



Reg AB

Understanding the Impact In the Securitization Industry

- Robin M. Belanger, Moderator – RM Belanger & Associates
 - Richard Careaga, First Vice President, Senior Legal Counsel – Washington Mutual
 - Roberta (Bobbie) Engle, National Compliance Manager – U S Bank National Association
 - Rolf A. Edwards, Senior Vice President, Structured Products Group – Goldman, Sachs & Co.
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- Legal Roles & Responsibilities
 - How Reg AB Applies to Custodian
 - Reg AB from an Issuer's Perspective
 - Questions/Comments
-

Regulation AB Overview

- Sources
- Securities law at a glance
- Reg AB has four big parts
- Securities offering reform
- Model provisions
- From here



Richard.Careaga@WaMu.net
(206) 377-7837

- Regulation AB
 - Securities Offering Reform
 - The ASF Model Provisions and commentary
 - EDGAR filings
 - Links available at <http://leuctra.googlepages.com/regulationab>
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- Materially false or misleading statements are wrong.
 - “What would a reasonable investor need to know?” *Alan McKenney, Wells Fargo*
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Reg AB has four big parts



- Shelf eligibility
 - Written communications during the offering process
 - Point of sale disclosure
 - Disclosure after the sale
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- A shelf gives quick access to the public markets
 - Reg AB provides a minor expansion of asset types outside RMBS
 - No new shelf if you've neglected filing duties
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Written communications during the offering process



- Asset backed securities informational and computational materials
 - » historical performance (“static pool”)
 - » collateral information
 - » structure
 - » derived information
 - Free writing prospectus, securities offering reform (“SOR”)
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Point of sale disclosure



- Who is in the deal?
 - What is the collateral?
 - How do the cash flows work?
 - Are there external payments?
 - Where's the risk?
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Who has what role



- You're a *sponsor* if you both sell and organize and initiate the transaction
 - You're a *servicer* if you're an interim servicer, ordinary servicer or a sub-servicer
 - You're an *originator* if ...
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Static pool



- Prior securitized pools
 - Vintage information
 - Asset classes and asset types
 - What if you sell released?
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Disclosure after the sale



- Of course we report and certify, but what do we file and why do we file?
 - Monthly reports on form 10-D
 - Current reports on form 8-K
 - Annual reports on form 10-K
 - January reports on form 15
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The 10-K package



- Assessment of “platform” compliance with servicing criteria
 - Attestation by independent accountant
 - Sarbanes-Oxley backup
 - Statement of “deal” compliance
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Who gives what



- Doesn't matter if you signed the pooling agreement or not
 - Primary servicers, subservicers and master servicers
 - Persons performing a servicing function
 - Outsourcers of material servicing activities
 - You have to distinguish carefully
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Negotiating Reg AB with buyers



- The Model Provisions provide a framework
 - Underlying theme is the buyer's reliance on the seller
 - The more remote the buyer is from the borrower, the greater the desire for contractual protection
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How Reg AB will play out



- Different people will have different experiences
 - There will be train wrecks
 - There will be opportunities to get investors the information they need to make better decisions
 - Better information should result in less discount for risk
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Regulation AB

How is the Document Custodian Impacted?



What is Regulation AB?

- SEC Rules effective January 1st 2006
 - Covers publicly registered Asset Backed Securities
 - Defines Servicer, Servicing Functions & relevant performance criteria
 - Establishes disclosure requirements for transaction and contractual parties
 - Requires independent assessment of compliance with Servicing Criteria at a platform level
 - Expands reporting obligations of transaction parties
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Important Definitions

- **Asset Backed Security**
 - Security primarily serviced by cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to investors.

 - **Servicer**
 - Party performing Servicing Functions for 5% or more of the assets

 - **Servicing Functions**
 - Includes administration, collection, distribution & reporting activities
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Important Definitions (cont.)

- Servicing Criteria
 - Specific standards specified in Item 1122 or as otherwise defined for a particular transaction

 - Platform
 - With respect to each servicing function participant, the group of Reg AB transactions covered by their accountant's report
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What are the Obligations of the Custodian?

- **Item 1117 – Legal Proceedings**
 - Disclose any pending material litigation against any material parties to the transaction (sponsor, depositor, trustee, etc) where any property of the parties is subject to the litigation that would be material to the investors
 - **Item 1119 – Material Affiliations, Relationships, Transactions**
 - Describe if and how the sponsor, depositor or issuing entity is an affiliate of either the Servicer, Trustee, Originator, Significant obligor, etc.
 - Disclose any relationships outside of the ABS transaction that exist and are outside normal course and general character of those relationships
 - Include, to the extent material, any specific relationships involving or relating to the ABS or the pool assets between the material parties that currently exists or that existed within the past two years
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What are the Obligations of the Custodian? (cont)

- Item 1122 – Compliance with Applicable Servicing Criteria
 - Assessment Compliance Report
 - **Deadlines**
 - **Criteria of Assessment**
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What are the Components of Item 1122?

