FHFA Chief Seen Lowering ‘Guarantee Fees’

There's talk that Federal Housing Finance Agency chief Mel Watt wants to lower the fees Fannie Mae and Freddie Mac charge mortgage-bond issuers to guarantee their paper — much to the dismay of professionals in the non-agency market.

Before Watt took over from FHFA acting chief Ed DeMarco a year ago this month, it was widely assumed the regulator would continue increasing the so-called guarantee fees in an effort to reduce the appeal of agency mortgage securitizations via private-label deals. Indeed, the charges nearly doubled during DeMarco's four years in office to about 50 bp of the loans' principal balances — and the expectation was that they would rise by another 5-10 bp by the end of this year.

In June, Watt effectively froze the fee pending further analysis. Now comes word that he's seriously considering reducing it, by as much as 10 bp. "Every inch of ground the private-label market had gained under DeMarco will be taken back by...

Issuers Peeved Over JP Morgan Adjustment

Asset-backed bond issuers are grumbling about how J.P. Morgan calculates the interest rates for their lines of credit. At issue is an early-2014 move in which the bank switched the benchmark for its warehouse facilities to three-month Libor from one-month Libor. Because the change wasn't accompanied by a corresponding reduction in spreads, the upshot for issuers has been a higher cost to accumulate receivables for securitization.

Take the typical auto lender. It's still paying a spread of 50-75 bp for its credit line. But instead of that charge being based on one-month Libor, at 0.15%, it is calculated against the three-month rate of 0.23%.

With cheaper financing available from other Wall Street institutions, J.P. Morgan's clients increasingly have begun voicing their displeasure in recent weeks. Some have gone so far as to consider replacement warehouse providers, and possibly bookrunners. "I've personally had enough of the higher rates. Ending the...

Bingham Team Eyes Morgan Lewis Clients

The takeover of Bingham McCutchen by Morgan Lewis gives Bingham's industry-leading securitization practice additional resources to expand its client roster. The Bingham team, led by John Arnholz and Reed Auerbach, already is eyeing Morgan Lewis' REIT practice in Philadelphia and energy group in Houston as fertile ground for new deals, sources said. Currently, securitization isn't part of the funding mix for clients of those units.

For Morgan Lewis, meanwhile, the Bingham deal instantly propels it to the top of the league tables for securitization law practices. The Philadelphia firm hasn't regularly competed for assignments from issuers or underwriters in recent years — just as Bingham was absent from the field until it acquired securitization powerhouse McKee Nelson in 2009. Since then, the Boston firm has consistently ranked at or near the top of issuer and underwriter counsel rankings maintained by Asset-Backed Alert.

“The deal made perfect sense for Morgan Lewis, given they didn't have a...
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CLO Issuers Find Breathing Room

Collateralized loan obligation managers saw their issuing costs fall in recent days.

The movement took hold at the mezzanine level, where spreads on newly issued securities with double-B ratings and 7-9 year maturities tightened by at least 25 bp in the past week. Those notes now are selling at 635-695 bp over three-month Libor.

For example, BlackRock was circulating the double-B piece of a deal called Magnetite CLO 11 this week at a spread of slightly less than 660 bp.

The narrowing partly reverses a trend in which spreads on mezzanine CLO paper had moved out by some 80 bp since the beginning of the year. A factor in the shift has been a stronger bid for leveraged loans, as CLO yields tend to rise and fall in line with their underlying assets. Another explanation: With spreads widening, issuers responded in late October by reducing the flow of new deals for first time all year — causing what had been an overflow of supply to suddenly fall short of demand.

Volume has fluctuated since then. Initially, the flow of new offerings dropped to just one or two per week from an average of five or six. That was followed in recent weeks by a brief flurry of activity. But things are expected to quiet down again on Dec. 7-9, as some 1,000 industry participants head to the St. Regis Monarch Beach Hotel in Dana Point, Calif., for Opal Financial’s annual “CLO Summit.”

