sifma®

U.S. SECURITIZATION

FIRST HALF 2017

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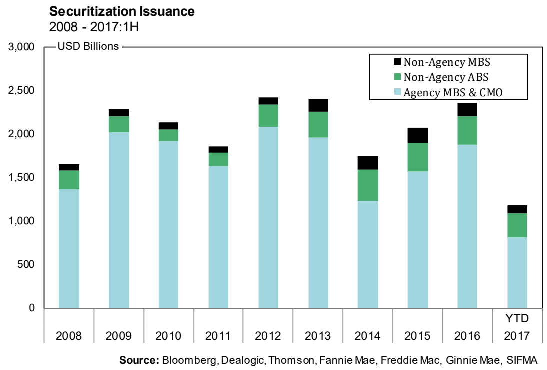
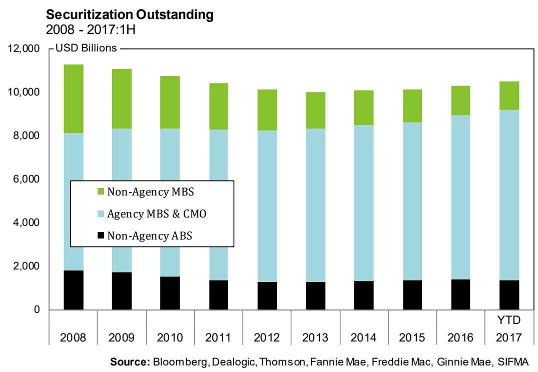
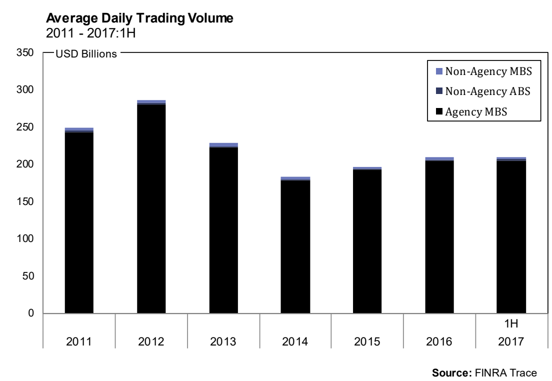
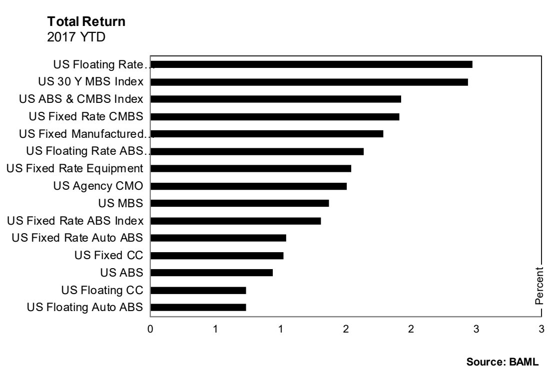
SECURITIZATION OVERVIEW









Issuance and Outstanding

Securitization issuance, including agency and non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS), totaled $1.2 trillion in the first half of 2017, a decline of 13.3 percent from 2H'16 ($1.4 trillion) but an increase of 17.4 percent increase from 1H'16 ($1.0 trillion). The increase was driven by the increase in ABS issuance, particularly CLO refinancings. Non-agency ABS and MBS issuance volumes rose by 91.3 percent and 28.0 percent, respectively, in 1H'17 from 1H'16, while agency volumes for 1H'17 fell 0.2 percent from 1H'16.

Outstanding volume rose slightly to $10.5 trillion, an increase of 2.8 percent y-o-y, driven entirely by agency MBS and CMO volumes, while non-agency outstanding volume fell 2.7 percent y-o-y and 11.0 percent, respectively, for non-agency ABS and MBS.

Average daily trading volume was $209.3 billion in 1H'17, an increase of 0.6 percent y-o-y, with non-agency trading ABS offsetting the decline in non-agency MBS trading volumes. Agency MBS and non-agency ABS volumes rose 0.6 percent and 21.5 percent, respectively, in 1H'17 from 1H'16, while non-agency MBS declined of 9.3 percent.

According to Bank of America-Merrill Lynch indices, ABS and commercial mortgage-backed securities (CMBS) for 1H'17 returned 1.93 percent in total return, 30-year agency MBS returned 2.44 percent, and agency CMO returned 1.50 percent.

In August, T+2 settlement rules came in to effect for a significant chunk of securitizations, affecting approximately $2.59 trillion of the ABS and MBS market.

