ASF2013 DAILY

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Institutional Investor Intelligence

ASF 2013 Kicks Off With More New—And Happier—Faces

By Graham Bippart

More than 5,100 industry players had registered for the **American Securitization Forum**'s annual conference at the **Aria Resort & Casino** by Sunday evening, as the conference kicked off with a more optimistic mood than in recent years. Last year signaled the first time since the financial crisis that the gathering seemed tipped more toward business than obstacles, and attendees said this year there's even more wind in the sails.

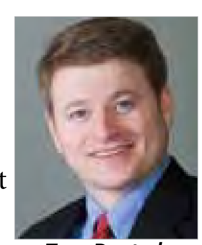
The focus is more on transactions and less on regulatory and economic uncertainty, industry pros said. Since the second week of January, more than $26 billion across asset-backed securities, private residential and commercial mortgage-backed securities and collateralized loan obligations have priced in the U.S., according to *SI* data. Even with the hefty supply, spreads were seen broadly tightening across each sector due to high demand

Andrew White of RBC Capital Markets

(Continued on page 24)

Q&A With Tom Deutsch

The year has kicked off with a bang for securitization in the U.S., with the race for yield at full throttle and new issuance across several sectors being met with robust demand. The regulatory uncertainty that has plagued the industry is just beginning to clear, as well. **Tom Deutsch**, executive director of the **American Securitization Forum**, spoke with *Securitization Intelligence* Managing Editor **Graham Bippart** about why 2013 will be known as the "year of implementation"—or alternatively, the "year of outside counsel"—how the industry will deal with so many rules coming out almost simultaneously, and the prospects for progress on a U.S. covered bond market.



Tom Deutsch

SI: Impending regulation and the uncertainty it's caused for the market have been big themes at ASF conferences since the crisis. What will be the theme this year?

There are two key issues that jump out to me, and they go hand in hand. One is that I think 2013 will be the year of implementation. The last three or four

(Continued on page 23)

Investor Base Widens In Vegas

By Marissa Capodanno

Buysiders threw $15.5 billion into new-issue asset-backed securities in the weeks ahead of ASF2013, compared to $11 billion for the entire month last year. The ongoing search for yield in the low-rate environment has left investors hungrily edging for allocations, oversubscribing ABS tranches in multiples even as more buyers are expected to pile into the sector in the coming months.

"I think people are definitely more optimistic but also more frustrated," the fixed-income head at a buyside firm told *SI*. "Last year there were tons of cheap cash-flows out there. Now, not so much."

As an example, three-year prime auto AAAs have been trading at 15 basis points over swaps, in from 18 bps over swaps in November and compared to a wide of 30 bps over swaps earlier in 2012, **JPMorgan** research shows. Spreads could fall to five bps over swaps in the next six months and down to swaps flat by year-end, analysts at the bank project.

Still, many have pointed to growing interest in

(Continued on page 24)

Welcome To ASF 2013

On behalf of the American Securitization Forum's 330 member institutions and over 130 conference sponsors, I'm privileged to welcome you to ASF 2013, the largest capital markets gathering in the world. This year's event promises to be the most efficient and valuable meeting place of the year, bringing together under one roof over 5000 industry participants, policymakers, academics and media members.

Since the initial tremors of the financial crises in the summer of 2007, the structured finance industry has faced more than its share of disruptions. But as consumer and business credit financing techniques, these markets have proven durable and fundamental to developed and developing economies alike around the globe. The last few years have brought more challenges with more regulatory comment periods and advocacy efforts on behalf of the structured finance industry than the entire last few decades combined. With the CFPB's releases this month of the Qualified Mortgage (QM) and servicing standards, the industry now transitions from review and comment to implementation and compliance. From QM to the Volcker Rule to Conflicts of Interest to Reg AB II to Basel III to risk retention to Title VII derivatives rules, the legal and compliance departments of every issuer and financial intermediary will be put into overdrive throughout 2013 trying to understand and adhere to the new rules. Meanwhile, every investor will have to understand the new opportunities in each rule and/or the new risks and liabilities that they may create.

ASF, through our vast network of standing Committees, will be there every step of the way helping members share timely information and emerging views. But ASF's greatest strength—producing broad practical industry consensus through important market standards and practices—will have to keep pace with the barrage of new rules that are expected to be released in 2013. The recent development of the ASF Rule 15Ga-1 Market Implementation Guide and the ASF Guide to Implementation of Due Diligence Requirements for Securitization Positions under Market Risk Rule and OCC Guidance stand tall as effective benchmarks for what the industry should expect to develop for the upcoming 2013 rules.

The 250+ expert speakers of the ASF 2013 conference will preview many of the key possibilities and implications of these forthcoming rules throughout the 54 sessions scheduled throughout the next four days. The agenda has been designed to include a wide range of panels, covering themes that appeal to the broad range of firms and professionals involved in today's structured finance market. ASF 2013 speakers include key policymakers and thought leaders who are integrally involved in shaping the future of structured finance, as well as business leaders from across the industry who will offer expert perspective and insight into their outlooks for 2013 and beyond.

Year after year, the ASF winter conference physically brings together the leaders of the industry for important business, networking and education. But members of the American Securitization Forum continue that important business, advocacy development and consensus building year-round through hundreds of conference calls and in-person meetings. If you have been a part of the ASF, you know how valuable this organization will be in 2013 while your organization is grappling with the new rules changing your business. If you haven't been a part of the ASF, 2013 will be the most important year for your organization to join, so you don't miss out on the timely sharing of critical new rule implementation efforts. The staff of the ASF look forward to working with you in this historic time.

Sincerely,

Tom Deutsch

Tom Deutsch
Executive Director
American Securitization Forum, Inc.

American SECURITIZATION FORUM

7:30 AM – 7:00 PM

REGISTRATION

Convention Center Entrance

7:30 AM – 9:00 AM

BREAKFAST

Bristlecone Ballroom

7:30 AM – 7:00 PM

EXHIBIT HALL

Bristlecone Ballroom

8:00 AM – 8:20 AM

WELCOME ADDRESS

Pinyon Ballrooms 4 & 5

***Tom Deutsch**, Executive Director, American Securitization Forum, Inc.*

8:20 AM – 9:00 AM

KEYNOTE ADDRESS

Pinyon Ballrooms 4 & 5

***Thomas Curry**, Comptroller, Office of the Comptroller of the Currency*

9:00 AM – 10:00 AM

GENERAL SESSION

2013 Securitization Market Outlook

Pinyon Ballrooms 4 & 5

A look at the year ahead for the securitization market.

*Moderator: **Michael Binz**, Managing Director and Business Leader, North America ABS, Standard and Poor's*

10:00 AM – 10:30 AM

Break

Bristlecone Ballroom

10:30 AM – 11:45 AM

GENERAL SESSION

Global Securitization Policy Reforms

Pinyon Ballrooms 4 & 5

An overview of recent global policy reforms aimed at securitization and their implications for the markets in 2013.

*Moderator: **Michael Mitchell**, Partner, Chapman and Cutler LLP*

11:45 AM – 12:45 PM

GENERAL SESSION

U.S. Housing Finance Reform

Pinyon Ballrooms 4 & 5

A comprehensive look at the current state of housing finance reform and what to look for in 2013.

*Moderator: **Nick Timiraos**, Reporter, The Wall Street Journal*

12:45 PM – 2:00 PM

LUNCH

Bristlecone Ballroom

2:00 PM – 3:00 PM

CONCURRENT BREAKOUT SESSIONS

Impact of the New CFPB 'Qualified Mortgage' Rule

Pinyon Ballrooms 1 & 2

A detailed review of the CFPB's qualified mortgage (QM) rule released on January 10, 2013.

*Moderator: **Scott Samlin**, Partner, SNR Denton US LLP*

CLO Sector Review

Pinyon Ballrooms 6 & 7

A look at regulatory challenges facing the CLO market and the outlook for 2013.

*Moderator: **Rishad Ahluwalia**, Global Head of CLO Research, J.P. Morgan Securities LLC*

Swaps Regulation—Commodity Pools, Clearing and Margin

Pinyon Ballroom 3

An update on the status of various swaps rulemakings and their implications for the securitization market.

*Moderator: **Ellen Marks**, Partner, Latham & Watkins LLP*

Credit Card ABS Sector Review

Pinyon Ballroom 8

A detailed look at the credit card market including trends, regulatory issues, and what to expect in 2013.

*Moderator: **Michael Dean**, Managing Director and Co-Head of ABS, Fitch Ratings*

3:05 PM – 4:05 PM

CONCURRENT BREAKOUT SESSIONS

REO-to-Rental Financing

Pinyon Ballrooms 1 & 2

An update on recent activity and key considerations in the REO-to-Rental market.

*Moderator: **Vandana Sharma**, Managing Director & Lead Analytical Manager U.S. RMBS, Standard & Poor's*

ABCP Sector Review

Pinyon Ballrooms 6 & 7

A discussion of the current and future asset-backed commercial paper (ABCP) market.

*Moderator: **Kevin Corrigan**, Senior Director, Fitch Ratings*

Washington Policy Insiders Roundtable

Pinyon Ballroom 3

A detailed discussion of key legislative and regulatory expectations from Washington in 2013.