With funding costs now on the decline, issuers are expected to return to the gathering eager to complete their final offerings of 2014. Among those expected to hit the market by year-end: Credit Suisse Asset Management, with Citigroup running the books; GS0 Blackstone, via J.P. Morgan; MJX Asset Management, via BNP Paribas; and THL Credit, via Deutsche Bank.

Still, a heavy flow of deals that prevailed for much of this year has left many investors satiated — meaning that spreads on senior CLO paper typically remain wide of where they were a few months ago. Even the highest-regarded issuers are paying about 150 bp over Libor to place new triple-A-rated notes with five year lives, with their less-active peers forking over 160-170 bp.

Morningstar Targets ‘Non-QM’ Deals

Morningstar’s mortgage-bond rating unit is trying to gain a foothold by focusing on securitizations of non-qualified home loans.

The Horsham, Pa., company introduced its rating methods for mortgage-backed securities in June, but has yet to grade a deal. It has been stymied by an ongoing drought of jumbo-mortgage securitizations, as well stiff competition from rival rating shops. The “big three” — Moody’s, S&P and Fitch — dominate the sector, while Morningstar, DBRS and Kroll are struggling to gain traction.

That’s why Morningstar is now focusing on the small but growing market for bonds backed by loans that don’t meet the Consumer Financial Protection Bureau’s “qualified-mortgage” standards. The label applies to mortgages with debt-to-income ratios below 43%, maturities of 30 years or less and proof of borrowers’ abilities to repay.

Within the “non-QM” sphere, Morningstar plans to specialize in loans to borrowers with lower credit scores, including those whose records are tarnished by foreclosures or short sales. Several investment shops including Angel Oak Funding and New Penn Financial are building securitization programs with a focus on those types of mortgages. Indeed, sources said Morningstar has been talking to those firms with hopes of landing assignments for their debut bond offerings, expected to hit the market in 2015.

“It’s hard to break into the jumbo space, so Morningstar is looking for a sweet spot, and it appears to be riskier non-QM,” one source said. “There’s a lot of capital invested there and they think they’ll be able to evaluate that credit risk and rate those deals.”

Morningstar spent two years developing its mortgage-bond rating program under the direction of Brian Grow. It also is scouting assignments from issuers of bonds backed nonperforming and reperforming mortgages.

Western Links Up With Originator

Western Asset Management has added W.J. Bradley to a network of originators that supply it with “stated-income” mortgages — accounts the firm eventually plans to securitize.

Western started taking on loans from W.J. Bradley about a month ago, working through a REIT called Western Asset Mortgage Capital. The relationship adds to ongoing efforts by the Pasadena, Calif., investment firm to expand a network of almost a dozen correspondent lenders that write loans outside the parameters of the Consumer Financial Protection Bureau’s “qualified-mortgage” guidelines.

Stated-income mortgages are loans that don’t require verification of earnings via pay stubs or tax forms. Borrowers are required to submit proof of employment, however, and Western’s accounts are limited to those with high credit scores and large down payments.

Western started talking to bankers and investors about the loans around midyear, expressing a desire to build a portfolio that it would fund through securitization. The fixed-income specialist had $468.2 billion under management as of March 31.

W.J. Bradley is a heavy originator of agency mortgages and private-label jumbo loans, but hasn’t been active in the stated-income market until now. Its jumbo-loan buyers include Redwood Trust, which routinely packages the credits into mortgage-backed securities.

Drill down deep into our market statistics. Go to The Marketplace section of ABAAlert.com and click on “ABS Market Statistics,” which lets you see the data points behind all the charts that Asset-Backed Alert publishes each week. It’s free.
China Regulators Lift Issuance Barriers

Back-to-back decrees from financial regulators in China are raising expectations of a substantial increase in the issuance of asset-backed securities by the nation’s banks.

Under the rule changes, issuers no longer need prior approval from the China Banking Regulatory Commission and China Securities Regulatory Commission before selling bonds. The move is expected to streamline the issuance process, since pre-approval entailed collateral reviews that typically dragged on for months.

Under the new regime, issuers can wait until after a deal is complete to submit the necessary regulatory documents. And the scope of the commissions’ reviews is now much narrower — the main issue being whether the transactions are in compliance with applicable codes. As in the past, prospective issuers will still need regulatory approval prior to establishing securitization programs.

