risks as corporate or other types of entities given the secured nature of the exposure. Additionally, it is simply not practical or economical for securitizations to comply with margin requirements, since securitizations are not operating companies and generally cannot raise new capital to fund margin requirements. Without relief, these rules would significantly limit the ability of securitization transactions to utilize derivatives to hedge trust cash flows, harming issuers, investors and the consumers who receive funding through securitization. Unfortunately, regulators did not heed the warnings and requests of SIFMA and other industry organizations.

SIFMA will work with members as they face implementation of these rules in the coming year.

Links and Documents:

- **Prudential Regulators' Final Rules**
- **CFTC's Final Rules**

CREDIT RISK RETENTION

Implementation of Risk Retention Rules

Summary of Issue: Dodd-Frank section 941 creates a "risk retention" requirement for securitization transactions whereby securitizers will be required to retain at least five percent of the credit risk of their transactions subject to various conditions and exceptions. Rules were first proposed in early 2011 by six regulators. The rules were re-proposed in August 2013 with some key revisions, and were finalized on October 21, 2014. The rules became effective in December 2015 for RMBS and will be effective in December 2016 for other ABS.

SIFMA Advocacy: As we approached implementation in 2015, members raised the question of whether or not a resecuritization of RMBS would be treated as RMBS or a resecuritization for the purposes of the effective date. This is important because resecuritizations do not require retention until 2016, while RMBS begins compliance in 2015. SIFMA sought and obtained guidance that resecuritizations of RMBS would not be treated as RMBS, and therefore would not be required to comply with the rules until 2016. Currently, SIFMA is in ongoing discussions with members on various issues related to risk retention.

FINRA

Proposal to Implement Margin Requirements for TBA Trading

Summary of issue: In 2014 FINRA proposed amendments to its rule 4210 that would expand margin requirements under the rule to forward-settling Agency MBS transactions, including TBAs, specified pools, and CMOs. SIFMA and SIFMA AMG submitted 6 comment letters in total. In June 2016, the SEC approved final rules amending 4210. The rules would require dealers to collect both 2 percent initial margin (subject to exceptions for exempt accounts) and variation margin (subject to an exception for very small counterparties and for certain government entities). Margin would be required to be collected within T+1, and if not collected, liquidating action is required by T+5.

On June 15, the SEC "approved on an accelerated basis" FINRA's third amendment to the 4210

TBA margin proposal. Effective dates for determination of risk limits are December 2016, and margin collection will be required in December 2017.

In today's market bilateral margining for TBA transactions is executed in accord with the recommendations of the Treasury Market Practices Group, which recommended bilateral variation margin for Agency MBS transactions. TMPG recommendations are not consistent with FINRA's rules

SIFMA Advocacy: SIFMA and SIFMA AMG have submitted several comment letters on the proposal. SIFMA's broader comments focused on the major impact of the proposed amendments, with details on the impact on FINRA members, while also addressing issues of clarity, operational feasibility and unintended consequences. Now that final rules have been published, SIFMA is focused on heling members implement the new rules. This includes transitional guidance, documentation, and review of the form of the MSFTA.

Links and Documents:

- **SIFMA Submits Comments to FINRA on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market – March 28, 2014**
- **SIFMA Submits Comments to the SEC on FINRA rule 4210 regarding Margin Requirements for TBAs/Agency MBS – November 10, 2015**
- **SIFMA AMG Submits Comments to the SEC on FINRA Rule 4210 Regarding Margin Requirements for TBAs/Agency MBS – November 10, 2015**
- **SIFMA Submits Comments to the SEC Proposal to Amend FINRA Rule 4210 to Establish Margin Requirements for Transactions in the TBA Market – February 11, 2016**
- **SIFMA Submits Comments to the SEC on a Proposal to Amend FINRA Rule 4210 to Establish Margin Requirements for Transactions in the TBA Market - May 2, 2016**
- **Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval to a Proposed Rule Change to Amend FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for the TBA Market, as Modified by Amendment Nos. 1, 2, and 3 – June 15, 2016**

Post-Trade Dissemination of Price Information through FINRA's TRACE System

Summary of Issue: In early 2015, FINRA proposed the expansion of real-time dissemination of trade price data to include additional securitized products including CMOs, CMBSs and CDOs.