*Moderator: **Jim Johnson**, Managing Director, Public Policy, American Securitization Forum, Inc.*

Covered Bonds Sector Review

Pinyon Ballroom 8

A comprehensive review of the covered bond market in 2012 and a look ahead to 2013.

*Moderator: **Yehudah Forster**, Vice President – Senior Credit Officer, Moody's Investors Service*

4:05 PM – 4:25 PM

BREAK

Bristlecone Ballroom

4:25 PM – 5:25 PM

CONCURRENT BREAKOUT SESSIONS

Private Label RMBS Sector Review

Pinyon Ballrooms 1 & 2

A review of current developments in the private label RMBS market.

*Moderator: **Howard Kaplan**, Partner, Deloitte & Touche LLP*

Auto Loan and Lease ABS Sector Review

Pinyon Ballrooms 6 & 7

A look back at the auto ABS sector in 2012 and the road ahead.

*Moderator: **Jeffrey O'Connor**, Partner, Kirkland & Ellis LLP*

Capital & Liquidity Regulatory Developments

Pinyon Ballroom 3

A discussion of the Basel III liquidity and capital rules and their impact on securitization.

*Moderator: **Timothy Mohan**, Chief Executive Partner, Chapman and Cutler LLP*

CMBS Sector Review

Pinyon Ballroom 8

A review of current developments in the CMBS market.

*Moderator: **Patrick Quinn**, Partner, Cadwalader, Wickersham & Taft LLP*

5:30 PM – 7:00 PM

NETWORKING RECEPTION

Bristlecone Ballroom

The Final Frontier (Finally) For Covered Bonds In The U.S.?

By Leslie Kramer

The **Royal Bank of Canada**'s $2.5 billion issuance of triple-A rated publicly traded U.S. dollar covered bonds last September may have marked a turning point in the covered bond market, leading to more deals coming down the pike. The deal was particularly significant because the bonds were available to individual investors, who previously were not able to buy these types of bonds in the U.S. The prospects for similar deals in the coming years and the discussion over new covered bond legislation being bandied around to promote the market will be a main point of discussion during today's Covered Bonds Sector Review panel.


Jerry Marlatt

As the dialogue over finally implementing covered bond legislation continues, some industry players who previously argued against certain aspects of this legislation are now becoming more open to finding solutions that all can agree upon. Panelist **Michael Krimminger**, partner, **Cleary Gottlieb Steen & Hamilton LLP,** noted that "the **Federal Deposit Insurance Corporation** opposed some elements of proposed covered bond legislation when I was general counsel there through May 2012, but I believe there is now a real prospect for the adoption of legislation." He added, "it would be very similar to that proposed by Rep. **Scott Garrett** (R-N.J.) during the last Congress, but with a cap on the FDIC's exposure that I believe will work for the industry and for the FDIC.

Krimminger's new push for final legislation is based on what he says is a need for alternatives to securitization and government-sponsored enterprises that provide a secondary market for mortgages, in order to free up liquidity for lenders. He is also in favor of the prospect of capping the FDIC's exposure, while providing a covered bond structure that can be efficiently executed by issuers, he explained. "It provides a level of protection that the FDIC would find acceptable and it also provides a level of execution that the industry finds workable," Krimminger noted.

Legislation regarding covered bonds was first introduced in 2008 and then again in January 2011, with the 112th Congress, said panelist **Jerry Marlatt,** senior of counsel, **Morrison & Foerster LLP**. It passed the U.S. House Financial Services Committee by a 44 to 7 bipartisan vote in June 2011 and was introduced in the Senate in November 2011. Little happened with regard to the legislation in 2012, but "in 2013, there is a new Congress, so any unfinished legislation will need to be reintroduced through a new bill, in both in House and Senate, and it has to be reviewed again by the same committee," Marlatt said.

The timing is good, as the market is beginning to show more of a need for covered bond issuance than it did a year ago, primarily due to the recovery of the housing market in some areas, Marlatt explained. He noted, however, that any increase of issuance in the market could have implications with regard to the role that **Fannie Mae** and **Freddie Mac** might play. "There will be less of a need to use Fannie Mae and Freddie Mac to support the housing market, as the market is recovering," he said. "But as the market recovers and the production of new mortgage loans goes up, banks will be looking for more sources of financing, at a time when Fannie and Freddie are shrinking," Marlatt noted.

Another topic of discussion is sure be the use of the **Securities and Exchange Commission**'s letters of exemption for covered bond deals in the U.S., such as the one that was issued to RBC. Marlatt remarked that before the RBC deal, there had never before been a covered bond deal done with an SEC registration, so the firm had to obtain a no-action letter from the SEC, permitting the bank to do the deal under SEC guidelines. Otherwise, the deal would not have gone through. "The SEC had never looked at covered bonds before, so there was an education period where there was a discussion of what they are and how they worked and functioned, and what the appropriate disclosure and reporting for covered bonds would be," Marlatt said.

The RBC offering was ultimately highly successful, considering all previous covered bonds issued in the U.S. had been done through private placements and had a limited investor base as restricted securities. Securities issued under the SEC are not restricted, so new investors, who had not previously bought covered bonds, were given the chance to buy the RBC-issued securities. "Looking at the investor base for that offering, investors who purchased the bonds were three times the number of what one would typically find in a private placement deal," Marlatt said. "The bigger investor base made the pricing of the bonds very attractive," he noted.

Panelist **Ben Colice**, managing director and head of covered bond origination at **RBC Capital Markets,** also plans to address what has happened over the last year in terms of covered bond issuance, with a focus on foreign issuance denominated in U.S. dollars and about expectations for issuance over the course of 2013 in the domestic dollar market.

"We are going to quickly transition into prospects for domestic issuance and will give an update with respect to people's views on legislation here in the U.S.," Colice said. He will also address recent legislative developments in Canada. "Canada implemented covered bond legislation last year, and has provided guidelines for issuers to follow," he noted. In response, Canadian banks are now looking to adopt that piece of legislation and those regulations, said Colice.

The Road Ahead To A Private RMBS Mart

By Andrew Bloomenthal

Government-sponsored enterprises **Fannie Mae** and **Freddie Mac** represent at least 90% of all mortgage financing deals and the days of private label deals cutting into that seem far off. But a **Standard & Poor's** report projected a doubling of private-label issuance, from $6 billion in 2012 to $12 billion 2013. And while regulatory red tape may curb private deals from reaching greater heights, the backdrop for growth is at least more favorable.

"Improved unemployment means more people can afford mortgages. Improved housing prices allows for easier lending. And improvements in the general economy result in a demand for more consumer credit," said **Howard Kaplan**—partner at **Deloitte & Touche** and moderator of today's Private Label RMBS Sector Review. "All of this, coupled with tighter underwriting standards, suggests that the increase in private sector deals will be sustainable. But no one in the world thinks they'll eclipse GSEs in volume."

While the volume of private deals is small by comparative standards, the quality of the collateral is high, with deals from **Redwood Trust** and **Credit Suisse** boasting average FICO scores in excess of 770. This is one of several attractants to investors, as are greater governance and stricter warranty provisions—which are extremely important when there's a default, an alleged breach of representation or an instance of alleged fraud, according to panelist **Sharif Mahdavian**, Standard & Poor's director and analytical manager of structured finance, RMBS.


Sharif Mahdavian

For its part, Redwood has implemented arbitration provisions, which can be of value to investors, as a risk control measure. But investors should be mindful of the fact that representations and warranties with some future issues may be subject to sunset provisions—essentially statutes of limitations during which an investor can claim action against an issuer.

"It's true that arbitration mechanisms offer a measure of protection to investors, but the investors need to recognize the time frame, the context, and the types of representations and warranties that are subject to sunset provisions," cautions Mahdavian. "While some would reject any type of sunset, I believe certain time periods are reasonable, as long as investors go in with eyes wide open."

The Banker/QM Connection

With Redwood stepping up as the most active in the non-agency space, there's a possibility of big banks also getting into the private label action. But in order for that to happen, many believe certain regulatory ambiguities need to achieve more clarity—namely the qualified mortgage and qualified residential mortgage origination standards—federal governmental rules dictating mortgage terms under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Under existing guidelines, which are poised to take effect in January 2014, lenders must obtain and verify an applicant's financial information such as employment status, income, assets, debts and credit history. Interest-only and undocumented income mortgages, including loans in which the principal increases over time and loans that exceed 30 years, will no longer be allowed. While these rules are arguably a decent start, many believe fine-tuning is necessary before banks will take the plunge.

"The initial QM announcements were quite general, and we haven't had one of the banks step in and come out with a securitization yet, but hopefully, with more clarity with QM, you'll see this," Mahdavian says.

Howard Altarescu, partner, **Orrick, Herrington & Sutcliffe**, adds: "The big question is, will [bank] issuers be required to retain risk? And if so, how much and in what format? For Redwood and **Shellpoint [Partners]**, retention risk is not a problem—it's an objective. But for the banking side, risk retention rules require them to keep assets on their balance sheet and retain a level of capital that would be problematic for private label issuers. The takeaway is that originators who either use securitization themselves or who sell their loans to others, are highly incentivized to originate high-quality loans, which will have a net positive effect on securitizations that are done—even if this somewhat limits the volume of loans financed through securitization."

