U.S. SECURITIZATION YEAR IN REVIEW

2016

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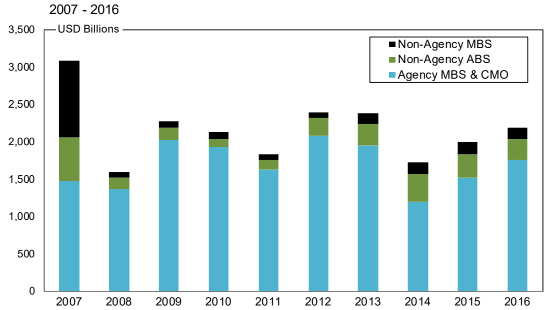
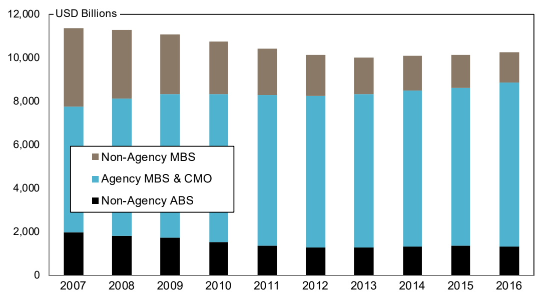
SECURITIZATION OVERVIEW

Securitization Issuance
2007 - 2016



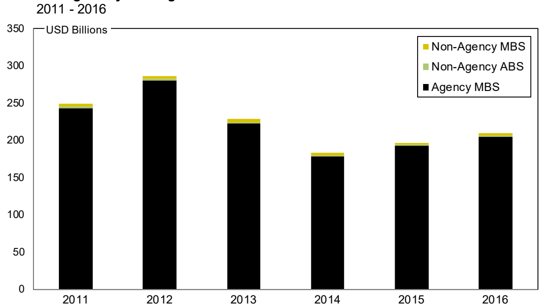
Source: Bloomberg, Dealogic, Thomson, Fannie Mae, Freddie Mac, Ginnie Mae, SIFMA

Securitization Outstanding
2007 - 2016



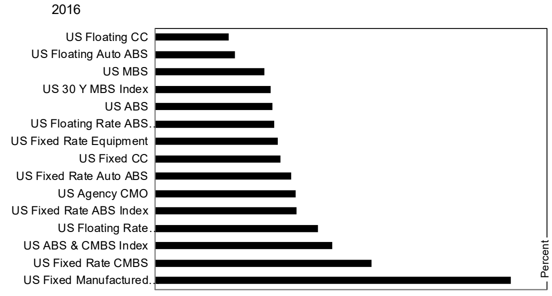
Source: Bloomberg, Dealogic, Thomson, Fannie Mae, Freddie Mac, Ginnie Mae, SIFMA

Average Daily Trading Volume
2011 - 2016



Source: FINRA Trace

Total Return
2016



Source: BAML

Issuance and Outstanding

Securitization issuance, including agency and non-agency mortgage-backed securities (MBS) and asset-backed securities (ABS), totaled $2.2 trillion in 2016, a 9.3 percent increase from 2015 ($2.0 trillion). The increase was driven entirely by the increase in agency issuance; non-agency ABS and MBS issuance volumes fell by 11.7 percent and 94 percent, respectively, from 2015. Agency volumes for 2016 rose 15.8 percent in 2016.

Outstanding volume rose slightly to $10.25 trillion, an increase of 1.3 percent y-o-y, driven entirely by agency MBS and CMO volumes, while non-agency outstanding volume fell 2.2 percent y-o-y and 10.1 percent, respectively, for non-agency ABS and MBS.

Average daily trading volume was $209.9 billion in 2016, an increase of 6.7 percent y-o-y, with non-agency trading volumes increasing to a greater extent than agency MBS. Non-agency MBS and ABS volumes rose 13.1 percent and 22.1 percent, respectively, y-o-y, compared to agency MBS increases of 6.4 percent y-o-y.

According to Bank of America-Merrill Lynch indices, ABS and commercial mortgage-backed securities (CMBS) for 2016 returned 2.71 percent in total return, 30-year agency MBS returned 1.68 percent, and agency CMO returned 2.16 percent.