- 1122 (d)
 - (1) General Servicing Considerations
 - (iv) Fidelity bond errors and omissions policy
 - (4) Pool Asset Administration
 - (i) Collateral or security on pool assets is maintained as required by the transaction agreements
 - (ii) Pool assets and related documents are safeguarded as required by transaction agreements
 - (iii) Any additions, removals or substitutions to the asset pool are made , reviewed, and approved in accordance with any conditions or requirements in the transaction documents
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Regulation AB

Presentation Subtitle

- Changes and Impacts on Exit Strategy
 - Compliance and Attestation
 - Heightened Trustee Role with Filings and SPI
 - Impact of Newer Products
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Changes and Impacts on Exit Strategy

- Private Deals
 - Whole Loan Sales
 - “Spread and Sprinkle” Loans from Originator
 - CMBS “Club” (Multi-Seller) Deals
 - Rent-a-Shelf Deals
 - Appetite for Originators to Become Issuers
 - Advent of both “Red”/FWP and Black (Final Prospectus for RMBS Transactions)
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Compliance and Attestation

- Gravity For Issuer: Risk of Losing Use of Shelf for a Year
 - Expectation of Custodian and Trustee
 - Timely
 - “Proper” and Complete
 - Accurate
 - Risk for Custodian and Trustee
 - Removal from Transaction via EOD Clause
 - Impact on Ability to Secure Future Business
 - Indemnification
 - Bond Calculation Agent vs Paying Agent
 - Getting in Ready Position
 - Make judgement if needed regarding criteria and then monitor industry over course of year and adjust if necessary
 - Periodically prepare compliance for months just passed
 - Have accountants finalize draft attestation periodically throughout year so that you are not impacted by inevitable crush in Q1 2007
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Heightened Trustee Role with Filings and SPI

- Issuer Audit of Trustee Investor Report
 - Reconciling Servicer data, Trustee database, and Trustee investor report
 - 10d and Related Filings
 - Timely
 - “Proper” and Complete
 - Accurate
 - SPI (Static Pool Information)
 - Providing and Reconciling Information for Issuers and Underlying Originators
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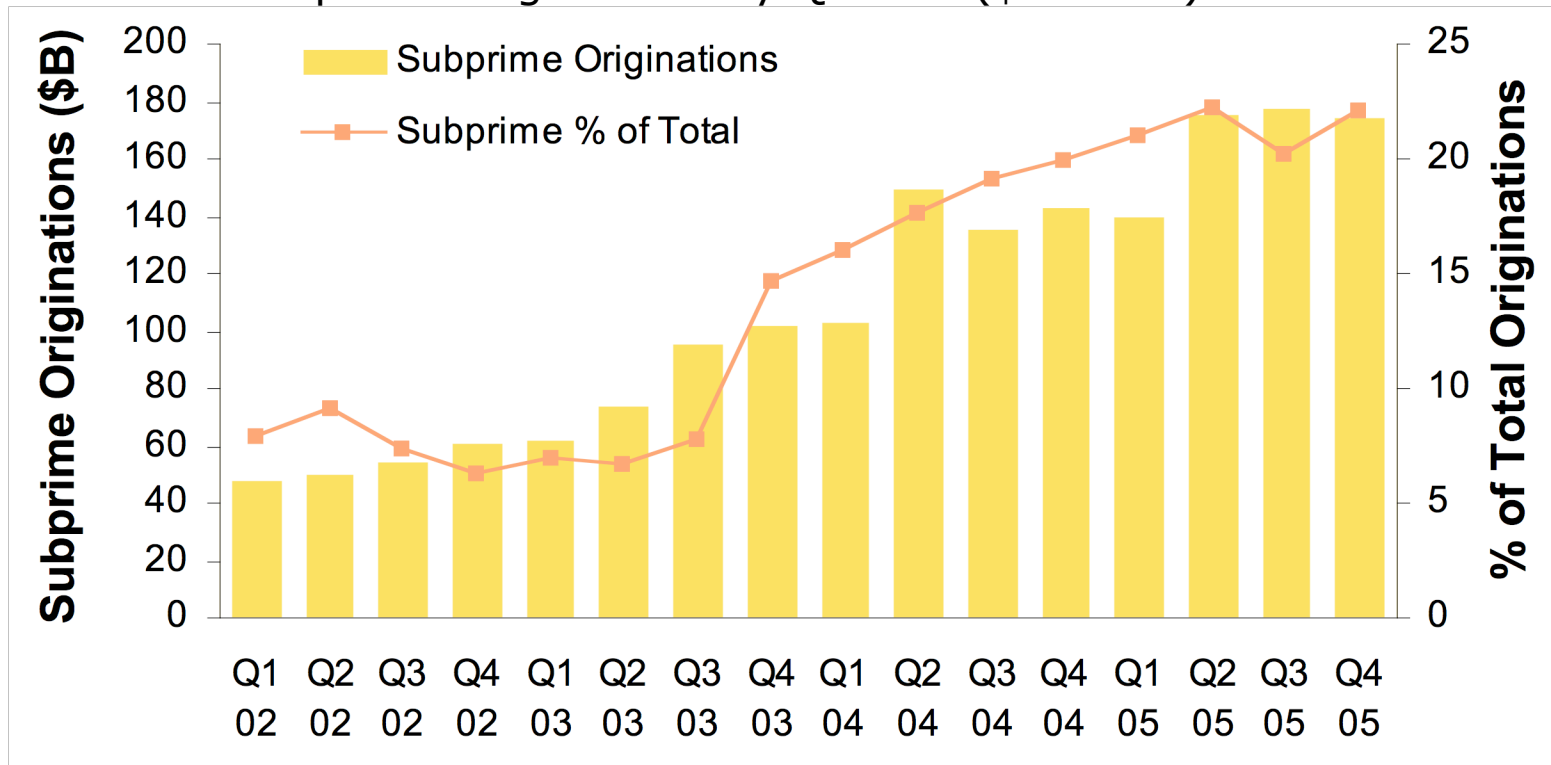
Impact of Newer Products