The push for increased private sector participation is unilaterally supported by both Republican and Democratic politicians, the **Treasury Department**, the **Department of Housing and Urban Development**, and independent economists, analysts and academics, who view this movement as a type of activist reform.

> "The big question is, will [bank] issuers be required to retain risk? And if so, how much and in what format?"
>
> —**Howard Altarescu**, partner, Orrick, Herrington & Sutcliffe

"Private capital simply needs to shoulder more of the mortgage default risk if we want to avoid another crisis in the housing market," said one panelist. "The **Federal Housing Finance Agency** and others in the regulatory or political sphere have expressed interest in giving the government less participation in MBS market, which is to say near exclusivity, at this point. We'd like to compel the private market to provide a scalable solution, because the political backdrop is urging the private market to take the hand-off."

Commercial Property Assessed Clean Energy (PACE) Securitization

By Anthony Nocera, Senior Director, Kroll Bond Ratings

The potential for an asset-backed securitization of renewable energy loans has gained considerable interest in the capital markets, although no rated transaction has yet been completed. **Kroll Bond Rating Agency** believes that among the first renewable energy-backed asset-types to be securitized will be property assessed clean energy (PACE) loans associated with commercial properties. In KBRA's view, PACE loans possess strong credit characteristics that make them highly suitable for securitization.

PACE programs enable local governments to finance renewable energy and energy efficiency upgrades on privately owned residential, commercial, industrial, and agricultural properties. To date, 27 states have enacted legislation enabling municipalities to establish PACE programs. These programs allow property owners to finance eligible projects and repay those loans through a special tax assessment on their property tax bill over a long-term period, typically 15 to 20 years.

PACE assessments are secured by a lien on property and typically have the same priority as real estate taxes or are one step below, making them senior to any non-tax liens, including claims of the mortgage holder. In the case of a default on a PACE loan, the debt is not accelerated; instead, defaults are typically cured by the repayment of past-due assessments once the property is sold.

In the residential space, the prospect of having a senior PACE lien ahead of a mortgage lender has been met with significant objections from **Fannie Mae**, **Freddie Mac**, and the **Federal Housing Finance Agency** due to the "unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors" that these programs pose. Mitigating factors to these risks in most PACE programs include a requirement that the property owners have a minimum level of equity in the property and a limitation on loan-to-value relating to the PACE loan. Further, the energy efficient retrofitting of the property is intended to lower the energy costs of the property which may increase property value.

KBRA believes that PACE loans have strong credit attributes for securitization, but that the controversy surrounding residential PACE programs will need to be resolved to remove uncertainty prior to rating a residential PACE securitization. In contrast, KBRA believes that commercial PACE is a growing asset class that is ready for securitization. The discussion below focuses on KBRA's assessment of commercial PACE programs.

Commercial PACE Program Assessment Eligibility Requirements

Each PACE program has specific eligibility requirements covering the property owner, the property, and the improvements being financed. Commercial PACE programs typically require stringent eligibility requirements for approval of financing, including, but not limited to:

<u>Property Owner:</u>

- Current on all property taxes and existing special assessments with restrictions on past delinquencies;
- Not a bankrupt entity;
- Information validation, including in some cases the delivery of audited financial statements.

<u>Property:</u>

- No liens for debt other than those relating to mortgage debt;
- Improvements are reasonable and capped as a percentage of the property value;
- Value of the property may be based on assessed or appraised value, with new appraisals required if deemed necessary;
- Mortgage debt may not exceed a percentage of property value;
- Mortgage lender consent may be required.

<u>*Improvements:*</u>

- Must meet specific requirements outlined in a specific municipality's program, typically including solar electric generation, fuel cells, and energy efficient improvements;
- Equipment must be manufactured by an eligible manufacturer and installed by an eligible contractor;
- Property owner is often required to maintain insurance and service contracts on the improvements.

The eligibility of assets included in a securitization may warrant additional requirements beyond those included in the PACE program. For example, to the extent mortgage lender consent is not required by the program, such consent may be required for the assets to be included in a securitization.

Municipality as Servicer

The municipality (or its assignee) will typically act as the servicer for the securitization and will be responsible for segregating PACE assessments from other property taxes and special assessments, collecting assessments and pursuing past-due payments, including foreclosing on the lien recorded against the properties. Assessments are typically invoiced along with property taxes and other special assessments. The financial condition and operational abilities of the municipality are key determinants in rating a commercial PACE securitization. Operational reviews are useful in determining the ability of a municipality to manage the cash flows associated with the collection of PACE assessments.

Issues Relating to a Commercial PACE Securitization

KBRA's approach to reviewing a pool of commercial PACE, assessments along with

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the challenges this new asset class presents, are discussed below.

Commingling Risk and the Creditworthiness of the Municipality:
The creditworthiness of the local governmental entity will be a key determinant in KBRA's assessment of a PACE securitization. PACE assessments are usually paid directly by property owners to local governments as part of semi-annual property tax payments. Funds may be held by the local government for several months before a payment is made to noteholders. A bankruptcy of the municipality may result in a delay before funds are released to the noteholders.

Requiring that PACE funds be paid by the municipality to a transaction trust account within a short period of time may help mitigate commingling risk. A liquidity reserve may also be used to ensure noteholders receive timely interest during a municipal bankruptcy. The legal treatment of a PACE assessment in a municipal bankruptcy may provide a mitigant in a commercial PACE securitization. For example, if appropriately established, special assessment revenues received from PACE assessments should be considered "special revenues" under Chapter 9 of the U.S. Bankruptcy Code that cannot be diverted to pay debts of the municipality which are unrelated to the PACE program. In the case of a municipality in Chapter 9 bankruptcy, the municipality would be permitted to apply such revenues to the obligation secured by the lien if the bankruptcy court concurred that assessments were special revenues and the loans special revenue bonds.

Lack of Historical Loss Data:
As a new asset class, there is little default or foreclosure experience to rely upon in developing an expected loss proxy. Historical commercial real estate tax delinquency and default data may be used as a proxy for PACE assessment defaults, along with other sources of data that may be predictive of PACE defaults.

Geographic Concentration:
PACE assessments are originated in a single municipality. Adverse economic circumstances in a particular geographic area or catastrophic weather events, such as earthquakes and floods, may increase delinquencies and defaults in the collection of PACE assessments.

Legal Considerations Regarding Foreclosure:
The municipality's legal right and the procedures it uses to foreclose on delinquent tax payers are relevant to a PACE securitization analysis. In many states there is a significant time interval between the occurrence of a missed assessment payment and the commencement of tax sale or foreclosure proceedings. To the extent delinquent PACE assessments result in a judicial foreclosure on the property, such foreclosure may precede the tax sale for other real property taxes. For example, in California if property taxes remain unpaid after a period of five years, the property may be sold in a tax sale to cover the taxes owed. However, the lien of a special assessment, such as a PACE assessment, is usually subject to judicial foreclosure, a process that may result in the sale of the property and the collection of the special assessments in as little as one year.

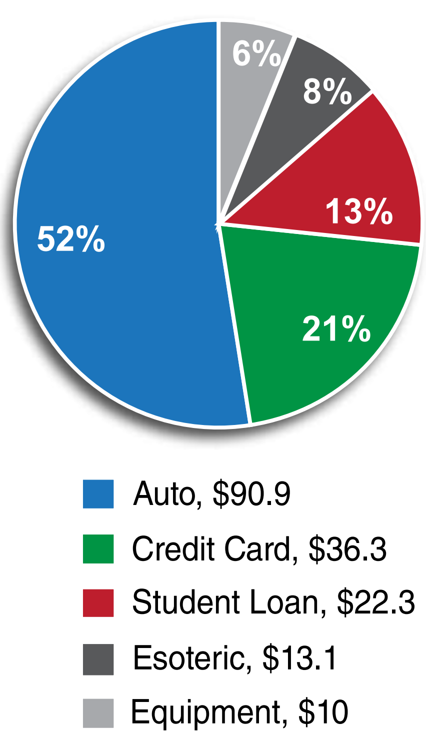
Structural Considerations:
- Warehouse to term transactions must be analyzed for obligor concentrations that may occur if the transaction does not fully fund;
- Excess spread, to the extent used as credit enhancement, must be stressed in accordance with the targeted rating;
- In the event of a servicer default, it is unlikely that a replacement servicer will be able to transition the collection of PACE assessments.

Conclusion:

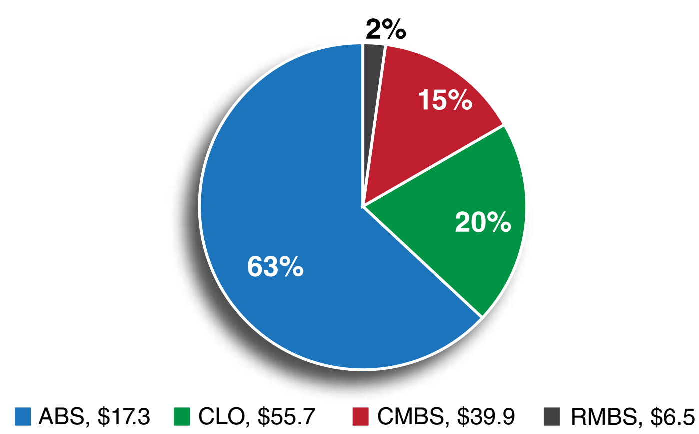
KBRA views commercial PACE special assessments as strong from a credit perspective, since we assume that they will be treated as *pari passu* with other property taxes and special assessments, and are designed to be senior to mortgage holders. The loss severity is therefore considered low. KBRA will continue to research and expand its knowledge of the sector and anticipates the completion of the first rated securitization of commercial PACE assessments in 2013.