Risk retention rules came into effect on December 24th for non-mortgage securitizations, causing a surge of issuance volume for several asset classes ahead of the rules.

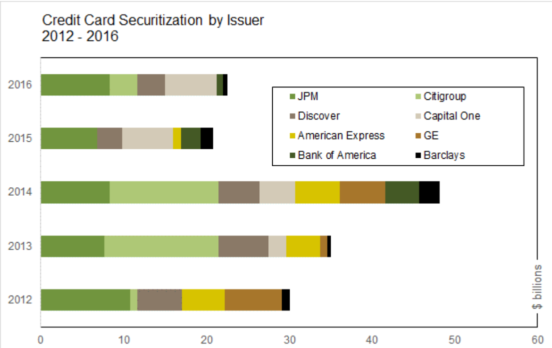
Non-Agency Mortgage-Related Securities

Non-agency mortgage-related issuance totaled $167.7 billion in 2016, a decline of 9.4 percent from the prior year, comprised of $76.5 billion of CMBS and $84.2 billion of residential mortgage-backed securities (RMBS). Outstanding volumes totaled $1.3 trillion at the end of December 2016, a decline of 10.1 percent y-o-y, comprised of $528.0 billion of CMBS and $843.4 billion of RMBS. Issuance was impacted heavily by the commodities tumult in the first quarter; volumes were significantly higher in the second half of the year than the first.

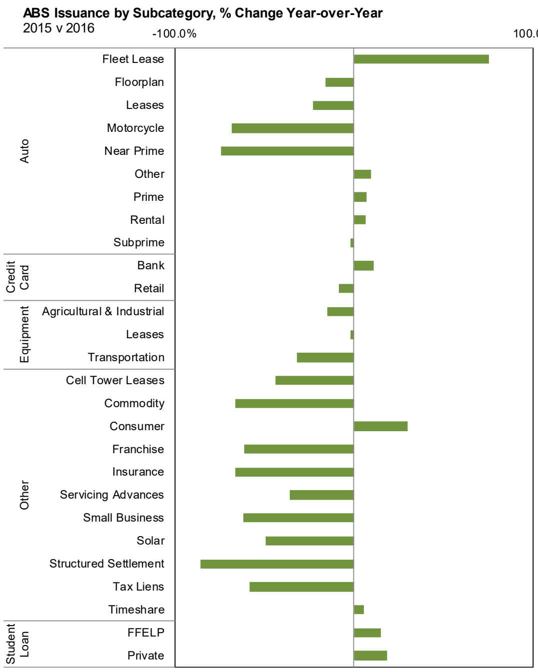
Non-agency CMBS issuance volumes totaled $76.5 billion, a decline of 24.9 percent from the prior year. Conduit/fusion and single asset/single borrower deals declined y-o-y by 23.3 percent and 12.8 percent, respectively and 44.6 percent y-o-y respectively, while large loan CMBS volumes almost vanished entirely, declining 82.7 percent to $1.9 billion.

CMBS outstanding volumes totaled $528.0 billion at the end 2016, a decline of 12.2 percent y-o-y driven heavily by paydowns from the 2006 and 2007 vintages ($66.9 billion and $41.8 billion, respectively).

Non-agency RMBS volume was $84.2 billion in 2016, a decline of 13.6 percent from 2015. Jumbo prime issuance was down 30.8 percent year-over-year as several issuers did not issue or completely exited the space, most notably Redwood Trust, Two Harbors, and Credit Suisse. On the other hand, marketplace lender Social Finance placed its first residential mortgage-backed security in late 2016, adding another asset class on top of their current student loan and consumer



Source: Bloomberg, Thomson, Fitch Ratings, Moody's, Standard and Poor's, Morningstar



Sources: Thomson Reuters, Bloomberg, prospectus filings

loan securitizations. Non-agency RMBS outstanding volumes were $843.4 billion, a decline of 8.7 percent from the prior year. Paydowns continue to be concentrated in the 2005 – 2007 vintages (paying, respectively, $25.7 billion, $32.5 billion, and $25.2 billion from the 2005, 2006, and 2007 vintages).