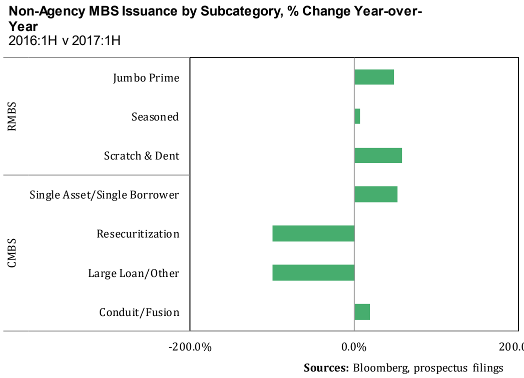
Non-Agency Mortgage-Related Securities

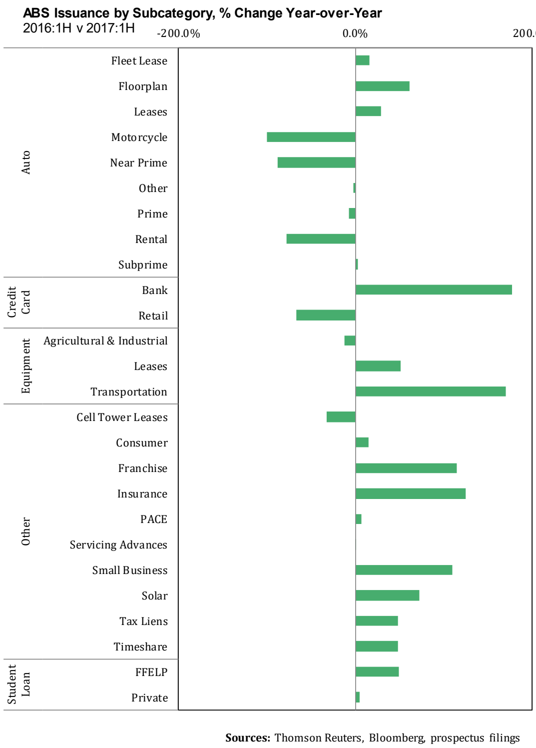
Non-agency mortgage-related issuance totaled $89.5 billion in 1H'17, an increase of 38.2 percent from the prior year, comprised of $36.0 billion of CMBS and $53.5 billion of residential mortgage-backed securities (RMBS). Outstanding volumes totaled $1.3 trillion at the end of June 2017, a decline of 11.0 percent y-o-y, comprised of $489.5 billion of CMBS and $800.2 billion of RMBS. Although year-over-year growth was solid, issuance was impacted heavily by the commodities tumult in the first quarter of 2016 and overall 1H'17 volumes are slightly under 2H'16.

Non-agency CMBS issuance volumes totaled $36.0 billion in 1H'17, an increase of 25.6 percent from 1H'16 but a decline of 19.4 percent from 2H'16. Conduit/fusion and single asset/single borrower deals increased from 1H'16 by 19.2 percent and 52.5 percent, respectively, while large loan CMBS volumes remain a dead market, with no new deals issued in 1H'17.

CMBS outstanding volumes totaled $489.5 billion at the end of June 2017, a decline of 13.6 percent y-o-y driven primarily by paydowns from the 2007 vintages ($83.2 billion).

Non-agency RMBS issuance volume was $53.5 billion in 1H'17, an increase of 53.5 percent from 1H'16 and an increase of 7.9 percent from the second half of 2016. Jumbo prime issuance was up 48.5 percent year-over-year but down 21.2 percent from 2H'16 on the exit of several issuers in late 2016. Non-agency RMBS outstanding volumes were $800.2 billion, a decline of 8.3 percent from





1H'16. Paydowns continue to be concentrated in the 2005 – 2007 vintages (paying, respectively, $24.6 billion, $30.8 billion, and $25.4 billion from the 2005, 2006, and 2007 vintages), as well as the 2015 vintage ($26.4 billion).

Asset Backed Securities

ABS issuance totaled $279.6 billion in 1H'17, an increase of 118.0 percent from 1H'16 and an increase of 44.1 percent from 2H'16. Outstanding volumes shrank by 2.7 percent y-o-y to $1.3 trillion. CLO refinancings drove a significant chunk of issuance volume in late 2016 and 2017.

Auto issuance rose slightly, with a total of $52.5 billion issued in 1H'17, up 33.4 percent from 2H'16 but was a decline of 0.4 percent from 1H'16. Fleet lease, floorplans, leases, and subprime loans saw y-o-y increases - of 15.5 percent, 60.6 percent, 28.6 percent, and 2.7 percent, respectively - while near prime, prime, and rental car securitizations saw declines in y-o-y issuance of 88.0 percent, 7.0 percent, and 78.2 percent, respectively. Motorcycle issuance has seen no new deals since the first half of 2016. Auto ABS outstandings totaled $201.0 billion at the end of June 2017, a modest increase of 1.5 percent y-o-y. Ally Financial and Santander were the biggest issuers in the auto space, issuing 10.4 percent and 10.3 percent in dollar amount, respectively, in 1H'17.

USD-denominated CDO volumes were $144.5 billion in 1H'17, up 60.5 percent from 2H'16 and a fourfold increase from 1H'16 due to a surge in refinancings; two-thirds of CDO issuance by dollar amount were from a refinancing in 1H'17, compared to 42.5 percent in 2H'16 and 1.9 percent in 1H'16.

Credit card issuance totaled $26.8 billion in 1H'17, a 64.8 percent increase from 2H'16 and a 145.0 percent increase from 1H'16. Both American Express and Citigroup, large issuers that had been absent in the credit card space for 2015 and 2016, began issuing again.

