2011 UNC Banking Institute
The Future of Securitization

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Structured Finance Overview

March 2011

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Key Takeaways from February 2011 Issuance

For 2011 February month-end, over $17B in ABS issuance has been offered to the market through 26 deals

- Issuance volume remains steady compared to 2010 and is flat year over year
- The ASF Conference in early February teed up a flurry of issuance that was generally well received by investors
- The majority of the volume year-to-date was in the auto sector and spanned prime, subprime and dealer floorplan issuances
- Captive finance companies have increasingly represented a greater portion of ABS volume as banks rely more on deposits to fund their consumer lending businesses
- Mercedes-Benz issued their inaugural auto lease ABS issuance from their newly created MBALT platform
- Investors continue to search for yield with strong demand for esoteric/off-the-run transactions and subordinate paper

### ABS Market Update

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles</td>
<td>$75.6</td>
<td>$38.0</td>
<td>$60.3</td>
<td>$59.4</td>
<td>$11.8</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>$95.7</td>
<td>$63.4</td>
<td>$75.9</td>
<td>$6.6</td>
<td>$1.7</td>
</tr>
<tr>
<td>Equipment</td>
<td>$6.9</td>
<td>$2.7</td>
<td>$9.0</td>
<td>$7.8</td>
<td>$1.6</td>
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<tr>
<td>Student Loans</td>
<td>$62.7</td>
<td>$28.9</td>
<td>$23.6</td>
<td>$17.4</td>
<td>$1.4</td>
</tr>
<tr>
<td>Other</td>
<td>$21.3</td>
<td>$2.0</td>
<td>$10.5</td>
<td>$11.3</td>
<td>$1.1</td>
</tr>
</tbody>
</table>

| Total        | $262.2      | $134.9      | $179.3      | $102.4      | $17.6          |

2011 Proj. Volume: $320.0

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- Mercedes-Benz issued their inaugural auto lease ABS issuance from their newly created MBALT platform
- Investors continue to search for yield with strong demand for esoteric/off-the-run transactions and subordinate paper
Spreads Continue to Hover ~30bps Wider than 2006 Levels
Decreased credit card issuance is expected to continue throughout 2011 due to recent regulatory changes.

Data as of February 28, 2011. (1) Source: BofA Merrill Lynch
RMBS Market Update
RMBS Market Update
Overview

- Macroeconomic environment continues to remain stressed, with indicators giving mixed signals
  - Home prices continue to decline
  - Initial unemployment claims starting to improve
  - Consumer confidence still fragile

- Total consumer debt continues to decrease across asset classes
  - Driven by continued delevering by consumers

- Challenging environment for mortgage companies
  - Origination volumes continue to decline with conforming loans representing 91% of total YTD 2010 originations
  - Follow-on impact to servicing balances

- Continued uncertainty regarding GSE reform and regulatory oversight
  - Foreclosure crisis likely to drive additional scrutiny and pressure for mortgage servicers

Source: BofA Merrill Lynch
RMBS Market Update

Historical Non-Agency Prices

Annual Non-Agency Issuance

Source: BofA Merrill Lynch
RMBS Market Update
Historical Mortgage Origination Volume and Rates

Mortgage Originations Continue to Decline as Demand for Refinancing Falts

Spread (bps)
Current 82
Average 49

Purchase Originations  Refi. Originations  30-Year Conforming Mortgage Rate  Freddie Mac MBS Rate

Source: BofA Merrill Lynch
Industry Sub-Prime Originations Still Near Zero

<table>
<thead>
<tr>
<th>Year</th>
<th>Prime</th>
<th>Sub-Prime</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$2,055</td>
<td>$2,055</td>
</tr>
<tr>
<td>2002</td>
<td>$2,685</td>
<td>$2,685</td>
</tr>
<tr>
<td>2003</td>
<td>$3,635</td>
<td>$3,635</td>
</tr>
<tr>
<td>2004</td>
<td>$2,390</td>
<td>$2,390</td>
</tr>
<tr>
<td>2005</td>
<td>$2,495</td>
<td>$2,495</td>
</tr>
<tr>
<td>2006</td>
<td>$2,380</td>
<td>$2,380</td>
</tr>
<tr>
<td>2007</td>
<td>$2,240</td>
<td>$2,240</td>
</tr>
<tr>
<td>2008</td>
<td>$1,477</td>
<td>$1,477</td>
</tr>
<tr>
<td>2009</td>
<td>$1,811</td>
<td>$1,811</td>
</tr>
<tr>
<td>H1’10</td>
<td>$658</td>
<td>$658</td>
</tr>
</tbody>
</table>