Asset Backed Securities

ABS issuance totaled $275.4 billion in 2016, a decline of 11.7 percent y-o-y, while outstanding volumes shrank by 2.2 percent to $1.33 trillion. Late 2015 and early 2016 tumult in the commodities sector had spillover effects on non-agency ABS, particularly for CLO issuance.

Auto issuance fell slightly, with a total of $92.5 billion issued in 2016, down 6.1 percent from 2015. Floorplans, leases, motorcycle, near prime and subprime loans saw y-o-y declines - of 16.0 percent, 22.9 percent, 68.0 percent, 74.3 percent, and 1.8 percent, respectively - while fleet lease, prime, and rental car securitizations saw growth in y-o-y issuance of 75.2 percent, 6.9 percent, and 6.6 percent, respectively. Auto ABS outstandings totaled $195.5 billion, a modest increase of 2.6 percent from the prior year.

USD-denominated CDO volumes were $78.1 billion, down 23.7 percent from the year prior. The market fallout in the first quarter of 2016 dampened CDO issuance, although was partly made up by a surge in fourth quarter issuance in both new deals and CLO refinancings ahead of risk retention rules coming into effect in late December.

Equipment issuance totaled $14.9 billion in 2016, a decline of 15.4 percent y-o-y. Agricultural and industrial securitizations fell 15.0 percent y-o-y, while large ticket transportation-related deals (e.g., container, aircraft, and railcar) fell 31.6 percent. Equipment leases remained relatively stable at $5.0 billion, falling only 1.8 percent. Equipment floorplan was $1.2 billion, up 49.2 percent from the prior year. Equipment outstandings fell 2.2 percent y-o-y to $50.8 billion.

Student loan issuance totaled $16.4 billion an increase of 15.5 percent y-o-y. While Federal Family Education Loan Program (FFELP) securitization volumes ticked upward in 2016 ($8.3 billion from $7.2 billion in 2015), FFELP securitization volumes represent an increasingly smaller portion of student loan securitizations. Private student loan securitizations rose 18.5 percent y-o-y to $7.9 billion, representing 49.4 percent of all student loan securitizations in 2016 (up from 49.3 percent in 2015). While previously established players in the private student loan securitization market continued to issue in 2016 (e.g., Social Finance, Earnest, Commonbond, Sallie Mae, Darien Rowayton Bank, and Sallie Mae), two new debt securitizations occurred in 2016: Nelnet, the second largest FFELP servicer and the largest private loan servicer, debuted its first private student securitization in December, largely composed of CommonBond-originated, Nelnet-originated, and Graduate Leverage-originated loans; and EdvestinU, a loan consolidation company whose debut private student loan securitization is composed of New Hampshire Higher Education Loan Corporation-originated loans. At the end of 2016, student loan outstandings were $188.6 billion, a decline of 6.5 percent y-o-y.

The "other" category, or esoteric ABS, totaled $45.7 billion in 2016, a decline of 16.5 percent y-o-y, with declines in nearly all categories. Despite the headline risk generated by Lending Club earlier in the year, consumer/personal loan securitizations totaled $10.3 billion in 2016, an increase of 13.7 percent; the second half of the year was modestly stronger than the first half. Marketplace lender securitizations represented 44.8 percent by dollar amount of all personal loan securitizations, an increase from 32.7 percent in the prior year. Social Finance debuted its first personal loan securitization in 2016 and then went on to issue 4 additional deals in 2016 for a total of $2.6 billion, becoming the largest marketplace lender securitization issuer for personal loans in 2016. Along with Social Finance, the Marlette Funding platform debuted its first personal loan securitization backed by Best Egg-originated collateral.