Equipment issuance totaled $11.3 billion in 1H'17, an increase of 62.4 percent from 2H'16 and an increase of 42.2 percent from 1H'16. Large ticket transportation deals (aircraft, container, railcar) and equipment leases drove most of the increase in issuance from 1H'16, rising 169.7 percent and 50.4 percent, respectively, from 1H'16 while agricultural and industrial securitizations declined 12.6 percent. Equipment outstandings fell 1.1 percent y-o-y to $50.0 billion, driven mostly on paydowns from 2014 and 2015 vintages ($3.1 billion and $3.7 billion, respectively).

Student loan issuance totaled $7.3 billion in 1H'17, a decline of 29.4 percent from 2H'16 and an increase of 21.1 percent y-o-y. Federal Family Education Loan Program (FFELP) securitization volumes were $4.3 billion in 1H'17, a decline of 21.1 percent from 2H'16 but an increase of 48.5 percent y-o-y. Private student loan securitizations totaled $3.1 billion in 1H'17, a decline of 38.5 percent from 2H'16 but an increase of 4.6 percent from 1H'16; two thirds by dollar amount were from established marketplace lenders. At the end of June 2017, student loan outstandings were $181.7 billion, a decline of 6.5 percent y-o-y.

The "other" category, or esoteric ABS, totaled $37.1 billion in 1H'17, an increase of 19.5 percent from 2H'16 and an increase of 55.4 percent y-o-y, with increases in most subcategories. Consumer/personal loan securitizations continued to show strength in 1H'17 with $5.8 billion issued in 1H'17, an increase of 10.3 and 14.5 percent, respectively, from 2H'16 and 1H'16. Marketplace lender securitizations represented 71.0 percent by dollar amount of all personal loan securitizations, an increase from 44.4 percent in 2H'16 and 45.8 percent in 1H'16. Upstart debuted its first personal loan securitization in June 2017, a deal totaling $163.1 million.

Outside of consumer/personal loan securitizations, most esoteric ABS showed increases in issuance volumes from 1H'16. Franchise securitizations rose by 114.4 percent to $6.0 billion. Insurance also rose by 124.6 percent to $9.2 billion and timeshare volumes rose 48.2 percent to $1.4 million. Servicing advance securitizations totaled $3.5 billion in 2016, a decline of 36.0 percent from the prior year. Small business securitizations also fell, with $0.3 billion issued, a decline of 61.6 percent from the prior year; marketplace lender OnDeck continued to issue in that sector in 2016, however. "Green" finance securitizations also showed growth from 1H'16, with $0.5 billion of both

PACE (Property Assessed Clean Energy) securitizations (a 7.0 percent increase) and solar securitizations (an increase of 72.4 percent) in 1H'17.

"Other ABS" outstanding volumes were $164.2 billion at the end of June 2017, an increase of 11.0 percent y-o-y.

CHARTS & DATA

ISSUANCE

$ Billions

Asset Backed Securities, Issuance

	2013	2014	2015	2016	2017 YTD
Auto	88.1	99.5	98.4	92.0	52.5
Fleet Lease	3.1	3.9	2.9	5.2	4.2
Floorplan	8.3	10.2	9.2	7.7	6.0
Leases	13.3	17.1	18.0	13.9	10.5
Near Prime	4.3	3.6	6.8	3.5	0.2
Prime	36.0	42.3	34.7	36.4	18.0
Subprime	19.5	19.9	22.3	22.3	13.0
CDO	95.0	127.5	112.3	116.5	144.5
Refi	0.0	0.0	0.4	38.8	96.3
Credit Cards	36.9	51.4	25.0	27.2	26.8
Equipment	19.4	20.3	17.7	14.9	11.3
Floorplan	0.9	1.4	0.8	1.2	
Leases	5.2	5.0	5.1	5.0	4.7
Transportation	7.7	7.3	5.9	4.0	4.5
Other	42.0	41.5	61.4	55.1	37.1
Consumer	3.6	6.0	7.9	10.3	5.4
Franchise	1.2	1.6	7.2	2.8	5.9
PACE			0.2	1.6	0.5
Servicing Advances	5.3	2.5	5.5	3.5	0.8
Solar	0.1	0.5	0.6	0.3	0.5
Structured Settlement	0.6	0.7	0.8	0.1	0.4
Timeshare	2.4	2.8	2.4	2.6	1.4
Student Loans	22.7	15.7	14.2	16.4	7.3
FFELP	19.0	12.9	7.2	8.3	4.3
Private	3.0	2.8	6.6	7.9	3.0

Asset Backed Securities, Issuance by Rating (2017 YTD)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	38.6	2.9	2.6	2.4	6.0	52.5
Fleet Lease	3.4	0.0	0.0	0.0	0.7	4.2
Floorplan	5.8	0.1	0.1	0.0		6.0
Leases	9.1	0.2	0.1		1.0	10.5
Near Prime					0.2	0.2
Prime	14.7	0.3	0.3	0.1	2.6	18.0
Subprime	5.1	2.2	2.1	2.2	1.5	13.0
CDO	93.0	16.9	9.3	8.3	17.0	144.5
Refi	68.9	12.9	7.1	4.5	2.9	96.3
Credit Cards	26.5	0.1	0.1		0.1	26.8
Equipment	3.5	0.1	4.1	0.6	3.0	11.3
Floorplan						0.0
Leases	2.9	0.1	0.6	0.1	1.0	4.7
Transportation			3.2	0.5	0.8	4.5
Other	3.4	1.9	2.1	5.8	24.0	37.1
Consumer		1.4	0.4	0.4	3.6	5.8
Franchise				4.3	1.7	5.9
PACE					0.5	0.5
Servicing Advances	0.3	0.0	0.0	0.1		0.4
Solar					0.5	0.5
Structured Settlement	0.1			0.0	0.2	0.4
Timeshare		0.3	0.6	0.2	0.2	1.4
Student Loans	3.9	2.6	0.3	0.1	0.5	7.3
FFELP	1.5	2.4		0.0	0.4	4.3
Private	2.4	0.2	0.3	0.1	0.1	3.0