2012 ISSUANCE BY SECTOR

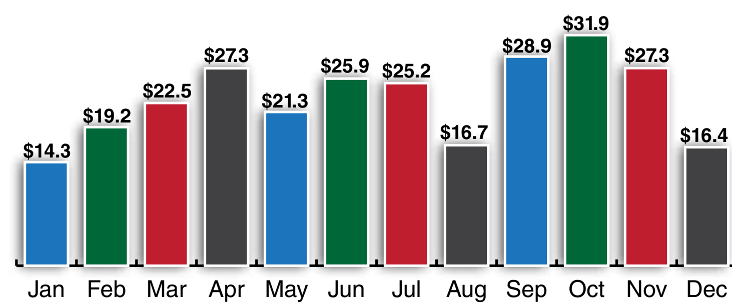
2012 U.S. ABS Breakdown ($Billion)



2012 U.S. Issuance by Sector ($Billion)



2012 U.S. Issuance by Month ($Billion)



Source: SI Deal Flow Database

CREFC: 2013 CMBS Issuance Could Hit $75 Bln

By Max Adams

Primary market commercial mortgage-backed securities issuance could reach $75 billion in 2013, according to speakers on a panel addressing the state of the market at the **Commercial Real Estate Finance Council**'s Miami conference earlier this month. The number exceeds by about $10 billion the amount that was projected late in 2012. Speakers on the panel said that the market should look for bigger conduit deals driving issuance up, as well as hope to capture some of the business from government-sponsored enterprises such as **Fannie Mae** and **Freddie Mac**.

Loan count, as well as average loan size, will increase this year and there will be fewer pari-passu structures, the speakers added. Last year the average conduit aggregated about 100 loans. This year, investors said, they expect that number to increase substantially as more loans hit their maturity date.

Competition for lending in all parts of the capital structure continues to increase, and investors are beginning to worry that standards could begin to creep. Panelists shared the same fears that had been expressed throughout the conference, namely a rise in interest rates and the effects of pending regulation.

Finally, the regulatory landscape may end up raining on the parade, as risk retention could be implemented right as the CMBS market makes a full comeback. Only about 30% of the regulations coming as part of the Dodd-Frank financial overhaul have been issued, and CMBS players anticipate an arduous implementation period when they are finalized.

The rule proposes that issuers either retain a vertical strip equal to 5% of each of the bond classes, or the B-piece buyer retains 5% of the first-loss position. This, investors say, would at best decrease the incentive for issuers to complete new securitizations, and would at worst possibly kill the B-piece buyers' market that is the heart of the CMBS market.

The Year In Review

In the year since the ***American Securitization Forum*** *last hosted its annual conference, autos led asset-backed securities issuance, credit card ABS made a healthy comeback and esoterics saw steady activity throughout the year. Strength in subprime auto loan and ABS performance gave way to a rise in newbies tapping the market, but also led to concerns over underwriting standards.*

A handful of ABS deals that were delayed amid the previous year's instability came back to market with mostly good results. Meanwhile, collateralized loan obligations outpaced expected issuance for the year by at least double some initial estimates. New-issue residential mortgage-backed securities remained limited, but the realm's most frequent issuer more than doubled its deal pipeline from the previous year. A controversial proposal to use the laws of eminent domain to help underwater borrowers dominated resi discussions.

Some crisis-era snags began to smooth over again, as seen when the ***Federal Reserve Bank of New York*** *washed its hands of the toxic securities it acquired during its bailout of* ***American International Group****. Macro concerns continued to center around Greece and investigations into several banks' alleged LIBOR-rigging was seen as a blow to consumer and investor confidence. Cuts at some of the big banks were also a focus.*

The ***Commodity Futures Trading Commission*** *exempted CLOs from a provision that had the potential to hinder the market in what was seen as a victory for the sector, and more clarity on other types of securitization is expected from the authority in the first quarter of 2013.*

Here's a look at some of the highlights from the last year.

January 2012

Santander U.K. sold a resi deal that included a novel yen-denominated bond catering to a growing Asian investor base. Santander later priced another deal with a yen tranche in May and **Lloyds Banking Group** followed suit with one of its Arkle RMBS offerings, but otherwise the trend didn't take off as market players predicted.

February

The **Federal Reserve Bank of New York** sold down the remaining assets in the Maiden Lane II portfolio it absorbed through the **American International Group** bailout. The Fed began whittling down Maiden Lane II's original $30 billion portfolio in 2011, then halted sales due to oversupply of legacy RMBS.

March

A whole-business transaction from **Domino's Pizza** that was put on ice amid market volatility that sent investors fleeing off-the-run investments in 2011, re-emerged in a much healthier ABS primary market, along with a spate of other previously postponed esoteric ABS.

Moody's Investors Service, Fitch Ratings and **Standard & Poor's** handed down the first of several downgrades to Greece's sovereign debt rating in anticipation of default.

April

Used-car retailer **J.D. Byrider** entered the auto asset-backed securitization sector with its debut subprime ABS deal, fulfilling predictions the space would see an influx in new participants from further down the credit spectrum. Byrider joined **Exeter Finance Corporation** and **DriveTime Car Sales Company**, who also made their debuts in 2012.

May

BOQ Equipment Finance priced a novel Australian auto-lease deal, which included a sterling-denominated tranche aimed at exploiting U.K. appetite for Aussie car loans.

June

Barclays settled with the **Financial Services Authority**, the U.S. **Commodity Futures Trading Commission** and the U.S. **Department of Justice** for its role in the so-called LIBOR scandal. Top executives at Barclays, the **Royal Bank of Scotland** and others have exited in connection with the alleged rate-fixing as the situation has unfolded.

July

Securitization market players widely denounced the San Bernardino County, Calif., proposal to allow local governments to seize mortgages to help underwater borrowers refinance. The eminent domain plan was the brainchild of **Mortgage Resolution Partners**, which was said to be in talks with at least half a dozen other municipalities on the issue.

Bank spreads on a commercial mortgage-backed securities conduit from **UBS** and **Barclays** hit a 2012 wide tied to concerns over Europe's debt crisis. The deal's senior bonds priced at 160 basis points over swaps, gapping out from earlier tights of swaps plus 105 basis points. Spreads have since tightended to 72 basis points over swaps for new-issue AAA-rated CMBS banks.

August

Performing rights organization **SESAC** was marketing a $300 million asset-backed securities offering backed by music royalties from the likes of **Bob Dylan** and **Neil Diamond**. The deal was later shelved and was said to be in the process of being retranched.

The **Federal Reserve Bank of New York** auctioned off the last of Maiden Lane **III**, another portfolio of toxic assets—mostly collateralized debt obligations—it absorbed from **American International Group** in 2008. The central bank tallied a $6.6 billion profit, including $737 million in accrued interest.

September

A covered bond offering from the **Royal Bank of Canada** was the first of its kind sold publicly to U.S. buyers and was said to have tapped into a buyer pool twice the size of the usual covered bond investor base.

Ally Financial's financing arm, **Ally Bank**, sold its first-ever public asset-backed securities transaction underpinned by auto leases, after renewing its lease trust shelf registration with the U.S. **Securities and Exchange Commission**.

November

Real estate investment trusts **NorthStar Realty Finance** and **Redwood Trust** both tapped the market for commercial real estate collateralized debt obligations. Market players say the long-stagnant CREL CDO market—rechristended as CRE CLO—is poised for renewed issuance in 2013, after four deals hit in 2012.

Redwood Trust pushed out its sixth private-label residential mortgage-backed securitization of the year, continuing its run of nine total post-crisis RMBS offerings. The REIT more than doubled its 2011 issuance, and market players say it could very well be in the market once a month in 2013.

Bondholders in the German Residential Asset Note Distributor (GRAND) deal—the largest ever German multifamily commercial mortgage-backed securitization—gave the green light to restructure the stalled deal, which originally came to market in July of 2006.

October

Big cuts were said to be imminent in several areas of **UBS**' investment banking business by the fall of 2012. Key players on the securitization side were noticeably absent by year-end

Superstorm Sandy temporarily derailed the financial markets, shuttering the U.S. bond market for a day and a half, squashing secondary trading and delaying several CMBS trades. The human impact continues to be felt, but ABS was thought to be safe, owing to geographic diversification designed to mitigate regional catastrophes.

CAI International set new tights in the container asset-backed securities space, pricing its inaugural ABS offering at a 3.5% yield. Demand for container ABS paper drove in yields from 4.25% at the beginning of the year. CAI followed on the heels of another first-time issue from **Beacon Intermodal Leasing**, which priced its debut ABS at the end of September with a 3.75% yield.