Y-o-Y Change

<table>
<thead>
<tr>
<th>Prime</th>
<th>--</th>
<th>30.7%</th>
<th>35.4%</th>
<th>(34.3%)</th>
<th>4.4%</th>
<th>(4.6%)</th>
<th>(5.9%)</th>
<th>(34.7%)</th>
<th>22.6%</th>
<th>(34.3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Prime</td>
<td>--</td>
<td>25.0%</td>
<td>55.0%</td>
<td>71.0%</td>
<td>17.9%</td>
<td>(4.0%)</td>
<td>(68.2%)</td>
<td>(87.9%)</td>
<td>(82.6%)</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: BofA Merrill Lynch
RMBS Market Update
Jumbo Product Starting to Grow & Could Be a Bright Spot

Jumbo Production ($B)

Top 10 Non-Agency Jumbo Originators 1H 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Volume ($bn)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank of America Home Loans</td>
<td>$6.7</td>
<td>20.2%</td>
</tr>
<tr>
<td>2</td>
<td>Wells Fargo &amp; Company</td>
<td>5.7</td>
<td>17.3</td>
</tr>
<tr>
<td>3</td>
<td>Chase</td>
<td>3.2</td>
<td>9.7</td>
</tr>
<tr>
<td>4</td>
<td>PHH Mortgage</td>
<td>3.2</td>
<td>9.6</td>
</tr>
<tr>
<td>5</td>
<td>Citi</td>
<td>2.1</td>
<td>6.4</td>
</tr>
<tr>
<td>6</td>
<td>SunTrust Mortgage</td>
<td>1.9</td>
<td>5.8</td>
</tr>
<tr>
<td>7</td>
<td>ING Bank</td>
<td>1.8</td>
<td>5.3</td>
</tr>
<tr>
<td>8</td>
<td>US Bank Home Mortgage</td>
<td>1.4</td>
<td>4.2</td>
</tr>
<tr>
<td>9</td>
<td>Flagstar Bank</td>
<td>0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>10</td>
<td>Sovereign Bank</td>
<td>0.8</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td><strong>Total Top 10</strong></td>
<td><strong>$27.5</strong></td>
<td><strong>83.4%</strong></td>
</tr>
<tr>
<td></td>
<td>Rest of Market</td>
<td>5.5</td>
<td>16.6</td>
</tr>
<tr>
<td></td>
<td><strong>Total Non-Agency Jumbo</strong></td>
<td><strong>$33.0</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: BofA Merrill Lynch
CMBS Market Update
CMBS Market Update

**Generic CMBS Spreads to LIBOR**

**CMBS Issuance Volume**

Source: BofA Merrill Lynch
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2011 UNC Banking Institute

“Alchemy of Securitization Policy Reforms”

Tom Deutsch
Executive Director
American Securitization Forum

Thursday, March 31, 2011
Key Securitization Policy Reform Initiatives

- GSE Reforms
- Mortgage Servicing, AG Settlements, HAMP, etc.
- FAS 166/167 & Risk Based Capital Rules
- Implementation of Dodd-Frank Act including:
  - Risk Retention, including definition of ‘Qualified Residential Mortgage’ (QRM)-March 29 FDIC Board Meeting
  - April 14, 2011 HFSC Hearing
  - Loan-level data requirements—Reg AB II
  - Conflict of Interest Provisions
  - Due Diligence Requirements
  - Reps and Warranties/Repurchases
- Covered Bonds Legislation
- Basel III
- ANPR re Alternatives to NRSRO Ratings in Regulatory Capital Rules
- NRSRO Expert Liability (Repeal of Rule 436(g))
- SEC’s Regulation AB II Proposals
- FDIC Final Securitization Safe Harbor Rules
- FDIC Orderly Liquidation Authority (OLA) Powers
The Future of Securitization