Mortgage Backed Securities, Issuance

	2013	2014	2015	2016	2017 YTD
CMBS	79.2	83.4	96.4	73.2	36.0
Conduit/Fusion	48.4	43.1	57.3	43.8	20.0
Large Loan	1.5	6.6	10.3	1.8	
Single Asset/Single Borrower	24.7	23.3	24.1	21.2	12.9
Resecuritization	2.2	2.0	0.9	2.1	
RMBS	48.0	77.6	94.5	85.7	53.5
Jumbo Prime	12.9	8.8	12.7	10.4	5.4
Scratch & Dent	9.5	30.1	39.5	28.5	20.5
Seasoned	5.0	4.2	3.2	11.5	7.0
Single Family Rental	0.5	6.5	6.6	4.8	1.4
Subprime/Nonprime		0.1	0.4	1.2	2.6
Resecuritization	15.4	16.2	17.0	9.7	6.6
Agency (ex. CMO)	1,642.7	1,000.7	1,360.7	1,607.2	668.3
FNMA	764.5	407.7	516.4	637.8	279.4
FHLMC	460.8	279.5	390.0	443.2	159.7
GNMA	417.4	313.5	454.3	526.2	229.1

Mortgage Backed Securities, Issuance by Rating (2017 YTD)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	21.9	3.8	2.3	4.0	4.0	36.0
Conduit/Fusion	14.8	2.1	1.0	0.6	1.4	20.0
Large Loan						0.0
Single Asset/Single Borrower	6.1	1.7	1.1	3.3	0.7	12.9
Resecuritization						0.0
RMBS	9.6	0.9	1.7	7.8	33.5	53.5
Jumbo Prime	3.4	0.3	0.1	0.1	1.5	5.4
Scratch & Dent	2.6	0.2	0.3	0.5	16.8	20.5
Seasoned	2.2	0.2	0.1	0.3	4.2	7.0
Single Family Rental	0.2	0.0	0.0	0.0	1.2	1.4
Subprime/Nonprime	0.7	0.1	0.2	0.1	1.5	2.6
Resecuritization			1.0	0.3	5.2	6.6
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

	2013	2014	2015	2016	2017 YTD
Auto	161.1	179.8	190.5	195.5	201.0
Fleet Lease	5.1	6.5	6.8	8.6	10.0
Floorplan	30.3	30.6	31.2	31.4	32.3
Leases	20.4	23.5	24.6	22.5	26.2
Near Prime	2.7	6.2	9.8	7.5	5.2
Prime	61.6	68.2	67.9	71.4	70.3
Subprime	29.6	33.8	38.3	41.0	43.8
CDO	596.5	630.6	659.2	668.0	607.2
Refi					
Credit Cards	124.5	136.5	128.6	130.5	133.1
Equipment	48.3	53.1	51.9	50.8	50.0
Floorplan	4.3	5.2	3.9	3.0	2.2
Leases	8.5	8.9	8.2	7.9	9.6
Transportation	25.9	27.9	29.4	30.2	29.4
Other	117.1	124.9	142.7	153.6	164.2
Consumer	3.2	6.7	13.8	17.2	19.9
Franchise	4.0	5.3	11.8	14.0	16.3
PACE	0.0	0.2	0.8	3.2	3.4
Servicing Advances	6.4	6.0	5.9	5.5	5.1
Solar	0.1	0.3	0.5	0.8	1.3
Structured Settlement	3.2	3.6	3.9	3.7	3.9
Timeshare	4.6	5.3	5.4	5.5	5.7
Student Loans	230.0	218.1	201.8	188.6	181.7
FFELP	187.9	177.7	160.4	147.6	141.6
Private	37.2	35.9	37.1	37.1	36.5