December

The **Commodity Futures Trading Commission**'s no-action letter exempted cash-flow collateralized loan obligations and asset-backed commercial paper from the definition of commodity pool, which was considered a major victory for the industry over new regulations that could unintentionally hinder the securitization market.

Guggenheim Partners Investment Management brought the market's biggest collateralized loan obligation of 2012—the $1.05 billion Mercer Field CLO. A number of months in 2012 broke post-crisis issuance records, leading up to $8.50 billion issued in December and $55 billion overall for the year.

January 2013

JPMorgan and **Deutsche Bank** were seen marketing the largest post-crisis commercial mortgage-backed securitization underpinned by a $2.52 billion loan on 680 **Extended Stay America** brand hotels.

Santander Consumer USA included a novel prefunding account as part of its first subprime auto deal of 2013 and **Ally Financial** followed with a one-year revolving period in its inaugural non-prime auto deal. Market players now say exotic structures are likely to become more common fixtures in 2013 transactions.

To Buy Or Not To Buy: The Role Of REO-To-Rentals In The Housing Market Facelift

By Suzanne Mistretta and Dan Chambers of Fitch Ratings

The U.S. housing market has undergone a facelift of sorts over the last year, the change of which may precipitate issuance of REO-to-rental securitizations.

There has been a secular shift in the rate of homeownership, with levels slowly declining. While it is likely to drop further, homeownership levels will ultimately be determined by lending and prevailing macroeconomic conditions. According to **Fannie Mae**'s recent Economic and Strategic Research report on the single-family rental housing market, if ownership rates return to long-term trends and drop a full percentage point, the change in living situation could impact about one million American households.

The by-product of this trend has been the development of an institutional single-family rental market. Current estimates suggest that $6 billion to $10 billion of new money may be invested in single family-rentals. This in turn has sparked many conversations about investment strategies, the use of leverage and the long-term viability of securitization in this sector.

The supply of potential rental housing product is abundant. Distressed inventory, which includes loans 60 days or more delinquent and REO, for private-label mortgage collateral is roughly 1.1 million, while GSEs have about 1.3 million loans 60 or more days past due and in REO (the distressed properties chart to the right goes into more detail on this trend). Even if the number of active permanent HAMP modifications reported by the **Federal Housing Finance Agency** were to double, that would still leave almost two million units that would need to be absorbed through liquidations, short sales, or other means.

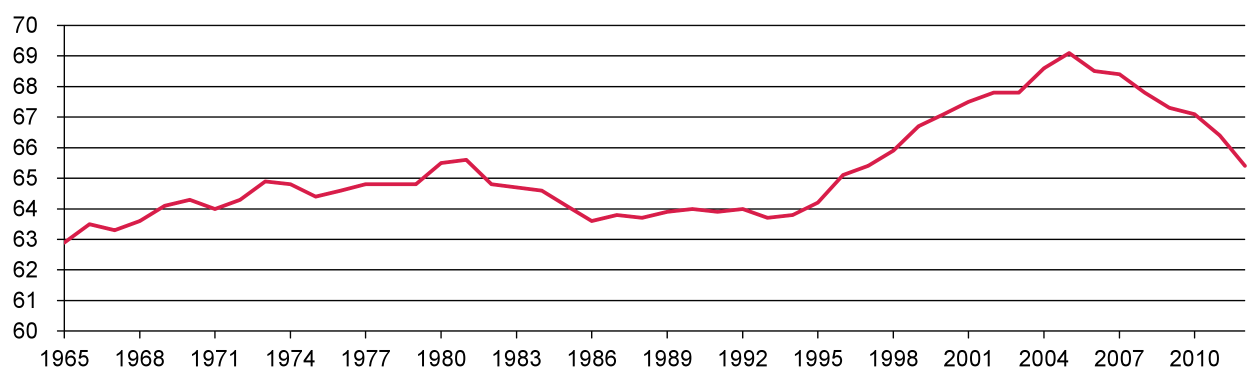
Given the uncertainty surrounding mortgage lending regulations, tight underwriting requirements, and stalled recovery, absorption by prospective traditional homebuyers is likely to fall short. Fitch believes this supply and demand imbalance has prompted single family rental investors to step in and take advantage of market dislocation in regional markets—at a pace some refer to as a "pie eating contest."

Certain markets like Phoenix and Atlanta have seen home prices significantly rebound due to single-family rental acquisitions. Rental demand has been met by families either displaced by foreclosure or by others who do not meet down payment or other requirements needed to obtain a mortgage for purchase. Despite the volume of recent acquisitions in some markets, the percentage of homes for rent in the U.S. is not expected to materially change. What is significant, however, is the trend towards institutional ownership of single-family homes and this does not seem to be a fleeting trend. That said, distressed buying opportunities are likely to fall off from current levels.

Fitch has discussed REO-to-rental securitizations considerations with market participants since early last year. Primary topics include securitization structure relative to distinct investment strategies, the lack of historical performance data and track records of property managers, equity pledge collateral structures, and the hybrid analysis needed to assess cash flow sustainability and property values.

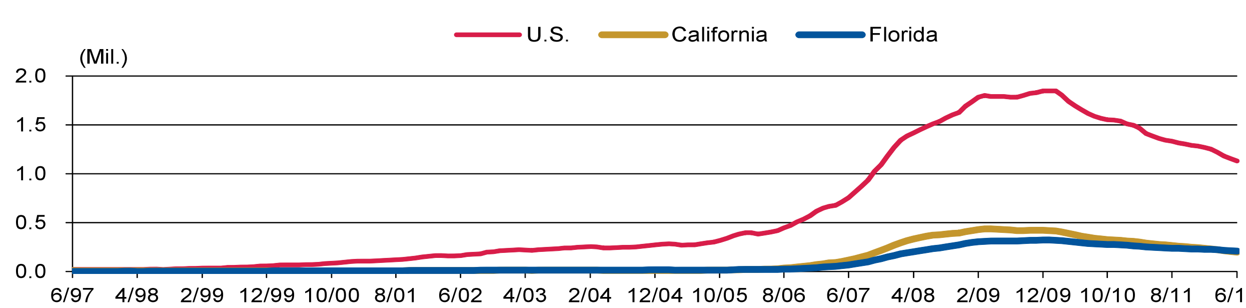
Property investors' acquisition, management and disposition strategies will influence Fitch's analysis of proposed securitization structures. For example, some investors favor a short-term strategy that emphasizes home price appreciation

U.S. Homeownership Rate 1965–2012



Source: U.S. Census Bureau.

Number of Distressed Properties
(60+ Days Delinquent)



Source: CoreLogic/Loan Performance; FitchRatings.

and total returns, while others employ a more long-term ownership strategy and are yield-oriented. Structural features such as collateral, tenor, amortization, release provisions management replacement and performance triggers may vary from deal to deal, but are expected to address risks specific to each transaction and issuer's investment strategy. Fitch notes that longer-term operators seem more likely to incorporate leverage and therefore are more likely to pursue securitization. Given these investors' yield orientation, cash flow durability becomes an increasingly important key rating driver relative to short-term transactions that are primarily dependent on property value for repayment.

Noting the lack of performance data, Fitch expects to place a strong emphasis on reliable data obtained from independent sources for its assessment of sustainable rents, vacancy rates, operating and capital expenses, supply and demand data and other pricing fundamentals. While Fitch has had conversations with some of the market-level data providers (one of which has a robust data warehouse) the history only dates back to 2008-2009. It is for these reasons that Fitch is unlikely to assign high investment-grade ratings to REO-to-rental transactions, with 'A' being the likely high-water mark.

A particular challenge Fitch has been focusing on, one that has in fact surpassed lack of data as the primary concern, is the security interest in the collateral. While some transactions are expected to be secured by mortgage liens on properties, other transactions may be secured by a pledge of the equity in the entity that owns the property. In the latter case, Fitch has raised the concern that should a deal underperform and investors seek to enforce their rights, the issuer or sponsor could pursue bankruptcy. Because the properties are unencumbered, any lien placed on the real estate—for example, debtor-in-possession financing—would have first priority, and the value of the equity securing the transaction would be reduced by the amount of secured debt. Issuers favor the equity pledge structure to minimize the cost and administrative burden of recording mortgages on a potentially large pool of properties and Fitch continues to discuss with issuers mitigants to the concerns it has raised.

Another key risk unique to these securitizations is their hybrid nature. Fitch views the single-family rental asset class as a cross between commercial and residential properties as the rental streams and value of the underlying property would be used to repay the transaction. Given the lack of property level performance and rental income history, Fitch expects to conduct sensitivity analyses as a check on the viability of rents, cash flows, and yields using the income capitalization or cap rate approach. Fitch also notes that the cash flows and value are affected by the performance of the operator as well as their business strategy and motivations.

Fitch's analytical approach contemplates four key factors in the context of the operators' articulated strategies for operating the properties and servicing and repaying the securitization debt: durability of cash flow, visibility of value, expertise and continuity of the manager and the sufficiency of the transaction's liquidity and structure will be key factors in shaping Fitch's opinion of the risks inherent in an REO-to-rental securitization.