Outside of consumer/personal loan securitizations, most esoteric ABS showed declines in issuance volumes from the prior year. Franchise securitizations fell by 61.3 percent to $2.8 billion, more in line with years prior to the high of $7.2 billion in 2015. Insurance also fell by

66.1 percent to $6.0 billion, down from the high of $17.8 billion in 2015, largely due to declines in catastrophe bond issuance, while timeshare volumes fell 4.7 percent to $720.3 million. Servicing advance securitizations totaled $3.5 billion in 2016, a decline of 36.0 percent from the prior year. Small business securitizations also fell, with $0.3 billion issued, a decline of 61.6 percent from the prior year; marketplace lender OnDeck continued to issue in that sector in 2016, however. "Green" finance securitizations had a mixed year in 2016, with $1.6 billion of PACE (Property Assessed Clean Energy) securitizations (a sevenfold increase from the prior year) and $0.3 billion in solar securitizations (a decline of 49.1 percent). Structured settlements totaled $0.1 billion, a decline of 85.8 percent. Timeshare securitizations were a bright spot, with $2.6 billion issued in 2016, an increase of 5.7 percent from the prior year.

Two debut securitizations in new collateral types were issued by telecommunications companies in 2016: Verizon issued its first public securitization backed by smartphone contracts, while Sprint issued its first public securitization backed by wireless spectrum licenses.

"Other ABS" outstanding volumes were $152.2 billion, an increase of 6.7 percent y-o-y.

CHARTS & DATA

ISSUANCE

$ Billions

Asset Backed Securities, Issuance

	2012	2013	2014	2015	2016
Auto	88.0	88.1	99.5	98.4	92.5
Fleet Lease	4.0	3.1	3.9	2.9	5.2
Floorplan	11.5	8.3	10.2	9.2	7.7
Leases	12.4	13.3	17.1	18.0	13.9
Near Prime	0.4	2.2	3.6	5.6	1.4
Prime	39.9	37.6	42.3	35.4	37.9
Subprime	17.5	20.0	19.9	22.7	22.3
CDO	44.0	79.9	123.8	102.3	78.1
Credit Cards	32.3	36.9	51.4	25.0	27.2
Equipment	18.3	19.4	20.3	17.7	14.9
Floorplan	2.7	0.9	1.4	0.8	1.2
Leases	4.9	5.2	5.0	5.1	5.0
Transportation	3.8	7.7	7.3	5.9	4.0
Other	31.1	36.8	61.2	54.8	45.7
Consumer	0.8	3.6	6.0	9.0	10.3
Franchise	1.6	1.2	1.6	7.2	2.8
PACE				0.2	1.6
Servicing Advances	2.2	4.7	2.5	5.5	3.5
Solar		0.1	0.5	0.6	0.3
Structured Settlement	0.6	0.6	0.7	0.8	0.1
Timeshare	2.8	2.4	2.8	2.4	2.6
Student Loans	25.3	22.7	15.7	14.2	16.4
FFELP	21.0	19.0	12.9	7.2	8.3
Private	4.3	3.0	2.8	6.6	7.9

Asset Backed Securities, Issuance by Rating (2016)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	64.6	4.7	5.4	3.8	13.8	92.5
Fleet Lease	4.0	0.1	0.2	0.0	0.9	5.2
Floorplan	6.7	0.2	0.0		0.8	7.7
Leases	11.1	0.3	0.1	0.0	2.3	13.9
Near Prime	0.3		0.6	0.0	0.5	1.4
Prime	31.1	0.5	0.5	0.3	5.3	37.9
Subprime	9.3	3.6	3.7	3.2	2.6	22.3
CDO	33.6	6.0	4.3	4.7	29.4	78.1
Credit Cards	25.7	0.3			1.2	27.2
Equipment	6.9	0.3	3.5	0.6	3.6	14.9
Floorplan	0.8		0.3	0.0		1.2
Leases	2.6	0.1	0.4	0.2	1.7	5.0
Transportation		0.2	2.8	0.4	0.6	4.0
Other	5.8	0.3	6.7	10.6	22.3	45.7
Consumer			1.9	0.6	7.8	10.3
Franchise				2.8		2.8
PACE					1.6	1.6
Servicing Advances	2.8	0.1	0.1	0.4	0.0	3.5
Solar				0.2	0.1	0.3
Structured Settlement	0.1			0.0		0.1
Timeshare			2.0	0.3	0.2	2.6
Student Loans	7.6	2.7	0.8	0.1	5.4	16.4
FFELP	2.8	1.8	0.0		3.7	8.3
Private	4.7	0.9	0.7	0.1	1.4	7.9