Asset Backed Securities, Outstanding by Rating (2017 YTD)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	151.1	13.3	15.2	10.7	10.7	201.0
Fleet Lease	8.9	0.1	0.2	0.1	0.7	10.0
Floorplan	28.2	0.6	0.9	0.3	2.4	32.3
Leases	22.5	0.8	0.5	0.2	2.2	26.2
Near Prime	3.6	0.5	0.5	0.3	0.4	5.2
Prime	62.5	2.6	1.4	0.7	3.1	70.3
Subprime	16.8	8.5	8.6	8.5	1.5	43.9
CDO	233.3	47.8	33.7	170.5	122.0	607.3
Refi						
Credit Cards	127.2	1.1	1.9	1.4	1.5	133.1
Equipment	15.9	1.7	18.5	6.9	7.0	50.0
Floorplan	2.0		0.0	0.1	0.1	2.2
Leases	6.8	0.6	0.6	0.3	1.3	9.6
Transportation		0.9	17.5	6.3	4.8	29.4
Other	21.9	2.5	14.9	36.1	88.7	164.2
Consumer		0.5	5.6	3.3	10.6	19.9
Franchise		0.2		14.8	1.4	16.3
PACE					3.4	3.4
Servicing Advances	3.0	0.2	0.1	0.4	1.4	5.1
Solar				0.4	0.8	1.3
Structured Settlement	2.7	0.2	0.3	0.2	0.5	3.9
Timeshare		0.5	3.6	0.8	0.9	5.7
Student Loans	62.9	58.4	18.6	31.0	10.8	181.7
FFELP	49.5	52.5	12.3	21.1	6.3	141.6
Private	13.3	5.6	5.9	8.9	2.7	36.5

Mortgage Backed Securities, Outstanding

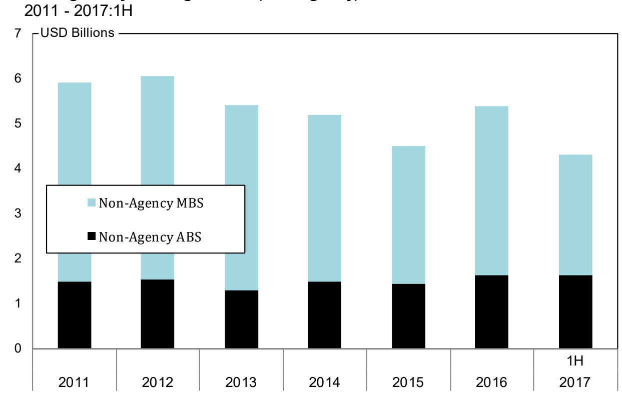
	2013	2014	2015	2016	2017 YTD
CMBS	626.0	627.2	601.8	529.1	489.5
Conduit/Fusion	524.7	507.6	457.7	382.3	343.1
Large Loan	13.8	13.1	19.9	18.5	16.4
Single Asset/Single Borrower	48.4	65.4	85.4	92.2	96.9
Resecuritization	22.5	20.1	16.6	12.4	8.5
RMBS	1,076.0	992.7	923.4	847.1	800.2
Jumbo Prime	151.9	133.2	116.9	100.8	94.9
Scratch & Dent	30.5	43.0	65.9	70.2	64.6
Seasoned	27.1	24.7	20.4	27.4	28.4
Single Family Rental	0.5	7.2	14.1	17.5	15.4
Subprime/Nonprime	299.4	271.5	242.2	215.5	205.3
Resecuritization	89.1	88.8	90.3	80.1	75.9
Agency (ex. CMO)	5,905.6	6,008.4	6,217.1	6,529.9	6,860.0
FNMA	2,803.8	2,803.6	2,823.0	2,913.9	3,168.0
FHLMC	1,621.7	1,663.2	1,751.0	1,849.2	1,849.2
GNMA	1,480.1	1,541.6	1,643.0	1,766.8	1,842.8

Mortgage Backed Securities, Outstanding by Rating (2017 YTD)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	264.3	42.2	31.4	98.6	52.8	489.5
Conduit/Fusion	208.5	28.1	16.6	66.0	23.9	343.1
Large Loan	7.3	1.6	1.1	4.9	1.6	16.4
Single Asset/Single Borrower	44.4	11.8	9.2	22.2	9.3	96.9
Resecuritization	0.8	0.1	0.2	1.2	6.2	8.5
RMBS	55.5	13.6	21.5	523.0	186.6	800.2
Jumbo Prime	29.4	1.9	1.7	52.5	9.3	94.8
Scratch & Dent	7.0	1.3	2.0	11.1	43.3	64.6
Seasoned	7.9	4.5	0.5	0.9	14.7	28.4
Single Family Rental	7.2	1.2	1.2	0.9	4.8	15.4
Subprime/Nonprime	1.2	1.5	5.8	186.6	10.2	205.3
Resecuritization	0.6	0.4	1.4	9.9	63.5	75.9
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