As a relatively new product to structured finance, Fitch expects its approach to evolve in conjunction with the availability of data, the development of the transaction structure and track record of the property manager and sponsor.

Suzanne Mistretta is a Senior Director in Fitch's U.S. RMBS group and Dan Chambers is a Managing Director in Fitch's U.S. CMBS group.

Zarkana, Cirque Du Soleil

Zarkana is "an acrobatic rock experience that blends circus arts with the surreal to create a world where physical virtuosity rubs shoulders with the strange." Tickets range in price from $69 to $180 per person.

Location: 2nd Floor Promenade Level
Showtimes: 7:00 pm and 9:30 pm. No shows Wednesday or Thursday.

The Deuce Lounge

The Deuce Lounge is "an energetic cocktail lounge infused with high-stakes gaming and sophistication." Grab custom cocktails and a menu of appetizers that "gives you countless options for fulfilling your every food and beverage craving."

Location: Casino Level near the Poker Room
Hours: 5:00 pm – 4:00 am

American Fish

Michael Mina's American Fish bar sports thirty-four whiskey selections for the straight-shooter, or you can go with something a bit more exotic concocted by American Fish mixologists who "continuously research, taste and tweak our recipes utilizing premium, small batch spirits you can't find in just any Las Vegas nightlife spot."

Location: Promenade Level near the Zarkana Theater
Hours: 5:30 pm – 10:30 pm. Closed Monday.

Baccarat Lounge

A "welcome sanctuary from the exciting Las Vegas nightlife," Baccarat Lounge offers secluded cocktails and conversation. "One of ARIA's hidden gems."

Location: Casino Level next to the Baccarat Room
Hours: Open 24 hours

barMasa

Chef **Masa Takayama**'s stylistically simplistic sushi bar employs 13 certified sommeliers. barMASA offers "first-class sushi from one of the culinary world's most celebrated chefs, but it's also home to one of the most awe-inspiring Japanese bars in Las Vegas."

Location: Casino Level near Main Lobby
Hours: 5:00 pm – 11:00 pm

Bar Moderno

With its live music, posh purple drinks and "morning after" recipes—Bar Moderno offers the "perfect place to relax in the midst of the best nightlife in Las Vegas."

Location: Casino Level next to the Guest Elevators
Hours: Open 24 hours

Carta Privada

Open 24 hours a day, Carta Privada features an "exclusive gaming environment" with high-end Blackjack tables and a full-service bar serving the ARIA's Signature Sips. Secluded and high-stakes.

Location: Casino Level near Main Cashier
Hours: Open 24 hours

City Bar

Conveniently located on the Slot Floor, enjoy "exceptional service and expertly crafted cocktails, refreshing beers and delicate wines to complement the energy of today's best music."

Location: Casino Level on the Slot Floor
Hours: Open 24 hours

Jean Georges Steakhouse

"Skip the crowds and cover charge that go hand-in-hand with Las Vegas clubs" at this steakhouse, where you can choose from a dozen imported beers and enjoy a Wagyu filet mignon or Kübler absinthe mixed with house-made ginger ale and mint."

Location: Promenade Level near the Zarkana Theater
Hours: 5:00 pm – 10:30 pm

Julian Serrano

Wine, cocktails, sangria and creative tapas, "gather for dinner or drinks in an environment that rivals the energy of the innovative cuisine and cocktails served."

Location: Casino Level near Main Lobby
Hours: 11:30 am – 11:00 pm

Lemongrass

Serving a modern interpretation of Thai cuisine, "pair your Thai-inspired cocktails with a selection from our Satay Bar that offers charcoal-grilled beef, poultry, pork, seafood—even bacon—skewers served with a variety of sauces and seasonings."

Location: Casino Level near the Baccarat Tables
Hours: 11:00 am – 2:00 am

Sage

Chef **Shawn McClain**'s Sage "offers all of the same classics you'd find at a traditional restaurant bar, but only at Sage can you find some of the country's rarest beers and spirits," including ten absinthe offerings.

Location: Casino Level near Main Lobby
Hours: 5:00 pm – 11:00 pm, closed Sunday

Sirio Ristorante

Peruse the list of top-rated wines from all over the world in an atmosphere of old-time Tuscany. Sirio also offers "a vast selection of spirits, liqueurs and beers, leaving no restaurant guest thirsty."

Location: Promenade Level near the Zarkana Theater
Hours: 5:00 pm – 10:30 pm

Skybox Sports Bar & Grill

High-definition TVs are "strategically in every nook and cranny to keep you in the middle of the action, and our full-service bar keeps the drinks flowing for the ideal venue to watch your favorite teams." Menu includes pulled-pork sliders and mac and cheese with smoked gouda.

Location: Casino Level next to the Race and Sports Book
Hours: Open 24 hours

View Bar

Prepare for a night out or just unwind at this relaxed cocktail bar.

Location: Casino Level near Main Lobby
Hours: 2:00 pm – 2:00 am

WHAT TO DO IN VEGAS

Never been to Vegas before? Or don't remember if you have? If you find yourself with a little time on your hands, check out some of these highlights, below.

Zumanity, Cirque Du Soleil

Cirque Du Soleil, Vegas-style. Zumanity is exclusive to Las Vegas, and features the Canadian entertainment company's signature combination of "circus arts and street entertainment," but with an adults-only twist. Displaying the "sensual side of Cirque Du Soleil," the cabaret-style show plays twice nightly at the New York-New York Hotel and Casino, Friday through Tuesday at 7:30 pm and 10:00 pm.

Joel Robuchon

Voted "Chef of the Century" by Gualt Millau in 1989, Joel Robuchon is one of the world's preeminent French chefs. Joel Robuchon Restaurant is the only Las Vegas restaurant to win three Michelin stars, with prix fixe menus starting at $195 per person and the sixteen course degustation menu priced at $425 per person. Or eat at L'Atelier del Joel Robuchon, also located at the Grand, where the average dish price is less at $78.

Sharks!

Why not overcome your fear of sharks while safe in the knowledge that no one has ever been attacked by one in Las Vegas (which is 270 miles from the Pacific Ocean)? **Mandalay Bay** Hotel & Casino is home to more than 1,200 species of marine life, and the famed Shark Reef, a tunnel in which you can get a scuba-diver's view of five species of shark. Operating Sunday through Thursday 10:00 am to 8:00 pm at $18.

Maybe The Only Free Thing In Vegas

Every half hour until 8:00 pm, and then every 15 minutes until midnight, the Fountains of Bellagio at the **Bellagio** Hotel explode into light and music. Pretty much the best free show in Vegas, the state-of-the-art fountains shoot water 460 feet in the air from 1,214 nozzles, displaying "1,000 water expressions … and over 4,000 individually programmed lights."

ASF Policy Summit
NAVIGATING DODD-FRANK IMPLEMENTATION
save the date
May 16, 2013
Grand Hyatt | New York City
Join us in New York at ASF's 2013 Policy Summit for a day of critical insight into the key market implementation challenges of timely legislative and regulatory initiatives affecting the structured finance market. The Summit will include panel sessions covering the latest market information and issuance trends, recent intelligence on Dodd-Frank rulemakings and implementation efforts, and current legislation proposed and/or passed on Capitol Hill.
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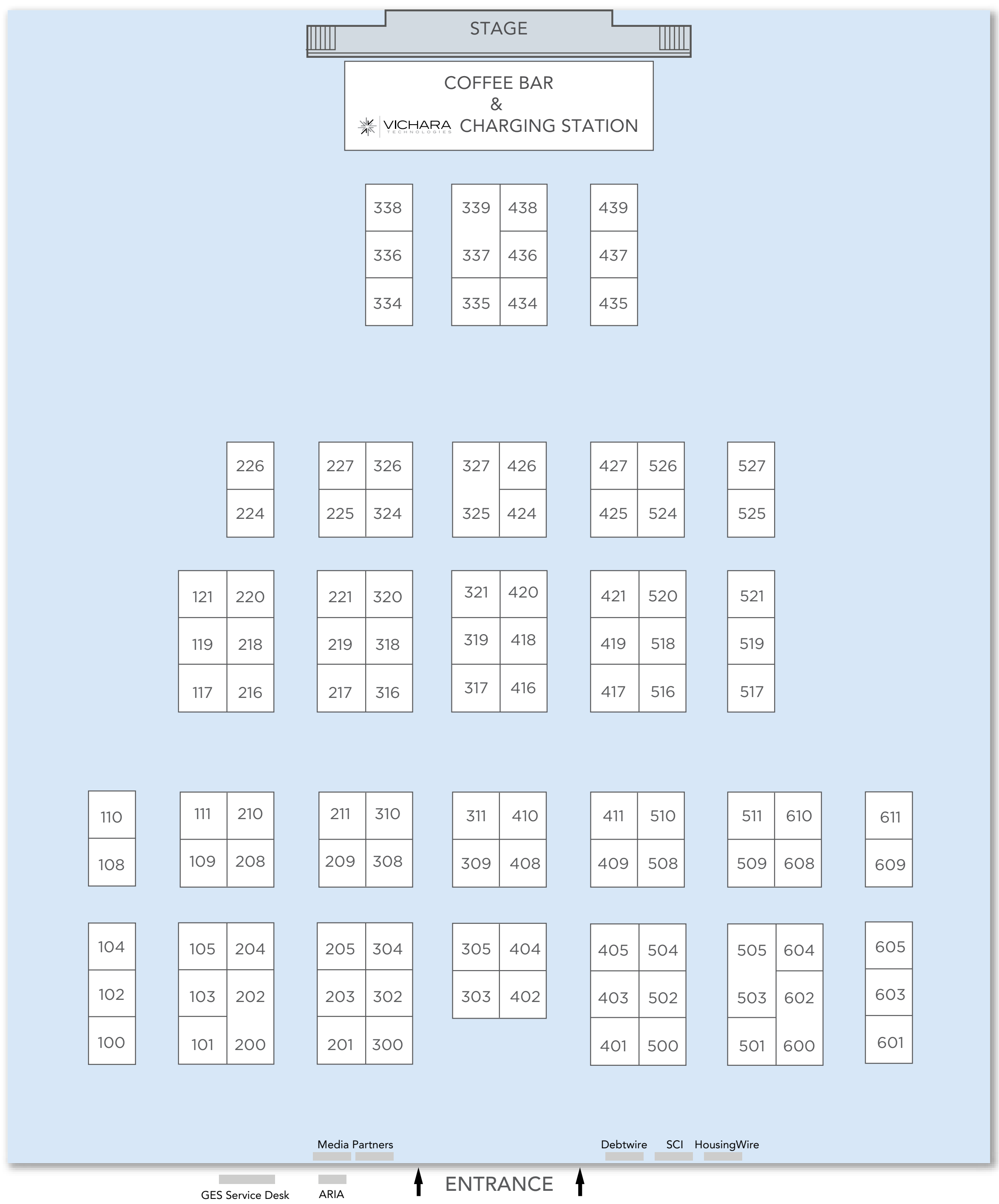
EXHIBIT HALL MAP