Mortgage Backed Securities, Issuance

	2012	2013	2014	2015	2016
CMBS	47.8	88.0	99.8	101.8	76.5
Conduit/Fusion	32.9	57.7	60.1	62.5	47.9
Large Loan	1.7	1.5	6.6	10.8	1.9
Single Asset/Single Borrower	8.7	24.5	23.3	24.3	21.1
Resecuritization	2.8	2.2	2.0	1.0	2.1
RMBS	27.9	50.3	73.9	97.4	83.9
Jumbo Prime	3.5	13.2	8.7	14.6	10.1
Scratch & Dent	2.6	10.7	26.5	41.6	26.4
Seasoned	5.4	6.1	3.3	3.1	13.0
Single Family Rental		0.5	6.7	6.9	5.1
Subprime/Nonprime			0.1	0.4	1.0
Resecuritization	16.5	15.5	16.3	17.0	8.5
Agency (ex. CMO)	1,730.2	1,596.8	1,000.7	1,322.5	1,607.3
FNMA	866.0	765.5	407.7	516.4	637.8
FHLMC	439.3	392.2	279.5	351.8	443.2
GNMA	424.9	439.1	313.5	454.3	526.3

Mortgage Backed Securities, Issuance by Rating (2016)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	41.9	7.1	5.3	9.7	12.5	76.5
Conduit/Fusion	32.4	4.9	2.7	3.9	4.0	47.9
Large Loan	0.8			0.3	0.8	1.9
Single Asset/Single Borrower	8.0	2.1	2.0	5.4	3.8	21.1
Resecuritization	0.3	0.1	0.1	0.1	1.7	2.1
RMBS	16.0	1.8	4.3	14.9	46.9	83.9
Jumbo Prime	8.4	0.5	0.4	0.3	0.5	10.1
Scratch & Dent	2.0	0.1	0.3	0.4	23.6	26.4
Seasoned	2.0	0.8	0.2	0.3	9.8	13.0
Single Family Rental	2.5	0.4	0.3	0.3	1.4	5.1
Subprime/Nonprime	0.1		0.2	0.1	0.6	1.0
Resecuritization			0.1	0.1	8.3	8.5
Agency (ex. CMO)	N/A	N/A	N/A	N/A	N/A	N/A
FNMA	N/A	N/A	N/A	N/A	N/A	N/A
FHLMC	N/A	N/A	N/A	N/A	N/A	N/A
GNMA	N/A	N/A	N/A	N/A	N/A	N/A

OUTSTANDING

$ Billions

Asset Backed Securities, Outstanding

	2012	2013	2014	2015	2016
Auto	142.0	161.1	179.8	190.5	195.5
Fleet Lease	5.0	5.1	6.5	6.8	8.6
Floorplan	27.7	30.3	30.6	31.2	31.4
Leases	18.0	20.4	23.5	24.6	22.5
Near Prime	0.5	2.7	6.2	9.8	7.5
Prime	56.3	61.6	68.2	67.9	71.4
Subprime	24.0	29.6	33.8	38.3	41.0
CDO					
Credit Cards	128.2	124.5	136.5	128.6	130.4
Equipment	41.8	48.3	53.1	51.9	50.8
Floorplan	3.4	4.3	5.2	3.9	3.0
Leases	6.6	8.5	8.9	8.2	7.9
Transportation	22.9	25.9	27.9	29.4	30.2
Other	104.9	117.1	124.9	142.5	152.2
Consumer	0.0	3.2	6.7	13.8	17.1
Franchise	3.2	4.0	5.3	11.8	14.0
PACE			0.2	0.8	3.2
Servicing Advances	3.8	6.4	6.0	5.5	5.5
Solar		0.1	0.3	0.5	0.8
Structured Settlement	2.9	3.2	3.6	3.9	3.7
Timeshare	4.3	4.6	5.3	5.4	5.5
Student Loans	235.1	230.0	218.1	201.8	188.6
FFELP	192.0	187.9	177.7	160.4	147.6
Private	38.2	37.2	35.9	37.1	37.1