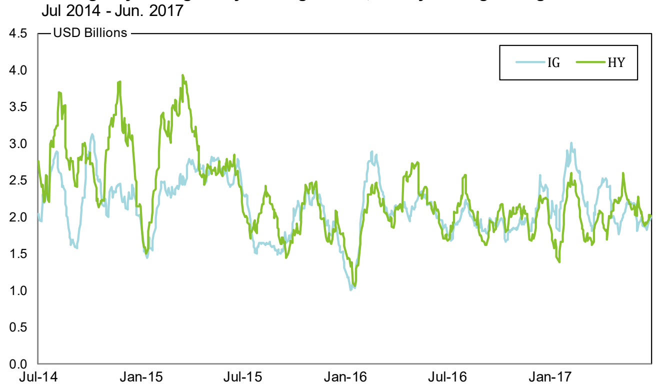
TRADING VOLUME

Average Daily Trading Volume (Non-Agency)
2011 - 2017:1H



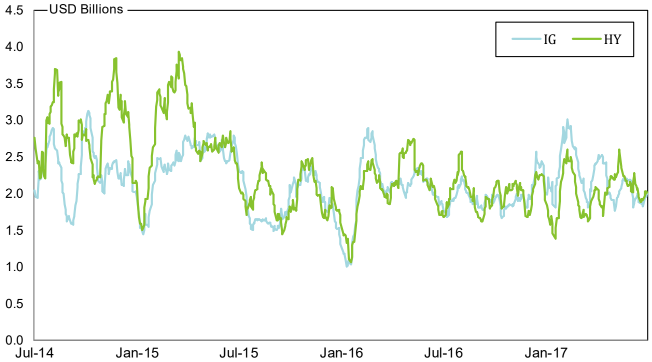
Source: FINRA Trace

Non-Agency Average Daily Trading Volume, 20 Day Moving Average
Jul 2014 - Jun. 2017



Source: FINRA Trace

Non-Agency Average Daily Trading Volume, 20 Day Moving Average
Jul 2014 - Jun. 2017



Source: FINRA Trace

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UPDATE ON KEY POLICY ISSUES

TREASURY REPORT ON FINANCIAL REGULATION

Summary of Issue: On February 3, 2017, President Trump issued Executive Order 13772, which outlined the following Core Principles for regulating the U.S. financial system: (a) Empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth; (b) Prevent taxpayer-funded bailouts; (c) Foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry; (d) Enable American companies to be competitive with foreign firms in domestic and foreign markets; (e) Advance American interests in international financial regulatory negotiations and meetings; (f) Make regulation efficient, effective, and appropriately tailored; and (g) Restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework. It also directed the Secretary of the Treasury to consult with the heads of the member agencies of the FSOC and report to the President within 120 days (and periodically thereafter) on the extent to which existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements, and other Government policies promote the Core Principles.

On June 12, 2017, the U.S. Department of the Treasury issued its first in a series of reports to President Donald J. Trump examining the United States' financial regulatory system and detailing executive actions and regulatory changes that could be immediately undertaken, focused on banks and credit unions.

On October 6, 2017, the Treasury released a second paper focused on capital markets, including a chapter on securitization.

SIFMA Advocacy: On May 1, 2017 SIFMA provided a White Paper to the U.S. Department of the Treasury as it developed its report in response to President Trump's Executive Order on Core Principles for Regulating the United States Financial System. Securitization was one section of the White Paper. The Securitization section was comprised of the following sections: Capital and Liquidity Rules for Securitizations, Regulation AB II, Credit Risk Retention, Derivatives: Margin Requirements for Securitizations, Qualified Mortgage Standards, Volcker Rule: Application to Securitization, and TRID.

On August 10, 2017 SIFMA submitted a second paper to Treasury focused on capital markets issues, including a chapter on securitization. Our discussion focused on Capital and Liquidity Rules for Securitizations, Regulation AB II, Credit Risk Retention, Derivatives: Margin Requirements for Securitizations, and the Volcker Rule: Application to Securitization.

Commentary on the topics can be found below:

Capital and Liquidity Rules: The capital and liquidity rules that have been adopted or proposed for securitization positions and their eligibility for HQLA status are a strong example of how regulations can lead to negative effects on lending, jobs, economic growth and competitiveness. Capital requirements are increasingly risk-insensitive while both capital and liquidity requirements are excessively conservative and do not adequately consider the effects on financial market activity.

Reg AB II: Regulation AB II is overly burdensome and has effectively shut down registered markets for non-agency residential mortgage-backed securities and has significantly curtailed registered issuance for smaller or more infrequent asset-backed securities issuers.

Credit Risk Retention: The credit risk retention rules are very lengthy, detailed, and complex yet fail to adequately reflect important characteristics of the different kinds of securitization transactions that finance distinct asset classes, such as mortgage loans, auto loans, and commercial loans. The rules are overly prescriptive regarding the manner in which the required retention must be held and for many asset classes require that the retention be held well beyond the period in which weak underwriting, or other similar moral hazard, would be expected to become evident.

Derivatives Margin Requirements for Securitizations: Many securitization transactions employ swaps to match or hedge the cash flows that arise from the assets that collateralize the transaction to those which are required to be paid to investors in the liabilities issued by the transaction. As a practical matter, special purpose entities will find it difficult if not impossible to comply with the margin and clearing requirements as implemented and will either have to forego derivatives and their risk mitigating benefits or find a way to comply which will not be efficient for the transaction.

Volcker: The compliance burden for banking organizations that hold or trade securitization transactions is significant, with no or few corresponding benefits. This misapplied rule has had a deleterious impact on the securitization markets and has required some types of securitization transactions to be restructured to avoid its burdens.

Treasury's October report addressed each of these issues (except the Volcker rule, which was covered in their first paper), generally in a manner aligned with SIFMA's recommendations.

Links and Documents:

- **SIFMA White Paper – August 2017**
- **SIFMA White Paper – May 2017**
- **Second Report On The Administration's Core Principles Of Financial Regulation – October 2017**
- **First Report on Core Principles of Financial Regulation – June 2016**
- **Presidential Executive Order on Core Principles for Regulating the United States Financial System – February 2017**

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.