LEVEL 1 BRISTLECONE BALLROOM



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ASF EXCLUSIVE OFFERS

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1. ***Visit*** the Securitization Intelligence booth for a chance to win an iPad mini.

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2. ***Tweet*** a picture of yourself holding the latest Total Securitization issue at the Securitization Intelligence booth. Include the below sentence and automatically win a $10 Starbucks gift card!

"I just visited the @Securitizeintel booth @ASF2013 and won a $10 #Starbucks gift card!"

@Securitizeintel

Must be a registered attendee of ASF 2013 to win. Limited to the first 25 people. One $10 Starbucks gift card per person. Must pick up prize at the Securitization Intelligence booth.

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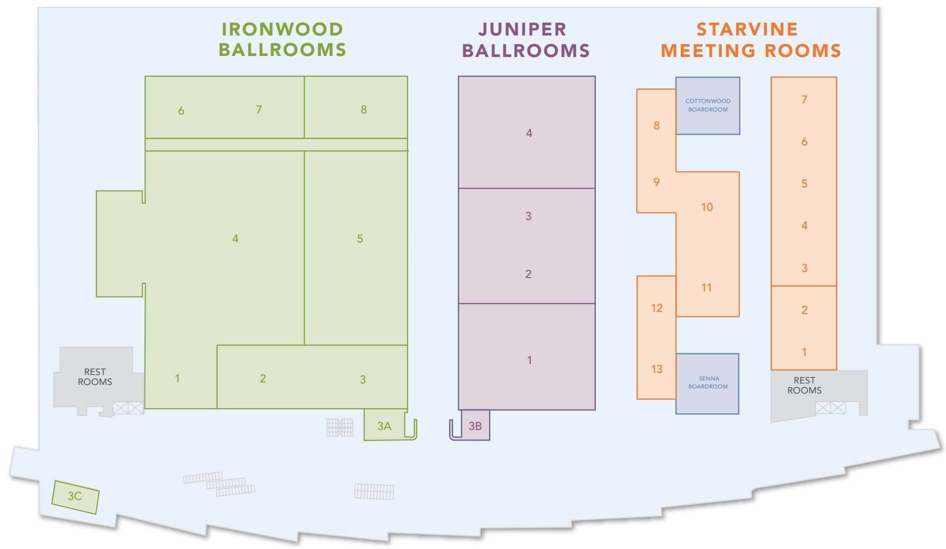
CONVENTION CENTER MAP

LEVEL
3



LEVEL
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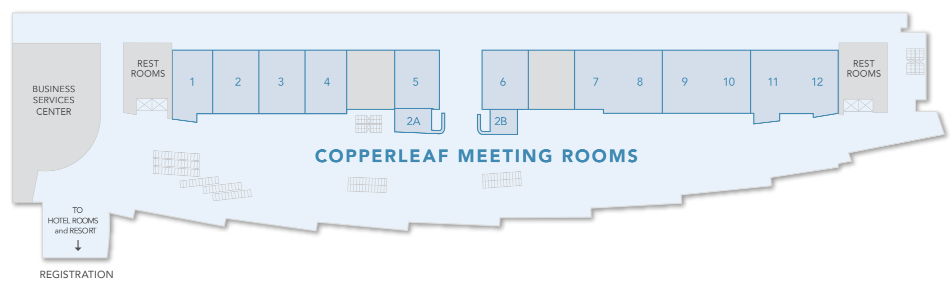

LEVEL
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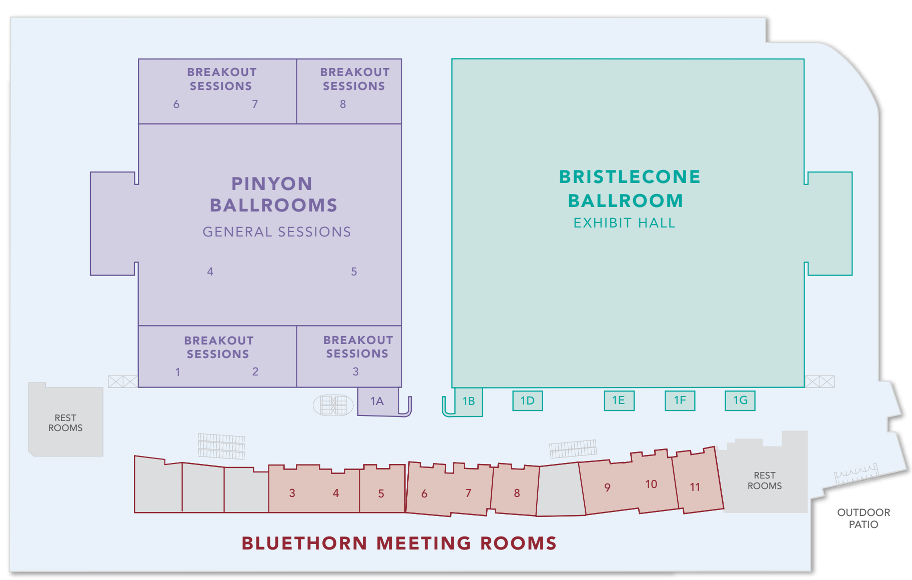

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ASF Meeting Room	Senna Boardroom

COPPERLEAF

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Deutsche Bank	11 & 12

PINYON

Speaker Ready Room	1A

BRISTLECONE

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Q&A

(Continued from page 1)

years we've spent dialoguing with policy makers about appropriate securitization reforms. 2013 will become the year in which the dialogue is concluded, and now we have to make the changes and comply with new rules. The conference will be a prelude to all the new rules coming out.

Another theme is that we have more regulators attending this year's ASF conference than any other year except for when we held it in their backyard in Washington D.C. I think that's a signal of the interaction between policy makers and the structured finance markets in 2013. I expect 2014 will have even more regulators to attend, since that all these rules will be out and there will be even more they can comment on, given the finality of the rules.

SI: You've said the ASF will dedicate much of this year to helping the industry understand and prepare for the Qualified Mortgage rule. What are the next steps/goals?

People are still in the understanding phase of the 800-page QM rule and servicing rules. At some point in the next few weeks they'll turn from the understanding phase to beginning to change underwriting guidelines and determining any aspects of the rules that need further clarification from the **Consumer Financial Protection Bureau** that the ASF can organize follow-up on. Are there any ambiguities that may create concern? With virtually every major rulemaking, ASF has had some sort of follow-up dialogue with the regulators on a formal basis to seek either some changes to the rules, or to obtain an appropriate question-and-answer type guidance from the regulator to the industry.

What I don't think industry folks quite understand is the challenge to implement all of these rules when they are released virtually simultaneously in the same year. We just got the [qualified mortgage] and servicing rules. Within the next 12 months we're also going to get Regulation AB II, the Volcker rule, conflicts of interest, risk retention, Basel III, derivatives rules…and that's the short list. Each one of those will be a massive rulemaking change and compliance burden for issuers, investors and dealers. The key question for the market is: how quickly can people implement those rules simultaneously while also still running their businesses.

So with the implementation of all of the rules that will be coming out, there will be appropriate follow-up with the regulators as to fixing problems with those rules or addressing any unintended consequences. And where those regulatory follow-up efforts fail, we'll be looking for the legislature, either in oversight hearings or through formal Congressional action, to rectify any mistakes that come out in regulation.