Additionally, on December 7, 2015 FINRA implemented the dissemination of price information for asset-backed securities including consumer ABS and other asset classes.

In June 2016, FINRA released for comment a rule proposal to expand dissemination of TRACE data to include collateralized mortgage obligations (CMOs). Last year, FINRA released for comment a proposal to expand dissemination of TRACE data to include Securitized Products, specifically, CMOs, commercial mortgage-backed securities and collateralized debt obligations. FINRA decided not to expand dissemination to CMBSs and CDOs at this time, and instead will focus on CMOs.

Summary of issue: SIFMA agreed with FINRA that there may be benefits to price discovery as a result of dissemination of trade information, but continued to voice concern for the potential that dissemination to negatively impact market liquidity if it is not implemented appropriately. SIFMA members believe strongly that TBA, specified pool and the corporate high-yield markets have each had liquidity negatively impacted due in part to TRACE dissemination. Market makers are less willing to take on large trades from their buy-side counterparties when their position becomes immediately known.

SIFMA believes that the SEC and FINRA should once again carefully weigh the benefit of price discovery against the potential detriment to market liquidity, and ensure any final rule is structured in a way that promotes transparency while avoiding reducing liquidity.

Links and Documents:

- **SIFMA Submits Comments to the SEC on FINRA's Proposed Rule Change to Increase Transparency for CMO Transactions – July 27, 2016**
- **FINRA Proposed Rule Change to Increase Transparency for CMO Transactions** – June 29, 2016

CAPITAL / PRUDENTIAL MATTERS

International Organization of Securities Commissions (IOSCO) & Basel Committee Consultation on Simple, Transparent, and Comparable (STC) Securitizations

Summary of Issue – In December 2014, IOSCO and the Basel Committee released for comment a paper that discussed criteria for determining that a securitization transaction is simple, transparent, and comparable, which would accord the transaction favorable prudential treatment. This consultation is the deliverable from Basel and IOSCO's Task Force on Securitisation Markets (TFSM) which was formed in early 2014.

On 11 July the Basel Committee published its final rules related to STC securitization. Please see below for a short summary of the key points of the BCBS Revisions to the securitisation framework included in the final STC publication:

- The July 2016 Standards text replaces the existing Basel 303 regime; changes relate to new or revised criteria related to STC;
- The framework sets the minimum risk weight for senior STC positions at 10 percent and at 15 percent for non-senior STC positions, while the risk weight floor for non-STC bonds remains 15 percent;
- The final rules do not provide STC treatment for ABCP; this outcome is consistent with the BCBS's consultative documents, and the Committee suggests further work on ABCP;
- SEC-IRBA approach: includes a haircut to smooth the impact of maturity when legal maturity is used; this has been included in BCBS 303 already;
- There is no compulsion for any jurisdiction to use STC if "implementation costs exceed potential benefits";
- New criteria: minimum performance history, exclusion of underlying assets with risk weights which exceed certain levels, a more explicit definition of granularity;
- Determination of STC compliance: put onus on the investor;
- ABCP would not be included in the definition of a "resecuritisation;"
- Caps for senior exposures at exposure weighted-average RW applicable to underlying: the cap at weighted average risk weight of the underlying overrides the 15% weight floor (this is not new);
- Factor p = 0.5 for securitization-standardized approach for STC.