Asset Backed Securities, Outstanding by Rating (2016)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
Auto	148.8	12.9	14.0	9.9	9.9	195.5
Fleet Lease	7.8	0.2	0.2	0.1	0.3	28.6
Floorplan	27.3	0.6	0.9	0.3	2.4	28.6
Leases	19.9	0.7	0.3	0.2	1.5	24.4
Near Prime	5.8	0.5	0.5	0.4	0.2	9.8
Prime	62.8	2.7	1.5	0.8	3.7	69.4
Subprime	16.0	8.2	8.2	7.2	1.4	41.2
CDO						125.6
Credit Cards	123.3	1.1	2.7	2.1	1.1	125.6
Equipment	16.2	1.3	19.0	7.2	7.0	50.2
Floorplan	2.7		0.1	0.1	0.1	3.6
Leases	5.4	0.5	0.6	0.3	1.1	
Transportation	0.1	0.6	18.2	6.7	4.7	28.1
Other	20.4	1.6	16.2	37.0	76.9	152.2
Consumer			6.0	2.7	8.3	16.8
Franchise		0.2		13.5	0.4	14.2
PACE					3.2	5.7
Servicing Advances	3.2	0.2	0.2	0.5	1.4	5.7
Solar				0.5	0.3	3.8
Structured Settlement	2.7	0.2	0.3	0.2	0.3	3.8
Timeshare		0.3	3.8	0.7	0.7	5.1
Student Loans	63.8	59.1	21.7	33.2	10.8	194.2
FFELP	51.2	54.2	13.5	22.4	6.2	153.1
Private	12.4	4.5	7.7	9.6	2.8	37.1

Mortgage Backed Securities, Outstanding

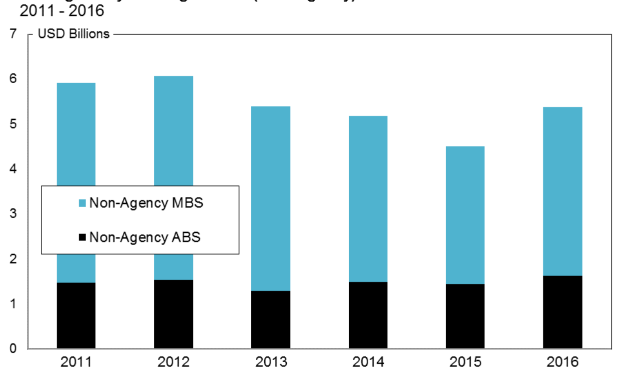
	2012	2013	2014	2015	2016
CMBS	638.4	626.0	627.2	601.5	528.0
Conduit/Fusion	542.8	524.7	507.6	457.7	382.3
Large Loan	23.4	13.8	13.1	19.9	18.5
Single Asset/Single Borrower	29.5	48.4	65.4	85.4	92.2
Resecuritization	24.7	22.5	20.1	16.6	12.4
RMBS	1,239.3	1,076.0	992.7	923.4	843.4
Jumbo Prime	183.4	151.9	133.2	119.0	102.7
Scratch & Dent	26.6	30.5	43.0	65.5	68.4
Seasoned	26.6	27.1	24.7	20.4	27.4
Single Family Rental	0.0	0.5	7.2	14.1	17.5
Subprime/Nonprime	338.7	299.4	271.5	242.2	215.4
Resecuritization	99.6	89.1	88.8	87.9	76.6
Agency (ex. CMO)	5,656.7	5,905.6	6,008.4	6,217.1	6,529.9
FNMA	2,705.0	2,803.8	2,803.6	2,823.0	2,913.9
FHLMC	1,585.5	1,621.7	1,663.2	1,751.0	1,849.2
GNMA	1,366.2	1,480.1	1,541.6	1,643.0	1,766.8

Mortgage Backed Securities, Outstanding by Rating (2016)