Proposed Regulation AB Enhancements

Adopted Exchange Act/Dodd-Frank/Reg AB Examples

March 31, 2011
Proposed Regulation AB Enhancements

PROPOSED REGULATION AB ENHANCEMENTS
Proposed Regulation AB Enhancements

- Offering Process Changes
- New Disclosure Requirements
- Additional Ongoing Reporting Requirements
- Private Offering Safe Harbor Revisions
Proposed Regulation AB Enhancements

Offering Process Changes

• New Shelf Eligibility Criteria
  • 5% Risk Retention
  • Depositor CEO Certification
  • Repurchase Obligations Opinions
  • Perpetual Reporting
• Preliminary Prospectuses Required; Delivery Deadline and Waiting Period
• New Forms; Unified Disclosure Document
Proposed Regulation AB Enhancements

New Disclosure Requirements

• Waterfall Computer Program

• Specified Asset-Level Disclosure
Proposed Regulation AB Enhancements

Ongoing Reporting Requirements

• No More “De-Listing”

• Ongoing Asset Performance Information

• Ongoing Certifications
Proposed Regulation AB Enhancements

Private Offering Safe Harbor Revisions

• 144A and Reg. D

• Enhanced Information Requirements

• “Structured Finance Products”

• Form 144A-SF
ADOPTED
EXCHANGE ACT/DODD-FRANK/REG AB
EXAMPLES

Rating Agency Information
Representations and Warranties
Diligence and Disclosure
Rating Agency Information
Rating Agency Information

Rule 17g-5

• Arranger
• Password Protected Website
• Initial Credit Rating and Ongoing Surveillance
Rating Agency Information

Dodd-Frank Subtitle C

- Internal Controls
- Conflicts of Interest
- SEC Oversight
- Transparency (basis, methodology)
- Private Right of Action
- Rescission of Rule 436(g)
Rating Agency Information

Practical Concerns

• Increased Liability Concerns
• Highly Structured Communications
Representations and Warranties
Representations and Warranties

Dodd-Frank 943(1)

NRSRO must include a description in any ratings report,

(A) the representations, warranties and enforcement mechanisms available to investors, and

(B) how they differ from issuances of similar securities.
Representations and Warranties

Dodd-Frank 943(2)

Any securitizer must disclose fulfilled and unfulfilled repurchase requests across all trusts aggregated by the securitizer, so that investors may identify asset originators with clear underwriting deficiencies.
Representations and Warranties

Rule 15Ga-1

• Disclose Preceding 3 Years of Rep/Warranty Repurchase History
• Across All Trusts Aggregated by “Securitizer”
• On New Form ABS 15-G
  • Initial Filing (3-year look back)
  • Quarterly Filings (Quarter only)
Representations and Warranties

Changes to Regulation AB Sections 1104 and 1121

1104 (Sponsor Information)
• 3 years of repurchase history in Prospectus
• For relevant asset class only
  • Registered or unregistered transactions
  • No materiality threshold

1121 (Monthly Reports on 10-D)
• Pool information in 15Ga-1 format
• No materiality threshold
• For deal assets only
• For period covered by 10-D only
Representations and Warranties

Form ABS-15G

- Organized by
  - Asset Class
  - Issuing Entity
  - Originator
- Subject to demand
- Repurchased or replaced
- “Pending”
- “In Dispute”
- “Withdrawn”
- “Rejected”
Representations and Warranties

- Obligates “Securitizer”
  - Depositor
  - Sponsor
- All Trusts with Repurchase Obligations
  - Any Asset Class
  - Public or Private
Representations and Warranties

Practical Concerns

- Lines of Communication/Contractual Arrangements
- Data Tracking and Relevance
Due Diligence and Disclosure
Due Diligence and Disclosure

Rule 193

- Public Offerings
- Requires a Diligence Review
- “Reasonable Assurance”
- Third Party Reviews (attributed/not attributed)
Due Diligence and Disclosure

1111(a)(7)
• Nature of Review
• Findings and Conclusions

1111(a)(8)
• Deviations from Disclosed Underwriting Criteria
  - Nature of Deviations
  - Data and Characteristics
  - Identity of Entity
    Deciding to Include
  - Factors
  - Data on Meeting
    Compensating Factors
Due Diligence and Disclosure

Practical Concerns

• Scope of Review

• Liability Concerns

• Coordination with Other Requirements

• Private Offering Requirements To Come