SIFMA Advocacy – SIFMA, through GFMA, responded to this proposal. Comments highlighted the need to carefully balance the needs of investors with cost of the needs of originators. If meaningful benefits to the wider economy are to be realized, securitization must regain its traditional function as a tool not just for direct funding but also for risk transfer to achieve capital relief for the originator. Also, harmonization of the requirements across jurisdictions should be a key goal to encourage growth in the depth and liquidity of the securitization markets. The letter also made the point that synthetic securitizations should be included in the STC criteria (subject to certain conditions). Allowing certain types of synthetic securitizations to qualify as STC will help to contribute funding to the real economy. They would ease the execution of securitizations of more challenging asset classes such as small and medium enterprise (SME) loans and trade credit (both of which often contain clauses preventing legal true sale of the loan or are otherwise more difficult and/or slower to structure through cash securitizations) by transferring risk and freeing up bank capital to make additional loans.

SIFMA's discussions with US regulators indicate a disinclination to implement an STC framework in the US. However, European policymakers are currently developing legislation to do so in the EU.

Links and Documents:

- Criteria for identifying simple, transparent and comparable securitisations – December 2014
- Final Criteria for identifying simple, transparent and comparable securitisations- July 2015
- GFMA with Several Other Associations Submit Response to BCBS-IOSCO Consultation on Simple, Transparent, and Comparable Securitisations – February 13, 2015
- European Commission Proposal – November 9, 2015
- Basel 343 – Implementation of STC in the Securitization Framework - November 2015
- Revised Securitisation Framework with Capital Treatment for "Simple, Transparent and Comparable" Securitisations – July 11, 2016

Fundamental Review of the Trading book

Summary of issue: The Basel Committee has been in the process of revising its trading book capital rules (FRTB) for the last few years. GFMA has worked extensively in coordination with the International Swaps and Derivatives Association (ISDA) and the Institute of International Finance (IIF) to advocate on a variety of issues related to FRTB. This process is now nearing its conclusion at the global level.

SIFMA Advocacy: In October 2015, GFMA, ISDA and the IIF wrote to the Group of Governors and Heads of Supervision of the Basel Committee and Bank for International Settlements to highlight key areas of the FRTB framework that require further consideration in order to ensure a balanced and more robust market risk capital framework and prevent negative impacts on the market and broader economy. One of the key priority areas of advocacy, among others, is the very negative impact of the proposed rules on securitizations.

In November 2015, SIFMA worked with other trade associations to develop and submit a letter to bank regulators and the Department of the Treasury expressing significant concern with the proposed capital requirements in the FRTB, expressing opposition to the proposed capital requirements, which are punitive to securitizations and other asset classes. The letter makes clear that if not materially amended, the rules could threaten the liquidity of and ability to fund credit creation of securitization markets. We understand that work is underway to recalibrate the proposal. The letter urges regulators to significantly amend the proposed requirements prior to any consideration of their implementation in the U.S., making clear that minor adjustments will not be enough.

The Basel Committee finalized these rules on 1/14/2016. The final rules are less punitive than the proposal but still represent a significant increase in capital requirements. SIFMA will continue to remain active in the GFMA/ISDA/IIF joint working group (which has been engaged with Basel for about two years), as well as in efforts with other groups. Following finalization, the next steps will include national implementation of the Basel standards, and it is likely that further advocacy will be needed.

Links and Documents:

- GFMA and Other Associations Submit Comments to the BCBS on the BSBC's Second Consultative Document on the Basel Securitisation Framework **– March 24, 2014**
- GFMA and other Associations Submit Comments to the BCBS on the Revised Standardized Approach for Market Risk **– April 16, 2014**

- GFMA and other Associations Submit Comments to GHOS, BCBS and BIS Regarding the Fundamental Review of the Trading Book Framework **– October 30, 2015**
- SIFMA and Other Associations Submit Comments to Bank Regulators on the FRTB, November 12, 2015
- Basel Minimum Capital Requirements for Market Risk – January 14, 2016