	AAA/Aaa	AA/Aa	A/A	BBB/Baa and Below	NA/NR	Total
CMBS	270.1	49.1	40.1	117.8	50.9	528.0
Conduit/Fusion	213.2	35.6	25.2	85.4	22.9	382.3
Large Loan	8.2	1.6	1.2	5.5	2.0	18.5
Single Asset/Single Borrower	42.4	11.1	8.6	20.6	9.5	92.2
Resecuritization	3.0	0.3	0.5	1.9	6.6	12.4
RMBS	50.0	14.0	22.3	581.3	175.8	843.4
Jumbo Prime	27.0	1.7	1.9	68.5	3.6	102.7
Scratch & Dent	4.9	1.2	1.5	11.3	49.5	68.4
Seasoned	6.0	5.0	0.5	0.7	15.3	27.4
Single Family Rental	8.8	1.8	1.4	1.1	4.4	17.5
Subprime/Nonprime	0.5	1.6	6.8	197.1	9.4	215.4
Resecuritization	0.8	0.5	0.6	8.4	66.3	76.6
Agency (ex. CMO)	N/A	N/A	N/A	N/A	N/A	N/A
FNMA	N/A	N/A	N/A	N/A	N/A	N/A
FHLMC	N/A	N/A	N/A	N/A	N/A	N/A
GNMA	N/A	N/A	N/A	N/A	N/A	N/A

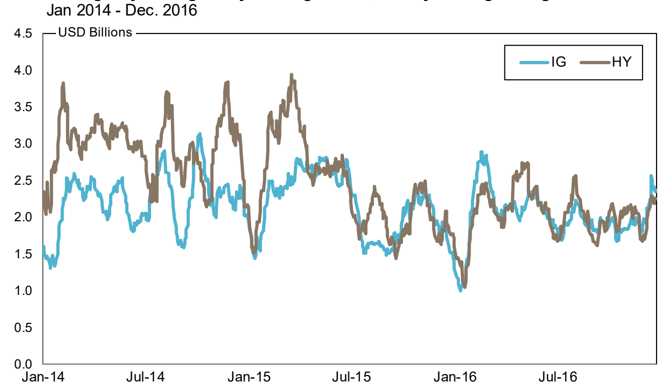
TRADING VOLUME

Average Daily Trading Volume (Non-Agency)
2011 - 2016



Source: FINRA Trace

Non-Agency Average Daily Trading Volume, 20 Day Moving Average
Jan 2014 - Dec. 2016



Source: FINRA Trace

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UPDATE ON KEY POLICY ISSUES

EVOLUTION OF THE GOVERNMENT SPONSORED ENTERPRISES

Credit Risk Transfer

Summary of Issue: In 2012, the Federal Housing Finance Agency (FHFA) initiated a strategic plan to develop a program of credit risk transfer to reduce Fannie Mae's and Freddie Mac's overall risk. In 2015, Fannie Mae and Freddie Mac (collectively, the GSEs or Enterprises) continued to grow the credit risk transfer programs. In June 2016, the FHFA released two documents pertaining to the credit risk transfer programs. *The Single-Family Credit Risk Transfer Progress Report* provided an overview of the credit risk transfer (CRT) programs.

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

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

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

- The first is SIFMA's main letter, which was joined by the Association of Mortgage Investors and the National Association of Real Estate Investment Trusts. This letter focuses on a few key issues – that FHFA not pick a winner among the various forms of CRT, that FHFA allow the market to continue to grow and experiment, and that we believe there will be a continuing important role for back end CRT such as STACR and CAS. The letter also explores in some detail regulatory barriers to broader participation of mortgage REITs in these markets, and other obstacles to broader liquidity.

- The second letter SIFMA drafted was joined by the ABA, AMI, HPC, MBA, and SFIG. This letter expresses the core shared views of the industry associations, namely that (1) FHFA not pick a winner among the various forms of CRT, (2) that FHFA work to ensure a level playing field, and (3) that improvements should be made to transparency of CRT and its economics.

Links and Documents:

- **SIFMA and Other Associations Submitted Comments to the FHFA on Credit Risk Transfer RFI – October 13, 2016**
- **SIFMA and Other Associations Submitted Comments to the FHFA on FHFA Front End CRT RFI – October 13, 2016**
- **SIFMA Submits Comments to Congress on CRT – December 7, 2015**

Single Security

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

The current timeline for implementation is as follows:

Release 1 (COMPLETE): In 2016, implement the Common Securitization Platform (CSP) for Freddie Mac's existing single class securities;

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

In July 2016, FHFA released the Update on Implementation of the Single Security.