- Growth of Private Label Securitization vs GSE and Balance Sheet
 - HELOCs and Second Liens
 - Option ARMs
 - Small Balance Commercial
 - Reverse Mortgages
 - International
 - Construction Loans
 - Condo Conversion Loans
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Subprime Origination Volumes



Subprime Originations by Quarter (\$ billions)

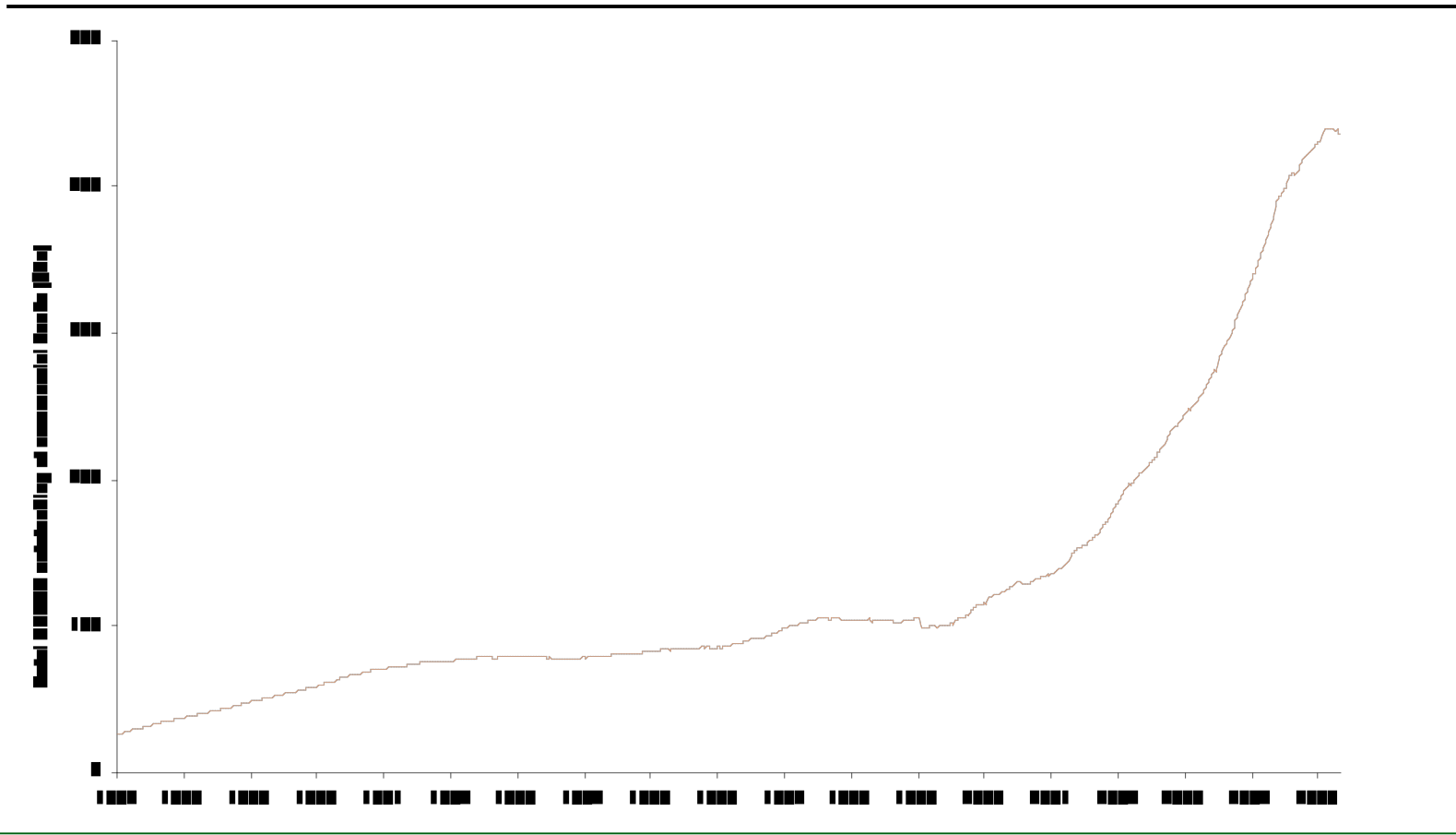


Source: Inside ABS & MBS and Inside Mortgage Finance
 Note: Self-repeated data; tends to over count

HELOC Market Overview Origination Volumes



Outstanding Volumes (\$bn)¹

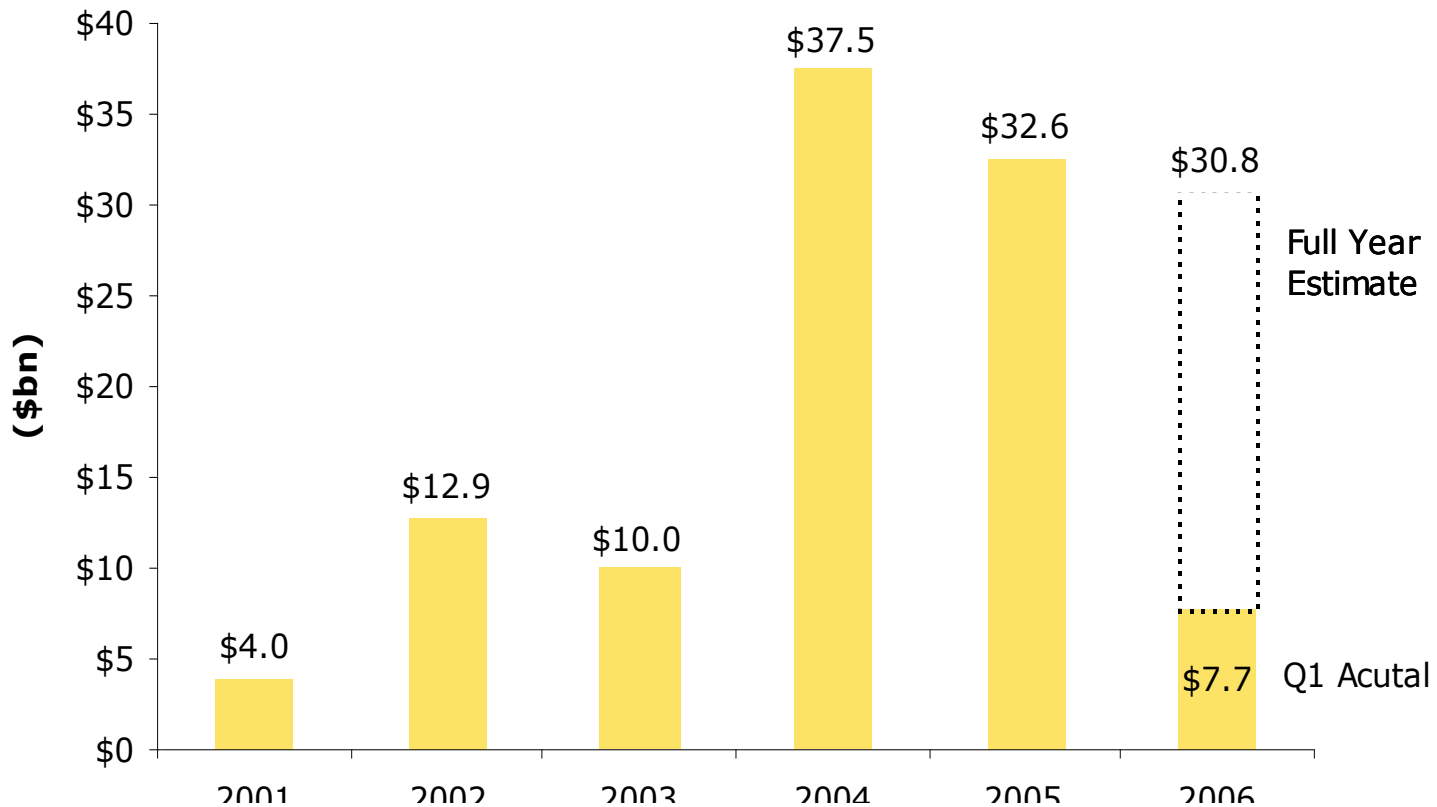


¹ Represents outstanding loans; excludes closed end second liens and thrift and non-bank originators..