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.

In June 2017, FHFA issued a Credit Risk Transfer Progress Report updating the status and volume of credit risk transfer transactions through the first quarter of 2017.

SIFMA Advocacy: In previous advocacy on CRT, SIFMA 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.

In October 2016, SIFMA submitted two comment letters to FHFA. See below:

- The first is SIFMA's main letter, which was joined by the Association of Mortgage Investors and the National Association of Real Estate Investment Trusts. This letter focuses on a few key issues – that FHFA not pick a winner among the various forms of CRT, that FHFA allow the market to continue to grow and experiment, and that we believe there will be a continuing important role for back end CRT such as STACR and CAS. The letter also explores in some detail regulatory barriers to broader participation of mortgage REITs in these markets, and other obstacles to broader liquidity.
- The second letter SIFMA drafted was joined by the ABA, AMI, HPC, MBA, and SFIG. This letter expresses the core shared views of the industry associations, namely that (1) FHFA not pick a winner among the various forms of CRT, (2) that FHFA work to ensure a level playing field, and (3) that improvements should be made to transparency of CRT and its economics.

Links and Documents:

- **FHFA CRT Progress Report – June 2017**
- **SIFMA and Other Associations Submitted Comments to the FHFA on Credit Risk Transfer RFI – October 2016**
- **SIFMA and Other Associations Submitted Comments to the FHFA on FHFA Front End CRT RFI – October 2016**
- **SIFMA Submits Comments to Congress on CRT – December 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 (COMPLETE): In 2016, implement the Common Securitization Platform (CSP) for Freddie Mac's existing single class securities;

Release 2: In the second quarter of 2019, implement the Single Security on the CSP for both Fannie Mae and Freddie Mac.

In March 2017, FHFA released An Update on Implementation of the Single Security and the Common Securitization Platform. The released confirmed that Release 1 has been implemented. The paper also stated that FHFA plans implementation of Release 2 and the introduction of the Single Security during the second quarter of 2019.

SIFMA Advocacy: SIFMA continues to be the leading voice in the discussion of a single security. SIFMA continues to hold 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 and 2017 scorecards showed promise in this regard.

We expect to be extremely active on this topic throughout 2017 and 2018 as focus shifts from concept to implementation.

Links and Documents

- **An Update on Implementation of the Single Security and the Common Securitization Platform – March 2017**
- **FHFA's 2017 Scorecard for the GSEs – December, 2016**
- **SIFMA Submits Comment to FHFA on the Structure of the Single Security – August 2015**

REGULATION AB

Sample Asset Level Data (ALD) Due Diligence Topics for Underwriters in ABS Offerings

Summary of Issue: In April 2010, the SEC published a rule proposal to revise Regulation AB and other securities rules (Reg AB II) in order to address the offering process, disclosure and reporting for asset-backed securities (ABS). Reg AB II includes new and revised rules governing the disclosure, reporting, and offering process for asset-backed securities intended to enhance transparency, better protect investors, and facilitate capital formation in the securitization market.

SIFMA Advocacy: In February 2017, SIFMA published a document that is intended to be used by dealers acting as underwriters as part of their efforts to undertake a reasonable investigation to determine if there are any material misstatements contained in a registration statement or prospectus as it relates to the ALD. These are potential topics of focus, and the actual topics of focus should be narrowed or expanded based on the circumstances of the transaction and asset class.

Links and Documents:

Sample Asset Level Data (ALD) Due Diligence Topics for Underwriters in ABS Offerings – February 2017

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 in December 2016 for other ABS.

SIFMA Advocacy: In late 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.

In January 2017, SIFMA published the "Sample Risk Retention Due Diligence Discussion Topics for Underwriters, Initial Purchasers and Placement Agents in ABS Offerings". The paper covers suggested topics for underwriter due diligence efforts related to risk retention rules for asset-backed securities.

In August 2017, SIFMA published "Sample Risk Retention 'Majority-Owned Affiliate' Due Diligence Discussion Topics for Underwriters, Initial Purchasers and Placement Agents in ABS Offerings". The sample discussion topics are intended to help guide dealers acting as underwriters, initial purchasers and placement agents in their efforts to undertake a reasonable investigation to determine if there are any material misrepresentations or omissions contained in a registration statement, prospectus or offering memorandum.

Links and Documents:

- **Sample Risk Retention "Majority-Owned Affiliate" Due Diligence Discussion Topics for Underwriters, Initial Purchasers and Placement Agents in ABS Offerings – August 2017**
- **Sample Risk Retention Due Diligence Discussion Topics for Underwriters, Initial Purchasers and Placement Agents in ABS Offerings – January 2017**

FINRA

FINRA's Margin Requirements for TBA/Agency MBS 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. 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 was December 2016, and margin collection was initially required to begin December 2017.

SIFMA Advocacy: Now that final rules have been published, SIFMA is focused on helping members implement the new rules. This includes transitional guidance, documentation, a compliance date delay request, and review of the form of the MSFTA.

In March 2017, SIFMA published '2017 Amendment to 2012 Master Securities Forward Transaction Agreement" to facilitate compliance with FINRA Rule 4210.