SI: People we've spoken with say the 43% debt-to-income ratio limit for qualified mortgages is one of those ambiguities. What one underwriter says is a 43% DTI, another will see as 42%, for example. How will the market come to terms with that?

As an industry, we'll come to a market standard practice, so that everyone is moving in lock-step. We still have 12 months to make those determinations, but I think there's a lot of strength in numbers with everyone adopting the same calculation so that there is either a clear safe harbor or not.

SI: What will be the upshot for the market of so much compliance work?

You could argue it's going to be the year of the lawyer. Outside counsel will be working with their clients to implement these rules and make changes to documentation. It won't slow [the market down] in 2013. Some could argue, as we saw with the implementation of Reg AB I, that it may spike some issuance at end of 2013, so there isn't as much in the warehouse for 2014, when you may want to take some time for implementation before going to market, particularly for smaller, less-frequent issuers. All in all, the real key challenge will be the sheer cost burden of implementing the rules and being able to do that in a time-sensitive way so as not to hold issuance up past the implementation deadlines.

SI: Any indication of what the QRM rule will look like, and how it will interact with QM?

Dodd-Frank doesn't allow for QRM to be any bigger in scope that QM, so we already know the outer limits. If I had to predict, I would guess that QRM is going to look similar to QM, but with some form of down payment requirement, somewhere in the range of 5-20%. QM has no down payment requirement.

A real challenge is that every loan eligible to be sold to **Fannie Mae** and **Freddie Mac** while they're in conservatorship, or for at least the next seven years, is a QM loan. Anything outside of that may not be a QM. So the dividing line between originating and not originating is, by its definition, whether the loan is eligible to be sold to the GSEs. If the loan limits and [guarantee fees] stay where they are, it's my expectation that most loans which are QM will be sold to the GSEs. The question, outside of super-prime jumbo, is will there really be enough collateral out there to restart a private-label mortgage market? If QRM is much smaller than QM, that provides an even more unlevel playing field between private securitization and the GSEs because the GSEs aren't required to hold the 5% risk retention. So at this point, one could argue that a small box for QRM may merely just be a penalty for private-label securitizations.

SI: What's the status of the plan to use eminent domain to seize underwater mortgages? Do you expect to do more battle on that front this year?

I think eminent will die a very squeaky death in 2013. There is no jurisdiction in America, that I'm aware of, that is seriously committed to using eminent domain, but there is a lot of squeaky chatter about how it can solve America's housing problems. ASF continues to view it at as one of the most effective ways to sideline private capital in the United States.

So far, eminent domain has been an interesting talking point, but no city or county in the U.S. has actually made a credible resolution to move forward with it. In fact, on [January 24] San Bernadino County put out a request for proposals on how to mitigate housing challenges, and nowhere in the agenda do they explicitly mention eminent domain. That doesn't completely sideline it, but it doesn't show that that is a direction in which they are really moving. In Chicago, it's been six months since they introduced a hearing, and nothing has happened since. Wayne County, Michigan has explicitly said they're not going forward with it. In Brockton, Massachusetts, the president of city council [**Tim Cruise**] has stated publicly, "I don't want to be testing the waters on this…I don't know if it's really feasible." I still think there will be a lot of chatter about it, but I don't think any jurisdiction will try to create a novel use of eminent domain that most lawyers we've talked to have found would be unconstitutional if it went up to the Supreme Court.

SI: For a long time, there has been talk of developing a covered bond market in the U.S. Will there be progress toward establishing a market, here, this year?

ASF is right now in the middle of coordinating efforts amongst a number of our members to work with the [**Federal Deposit Insurance Corporation**], the Senate, the House of Representatives and the [United States House Committee on Ways and Means], for tax issues, to get everyone to a compromise condition to be able to enact covered bond legislation in this Congress, which will provide certainty to investors of their access to the underlying collateral in the case of a bank insolvency.

The key challenge for covered bonds in any jurisdiction is who has access to the underlying collateral and in what timing. Is it the investor in the covered bond or is it the prudential regulator of the bank? There's all kinds of margins where appropriate compromises can be made to ensure that the FDIC is content with the outcome of legislation, but also that it's workable and prudent for investors to be able to invest in those covered bonds. We think we can hammer out that compromise with the FDIC and the appropriate forces in the House and Senate to get a bill passed.

SI: In 2013?

This year, we will definitely look to get the bill introduced through a committee and potentially to pass the House. The Senate, in their usual genteel style, generally takes a bit longer, in terms of process.

Planning To Play The Aria Again

The **American Securitization Forum** announced yesterday that next year's conference will again be held at the Aria Resort & Casino. Executive Director **Tom Deutsch** told *SI* before the conference that the Aria was just the right fit. "The Aria is a right-sized facility for a conference of over 5,000 attendees," he said. "We heard very loudly when we were in Orlando and Washington, D.C., that holding the event in a place where the largest hotels only have 2,000 rooms, the other 2,000-3,000 people are very unhappy bussing in from off-site hotels. The Aria, with 4,000 hotel rooms and lots more within walking distance, and a convention center that holds 5,000 people very comfortably, has been a very welcome change. And when we were at the Venetian, some folks commented that it was too big. At the Aria, we take nearly every hotel room and the entire convention center."

ASF 2013

(Continued from page 1)

from yield-starved investors.

That may be influencing issuers that missed previous conferences to jump on the bandwagon. "We're definitely seeing a lot more issuers we haven't seen before, and that's very telling of the momentum this market has," said **John Kerschner**, global head of securitized products at investment manager **Janus Capital Group**.

More investors in structured finance are also looking for cross-sector relative value, turning to CMBS and CLOs for incremental yield, and perhaps boosting attendance as veteran investors in one asset class school themselves in others. At a session Sunday on CMBS and RMBS deal performance analysis, one ABS investor said he was attending to "understand the nuances of CMBS" with an eye to investing in the sector in 2013. Market players are predicting as much as $75 billion in CMBS new issuance this year.

To be sure, there will be plenty of reg talk. Regulators are turning out in increasing numbers, **Tom Deutsch**, executive director of the ASF, told *SI*, saying he sees that as a signal that regulators will get more directly involved with the industry in 2013 (see Q&A, page 1).

ASF officials said they expect walk-ins would bring attendance to around 5,500. That would be an increase of around 500 attendees, according to the ASF; last year, pre-registered attendees totaled about 4,500.

There won't be a breakdown of attendance by sector until after the event, but ASF cited the surge in CLO activity in 2012—and in the last two weeks before the conference—as a probable driver of increased attendance. Last year saw the entrance of new CLO arrangers, issuers and even new investors, and the trend continues this year, with CLO pros saying new asset managers, pension funds, insurance companies and regional banks are all becoming active on the buy side.

SEEN 'N HEARDS

Say Ahhhhh

First prize for creativity amid the typical exhibition hall giveaways goes to **FNC**. The mortgage data and analytics company turned heads with its hospital-themed booth, complete with X-rays, examination chair and lab coat-clad technicians. No, they didn't take a turn at the wrong conference hall. They examine your mortgage documents. Get it?

The Tweetanator

The hashtag people are using for ASF-related tweets is #ASF2013, which **Arnold Schwarzenegger** is also using to promote his sports competition event, Arnold Sports Festival, in April. Just a heads up; a tweet that reads like this one is not about CMBS loan workouts: "Awesome workout session today, my biceps are on fire! Gotta get my ABS ready for #ASF2013!"

Armegeddon ... Can I Have A Napkin?

Food lines can be opportune places for chatting up attendees and getting their thoughts on things. One attendee, while waiting for his ham and cheese croissant on Sunday morning, said he was here to "see if the world was going to end again." He added, enthusiastically, that so far things looked markedly better than in 2007. But if things were to go bad he had "front row seats."

Investor Base

(Continued from page 1)

the sector from corporate treasuries. "Anecdotally, there's all this corporate cash on the sidelines," an ABS syndicate head told *SI*. "Guys are looking for safe, cash-like returns on that money." As corporations accumulate more cash, traditional investments—such as Treasurys and agencies—are not cutting it in the returns department. A natural next step is low-risk ABS, insiders said, pointing to autos and credit cards as a good fit for green buyers.

"Everyone has a credit card, so they understand the revolving nature of that line of credit and it's not a big stretch to understand how the deals work," a bank official said. It doesn't require buyers to take on a huge amount of extra risk, but it's a good way to pick up yield," he said. "But it's still experience you'd gather over time, evaluating the structure, the relative value and deciding if you're getting paid versus the risk you're taking." The growing investor base would likely keep AAAs trading tight, the market player said.

Meanwhile, other longtime auto and credit card ABS buyers, having waded into the stream of increasingly off-the-run deals, say last year's healthy CLO pipeline is compelling them to give the subsector a good look at this year's conference.

One investor keen to test the CLO waters for the first time said most of his one-on-one meetings at the conference would be devoted to getting comfortable with the asset class. "We're treating it like it's for real," he said. "When else can I get a forum like this and meet with the people from every aspect of a new sector I'm thinking about?"

Others pointed to more CLO managers attending the conference this year. "[It's] more than I recall from prior years," an investor at an insurance company said. "This is a great way to compare/contrast managers."

ASF 2013 DAILY

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