HELOC Market Overview Securitization Volumes



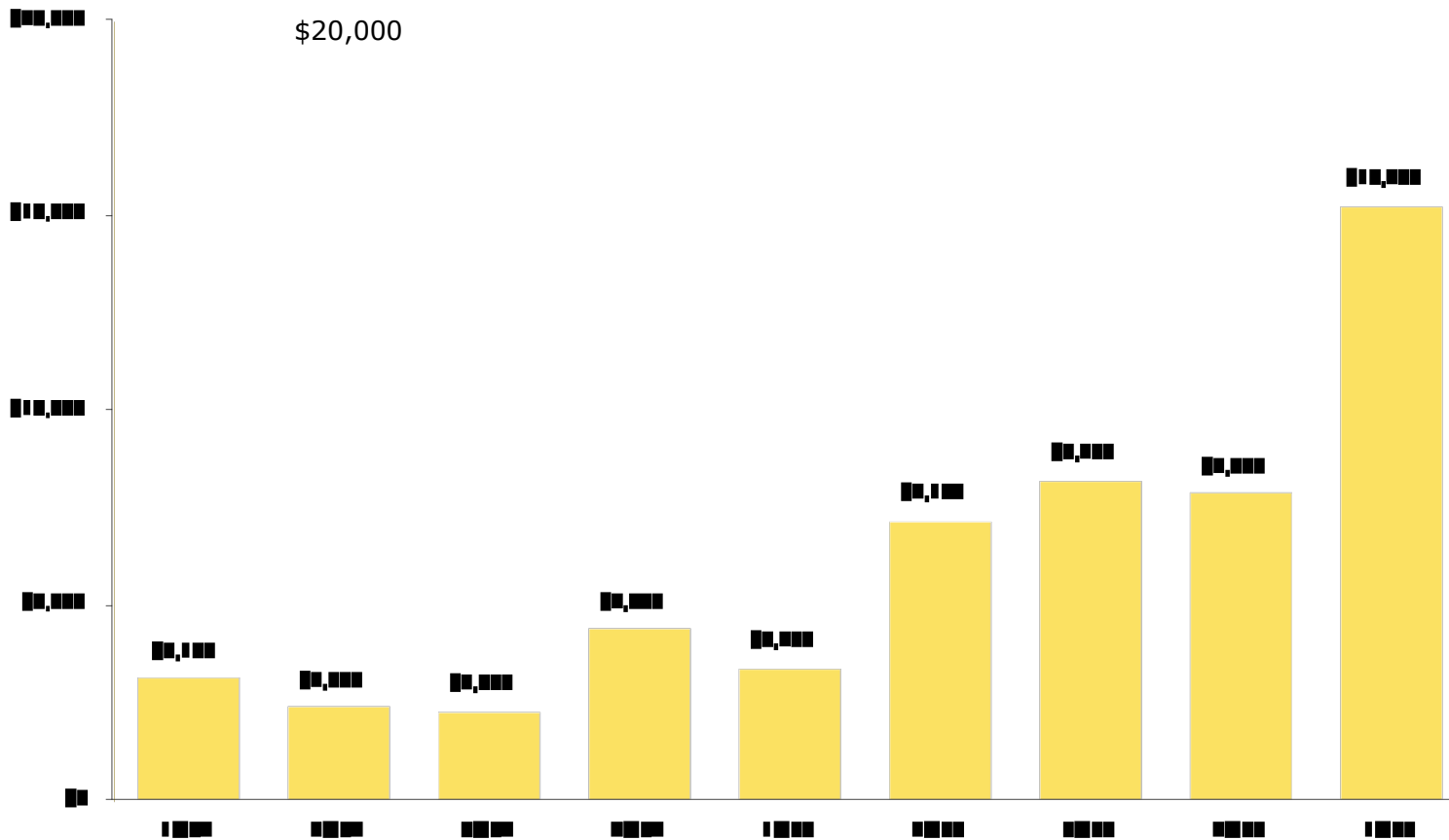
HELOC Securitization Volume by Year (Bn)