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

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

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

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

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

Links and Documents

- **An Update on Implementation of the Single Security and the Com-mon Securitization Platform – March 2017**
- **FHFA's 2016 Scorecard for the GSEs**
- **SIFMA Submits Comment to FHFA on the Structure of the Single Security Update – August 21, 2015**

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

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

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

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

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

SIFMA members are continuing to work with Bloomberg to expand the application of this effort to foreign ETFs.

Links and Documents

- Federal Reserve Volcker Rule FAQ

REGULATION AB

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

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

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

Links and Documents:

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

SECURITIZATION DERIVATIVES

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

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

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

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

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

Links and Documents:

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

CREDIT RISK RETENTION

Implementation of Risk Retention Rules

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

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

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

Links and Documents:

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

FINRA

FINRA's Margin Requirements for TBA/Agency MBS Trading

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

On June 15, the SEC "approved on an accelerated basis" FINRA's third amendment to the 4210 TBA margin proposal. Effective dates for determination of risk limits are December 2016, and margin collection will be required in December 2017.

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

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

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

Links and Documents:

- **2017 Amendment to 2012 Master Securities Forward Transaction Agreement – February 2017**
- **Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval to a Proposed Rule Change to Amend FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for the TBA Market, as Modified by Amendment Nos. 1, 2, and 3 – June 15, 2016**

- SIFMA Submits Comments to the SEC on a Proposal to Amend FINRA Rule 4210 to Establish Margin Requirements for Transactions in the TBA Market - May 2, 2016
- SIFMA Submits Comments to the SEC Proposal to Amend FINRA Rule 4210 to Establish Margin Requirements for Transactions in the TBA Market – February 11, 2016
- SIFMA AMG Submits Comments to the SEC on FINRA Rule 4210 Regarding Margin Requirements for TBAs/Agency MBS – November 10, 2015
- SIFMA Submits Comments to the SEC on FINRA rule 4210 regarding Margin Requirements for TBAs/Agency MBS – November 10, 2015
- SIFMA Submits Comments to FINRA on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market – March 28, 2014

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

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

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

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

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

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

Links and Documents:

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

CAPITAL / PRUDENTIAL MATTERS

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

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

On July 11, 2016 the Basel Committee published its final rules related to STC securitization. Please see below for a short summary of the key points of the BCBS Revisions to the securitisation framework included in the final STC publication:

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

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

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

Links and Documents:

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

Fundamental Review of the Trading book

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

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

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

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

Links and Documents:

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

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

AMICUS BRIEFS

Madden v. Midland

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

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

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

Links and Documents:

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

MARKETPLACE LENDING

Treasury's Request for Comments on Marketplace Lending

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

SIFMA Advocacy: SIFMA submitted a comment letter in response to the RFI. SIFMA's comments addressed (1) structures used for marketplace lending and the regulation of marketplace lending; (2)

risk retention in secondary market activity, with regard to securitization as well as bilateral transactions (e.g. whole loan sales), where SIFMA does not believe risk retention requirements are appropriate; (3) investor considerations for investing in marketplace loans and securities; and (4) forms of secondary liquidity, as well as hurdles to increasing liquidity in this market.

In January 2017, SIFMA along with the Clearing House Association L.L.C., and the Independent Community Bankers of America, provides comment on the white paper published by the Office of the Comptroller of the Currency (OCC) entitled Exploring Special Purpose National Bank Charters for Fintech Companies. The White Paper discusses innovation in the financial services industry and announces the OCC's initiative to offer special purpose national bank (SPNB) charters to eligible financial technology (FinTech) companies.

Links and Documents:

- **SIFMA with Other Associations Submits Comments to the OCC Regarding White Paper on Exploring Special Purpose National Bank Charters for Fintech Companies – January 17, 2017**
- **SIFMA Submits Comments to Treasury on Marketplace Lending – September 30, 2015**

SIFMA EVENTS

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

Links and Documents:

- **FINRA 4210 Implementation Event – April 17, 2017**
- **FINRA 4210 TBA Margining Rules Event – July 27, 2016**
- **FINRA 4210 TBA Margining Rules Webinar – June 27, 2016**
- **FINRA 4210 TBA Margining Rules Webinar – February 12, 2016**

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