In June 2017, SIFMA submitted a request for an implementation delay for FINRA Rule 4210. In the letter, SIFMA noted the need to resolve the remaining open questions before member organizations can build the required operational and technology infrastructure and begin client outreach for documentation to implement the TBA amendments.

In July 2017, SIFMA and SIFMA AMG participated at FINRA roundtables on the topic of 4210. SIFMA has sent several questions to FINRA for interpretive guidance regarding implementation of 4210.

In September 2017, FINRA released FAQs pertaining to FINRA Rule 4210 and delayed the effectiveness of the rule until June 28, 2018. FINRA's FAQ responds to SIFMA's submitted questions.

Links and Documents:

- FINRA Rule 4210 FAQs **– September 2017**
- Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Delay the Implementation Date of Certain Amendments to FINRA Rule 4210 Approved Pursuant to SR-FINRA-2015-036 **– September 2017**
- 2017 Amendment to 2012 Master Securities Forward Transaction Agreement **– February 2017**
- 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 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 2016**
- SIFMA Submits Comments to the SEC Proposal to Amend FINRA Rule 4210 to Establish Margin Requirements for Transactions in the TBA Market **– February 2016**
- SIFMA AMG Submits Comments to the SEC on FINRA Rule 4210 Regarding Margin Requirements for TBAs/Agency MBS **– November 2015**
- SIFMA Submits Comments to the SEC on FINRA rule 4210 regarding Margin Requirements for TBAs/Agency MBS **– November 2015**
- SIFMA Submits Comments to FINRA on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market **– March 2014**

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 July 11, 2016 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.

In July 2017, The Basel Committee on Banking Supervision released the consultative document Capital treatment for simple, transparent and comparable short-term securitisations. The Committee's proposed capital treatment supplements the consultative document Criteria for identifying simple, transparent and comparable short-term securitisations issued jointly with the International Organization of Securities Commissions (IOSCO).

The consultative document sets out additional guidance and requirements for the purpose of applying preferential regulatory capital treatment for banks acting as investors in or as sponsors of simple, transparent and comparable (STC) short-term securitisations, typically in asset-backed commercial paper (ABCP) structures. The additional guidance and requirements include that:

- Investors have access to key monthly information on the performance and key characteristics of the ABCP structure;
- The redemption risk of the underlying assets is addressed from the sponsor's perspective; and
- The transactions funded by the conduit have an enforceable legal structure and that the relevant information is disclosed by the sponsor to investors.

<u>SIFMA Advocacy</u> – SIFMA, through GFMA, responded to this proposal jointly with the IIF, ICMA, and Australian Securitisation Forum. The response had suggested revisions to the proposals made in the Capital CD that would ensure the safe, effective, and efficient operation of the markets for short-term securitizations. The recommendations seek to minimize the difficulties that the industry would face if various jurisdictions apply different risk based capital (RBC) standards to the same transaction, resulting in different capital treatments for the same transaction across jurisdictions.

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:

- **GFMA, IIF, ICMA and Australian Securitsation Forum Submit Comments to the Basel Committee and IOSCO on STC Criteria for Short-term Securitisations – October 2017**
- **Revised Securitisation Framework with Capital Treatment for "Simple, Transparent and Comparable" Securitisations – July 2016**
- **Basel 343 – Implementation of STC in the Securitization Framework - November 2015**

- European Commission Proposal – November 2015
- GFMA with Several Other Associations Submit Response to BCBS-IOSCO Consultation on Simple, Transparent, and Comparable Securitisations – February 2015
- Final Criteria for Identifying Simple, Transparent and Comparable Securitisations - July 2015
- Criteria for Identifying Simple, Transparent and Comparable Securitisations – December 2014

MARKETPLACE LENDING / FINTECH ISSUES

OCC Proposal on Fintech Bank Charters

Summary of issue: In late 2016 the OCC published a white paper entitled Exploring Special Purpose National Bank Charters for Fintech Companies. The White Paper discusses innovation in the financial services industry and announces the OCC's initiative to offer special purpose national bank (SPNB) charters to eligible financial technology (FinTech) companies.

SIFMA Advocacy: In January 2017, SIFMA along with the Clearing House Association L.L.C., and the Independent Community Bankers of America, provided comment on the white paper published by the Office of the Comptroller of the Currency (OCC). At the time of publication, SIFMA was also in the process of responding to a Basel Committee Consultation on banking and fintech (through our global affiliate GFMA).

Links and Documents:

- SIFMA with Other Associations Submits Comments to the OCC Regarding White Paper on Exploring Special Purpose National Bank Charters for Fintech Companies – January 2017
- SIFMA Submits Comments to Treasury on Marketplace Lending – September 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 April, SIFMA hosted a Securitization Spotlight Session on FINRA Rule 4210 Implementation. The event reviewed how critical aspects of the rule are affecting business almost a year into the implementation process. During the program, industry speakers discussed their successes and struggles, including those related to risk limits, revision of documentation and internal systems builds. In October,, SIFMA hosted a complimentary Securitization Spotlight Session on the Single Security. The webinar featured speakers from FHFA and the Enterprises who discussed the latest with the Single Security initiative.

Links and Documents:

- FINRA 4210 Implementation Event – April 2017
- Single Security Webinar – October 2017

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