Home Equity – Closed End Seconds Securitization Volumes



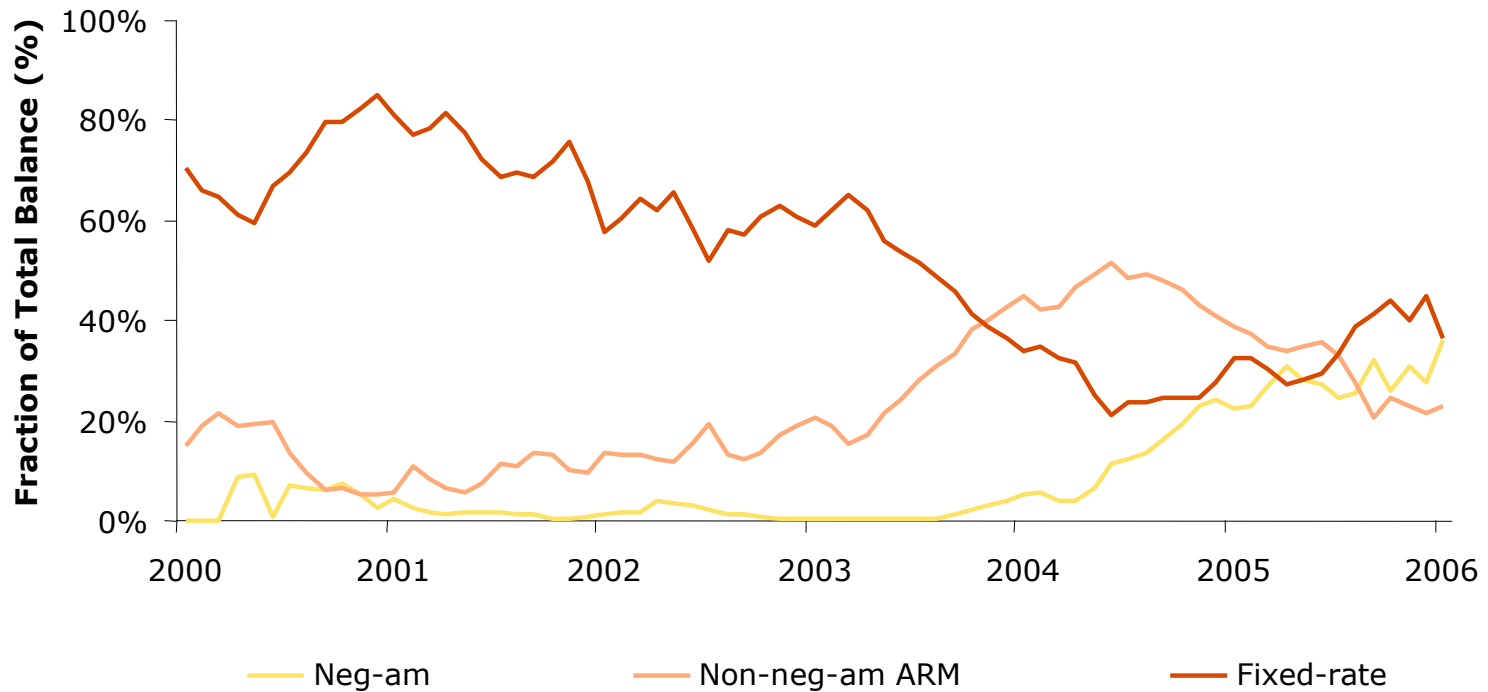
Quarter by Quarter CES-Only Deal Issuance (in millions)