AMICUS BRIEFS

Madden v. Midland

Summary of Issue: Recently questions have been raised in the context of marketplace lending and other securitization programs based on the Second Circuit's decision in Madden v. Midland Funding, LLC, No. 14-2131-cv, 2015 10 U.S. App. LEXIS 8483 (2d Cir. 2015). In the Madden decision, a buyer of delinquent debt sought to collect a charged-off credit card account, including interest assessed after the sale of the debt by the lending bank to the debt buyer. The lending bank no longer had any interest in the loan. Under those facts, the Second Circuit concluded that the National Bank Act did not preempt the plaintiff's state law usury claim. We continue to believe that Madden decision was wrongly decided because it overlooked the long-standing, fundamental principle of usury law that the assignee of a loan stands in the shoes of the assignor, and is entitled to collect the interest provided for in the contract. Moreover, the Madden decision could significantly interfere with banks' exercise of their federally granted lending authority because it would undermine the secondary market for loans – on which banks depend.

On May 24, 2016 the Solicitor General filed a brief regarding Madden v. Midland Funding, LLC. The Solicitor General's brief argued that the Second Circuit's decision is wrong, and that an assignee of a loan from a national bank can charge the interest rates applied when the loan was originated. This view is supportive of SIFMA's position. The brief also recommended that the U.S. Supreme Court deny certiorari for a number of reasons, including that there is a lack of conflict among lower courts, deficiencies in briefing of certain issues in the case, and a view that the decision may be mitigated due to other factors in the ongoing case. The Supreme Court denied certiorari on June 27, 2016.

SIFMA advocacy: The defendants in the Madden case petitioned for rehearing or rehearing en banc before the Second Circuit and SIFMA filed an amicus brief supporting that petition. On August 12, 2015 the Second Circuit denied the petition for rehearing. On December 11, SIFMA filed another petition, this time to the Supreme Court for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit. SIFMA filed each of these briefs jointly with SFIG.

Links and Documents:

- Madden v. Midland Funding, LLC Amicus Brief **– June 26, 2015**
- Madden v. Midland Funding, LLC Amicus Brief **– December 11, 2015**
- Solicitor General Brief Recommending No Cert **– May 24, 2016**

MARKETPLACE LENDING

Treasury's Request for Comments on Marketplace Lending

Summary of issue: The U.S. Department of Treasury released a Request for Information (RFI) on expanding access to credit for small businesses and consumers through online marketplace lending. Treasury was interested in learning more about: the business models and product offerings of online marketplace lenders; the potential for online marketplace lending to expand access to credit to historically underserved market segments; and how the financial regulatory framework should evolve to support the safe growth of this industry.

SIFMA Advocacy: SIFMA submitted a comment letter in response to the RFI. SIFMA's comments addressed (1) structures used for marketplace lending and the regulation of marketplace lending; (2) risk retention in secondary market activity, with regard to securitization as well as bilateral transactions (e.g. whole loan sales), where SIFMA does not believe risk retention requirements are appropriate; (3) investor considerations for investing in marketplace loans and securities; and (4) forms of secondary liquidity, as well as hurdles to increasing liquidity in this market.

Links and Documents:

- **SIFMA Submits Comments to Treasury on Marketplace Lending – September 30, 2015**

SIFMA EVENTS

The SSG Spotlight Sessions continued to be a forum for thoughtful discussion on the most pertinent issues impacting the securitization markets. In November, shortly after the revised FINRA Rule 4210 proposal, SIFMA conducted a webinar to discuss critical aspects of the re-proposal. To close out the year, SIFMA hosted an in person event on GSE credit risk transfers, which included representatives from Fannie Mae, Freddie Mac, FHFA and from buy and sell side firms participated in this informative event. Replays of the events are available. SIFMA offered three FINRA 4210 events in 2016, one of which was complimentary.

Links and Documents:

- **FINRA Rule 4210 TBA Margining Rules Webinar – November 3, 2015**
- **GSE Credit Risk Transfer – December 10, 2015**
- **FINRA 4210 TBA Margining Rules Webinar – February 12, 2016**
- **FINRA 4210 TBA Margining Rules Webinar – June 27, 2016**
- **FINRA 4210 TBA Margining Rules Event – July 27, 2016**

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