The Recent Growth of Option ARMs

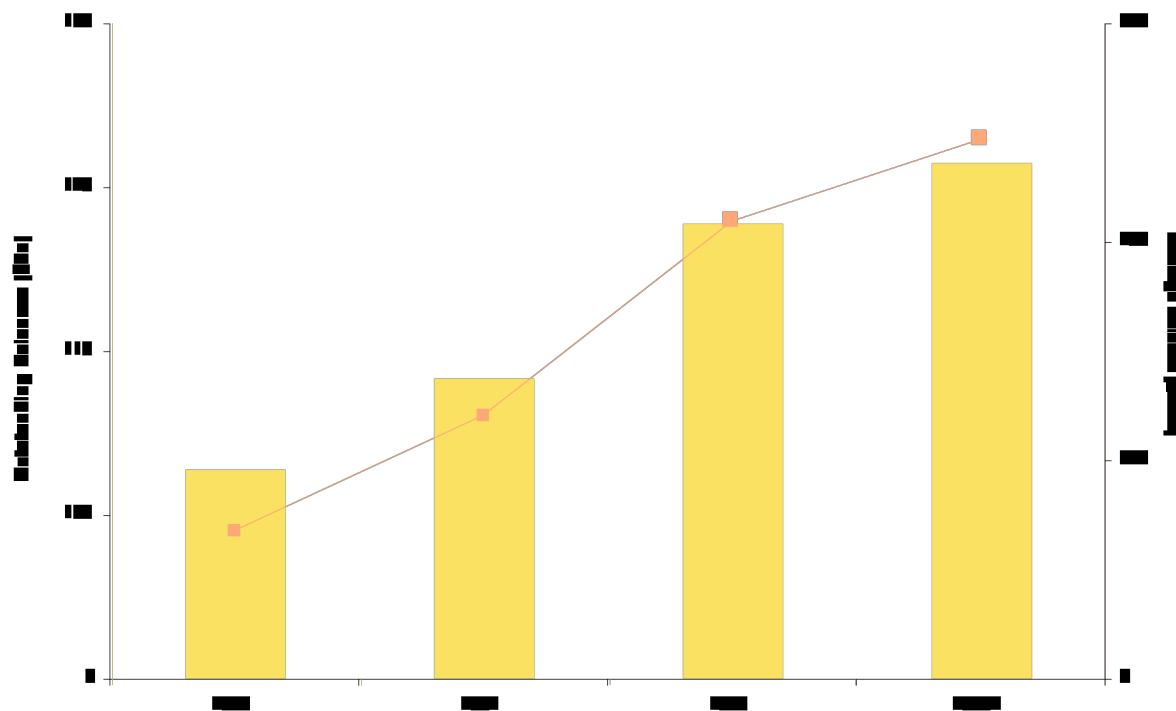


Non-Agency Prime and Alt-A Securitization by Loan Type

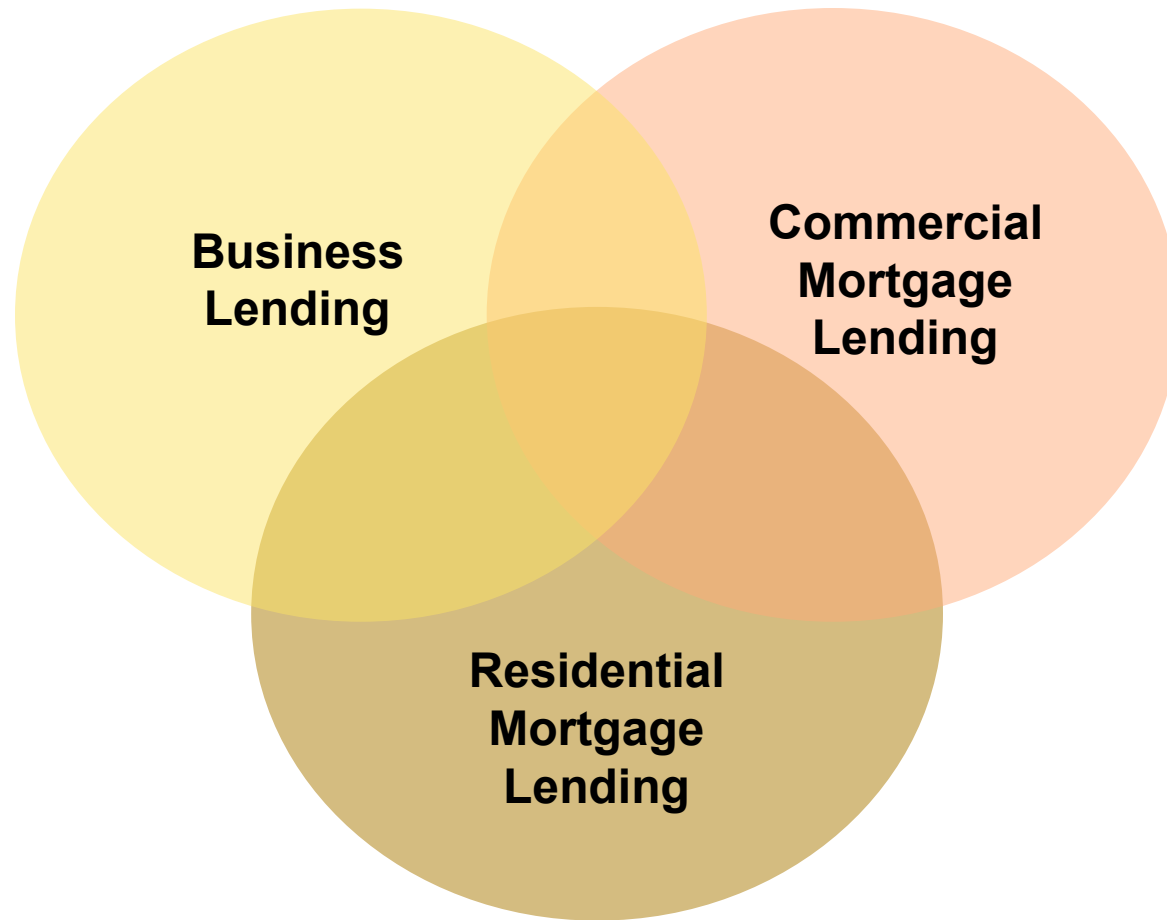


Source: LoanPerformance

Small Balance Commercial Outstanding Volumes and Average Balances



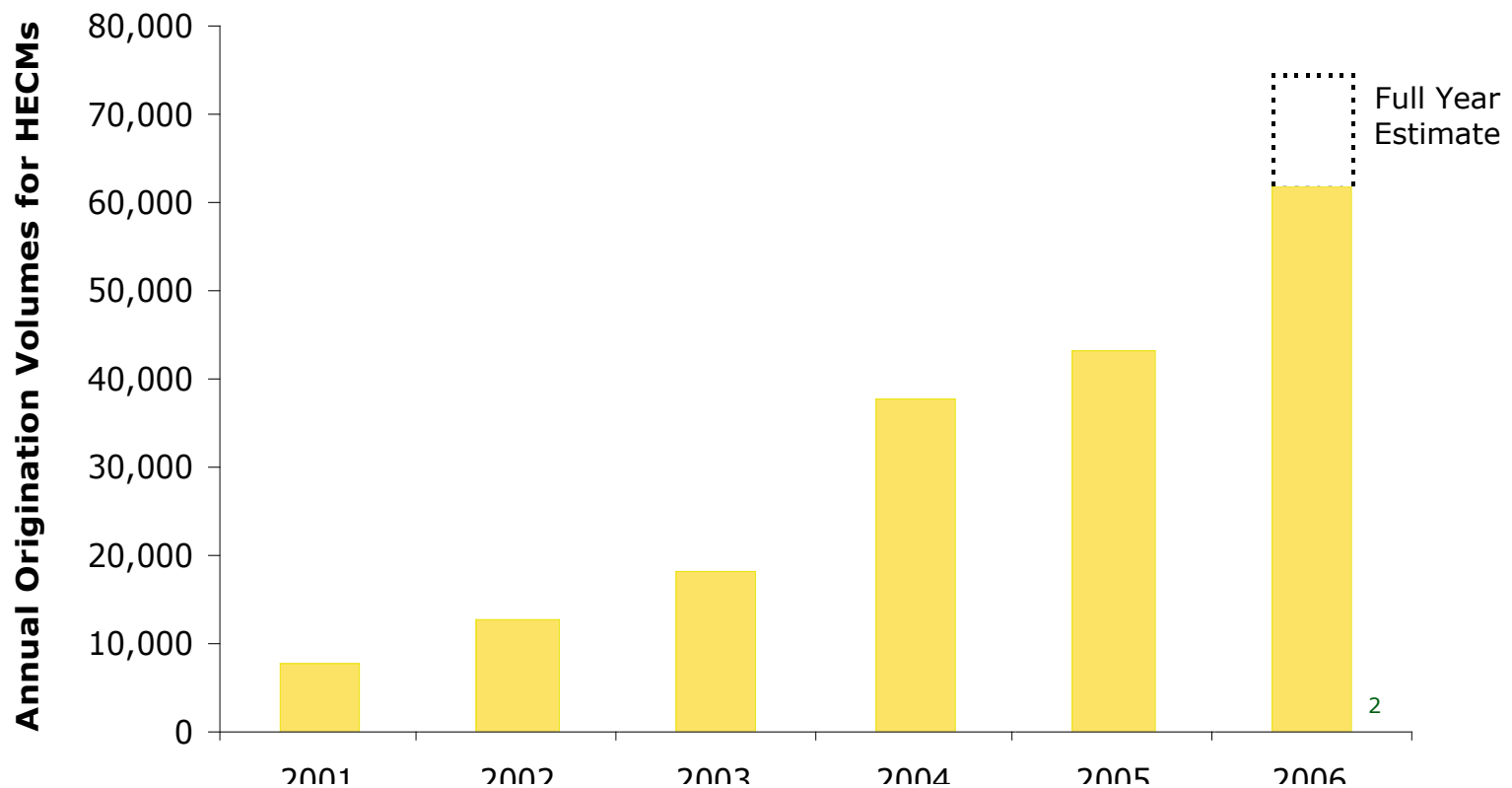
Small Balance Commercial Overlapping Product Lines



Reverse Mortgages Origination Volumes



Outstanding Volumes¹



¹ Source: National Reverse Mortgage Lenders Association.

² This reflects 10 months of 2006 fiscal year production through end of July 2006.

- Thank you all for coming!
 - Questions for the panel?
 - Thanks to the panel for the information!
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