The securities commission took action on Nov. 19. The banking regulator followed suit the next day. The edicts received little notice inside or outside of China.

Securitization professionals said the rule changes should go a long way toward boosting deal production. The effect likely will be most noticeable in the market for collateralized loan obligations — by far the biggest asset class in China’s structured-finance sector.

“This is a very positive development for China’s asset-securitization markets,” said Richard Mertl of Schulte Roth, which works closely with the trade group China Securitization Forum in the U.S. “The lowered barriers to entry could lead to the advent of arbitrage-based CLO structures in China, as a complement to the balance-sheet structures that have dominated the market to date.”

According to the trade group, Chinese banks had issued 215 billion yuan ($35 billion) of CLOs this year as of Nov. 27. That’s nearly a third of the year-to-date total for the U.S., where issuance volume already has topped the previous full-year record.

Unlike the U.S. and Europe, however, most Chinese CLOs are issued by banks as a way to fund their corporate-lending programs. The absence of asset managers that use CLOs for arbitrage purposes reflects a lack of secondary-market trading of corporate loans.

“Whether a robust arbitrage CLO market develops in China will depend in large part on corresponding developments in the secondary loan market,” said Joseph Suh, a partner at Schulte Roth.

Other asset classes poised to gain from the rule changes include auto loans and mortgages. So far this year, auto lenders have produced six securitizations totaling 12 billion yuan, according to a Dec. 3 report from Moody’s. Meanwhile, Postal Savings Bank of China issued the country’s first mortgage-backed securities transaction since the financial crisis when it sold 6.8 billion yuan of bonds in July.

The regulatory shift won’t have any immediate impact on the credit-card sector, despite an explosion of consumer lending in China. That’s because the government views credit-card accounts as too risky to be securitized.

Credit cards aside, the Chinese government has been encouraging securitization as a way to stimulate a slackening economy. Among other steps, regulators are considering a program that would make it easier for issuers to distribute their deals among foreign investors by taking advantage of the country’s free-trade zones.

Banks that have set up securitization programs in the past year or so include the Agricultural Bank of China, Bank of China, Bank of Communications, China Development Bank, Construction Bank of China and Industrial and Commercial Bank of China.

Bondholders Track Merger Plans

Holders of subprime auto-loan bonds issued by CarFinance Capital and Flagship Credit are seeking more information on how the securities’ collateral will perform as the companies combine their operations.

The concern is that CarFinance and Flagship will shutter some of their loan-servicing centers as part of the planned merger, potentially leaving their collection operations short-handed. Bondholders especially are seeking more information on the treatment of troubled loans, which are far more labor-intensive to manage than performing accounts.

The queries have been directed mainly at underwriters. CarFinance’s past deals have been led by Credit Suisse and Deutsche Bank, while Flagship worked with Barclays, Goldman Sachs and Wells Fargo.

So far, those shops haven’t been able to offer much guidance. But Fitch released a report on Dec. 3 stating that it was unlikely the merger would affect the ratings of the lenders’ bonds.

Asset manager Perella Weinberg, which holds majority stakes in both CarFinance and Flagship, said on Nov. 6 that it would combine the companies in a bid to streamline their businesses and expand their footprints. The merged operation will retain the Flagship name, with Flagship chief executive Michael Ritter at the helm.

CarFinance founder Jim Landy, meanwhile, parted ways with the company on Nov. 24. The word is that Landy was offered a spot on Flagship’s board, but turned it down because he wouldn’t be designated as chairman. He now appears to be working toward the launch of a new subprime auto-lending business.

CarFinance, of Irvine, Calif., has completed four securitizations totaling $1 billion, according to Asset-Backed Alert’s ABS Database. Flagship, of Chadds Ford, Pa., has issued seven deals totaling $1.6 billion. With a loan portfolio of about $2 billion, expectations are that the combined company would come to market more frequently and with larger offerings.
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CLOs at Core of Investment Venture

A startup hedge fund manager wants to invest in collateralized loan obligations, and possibly issue them itself.

Bradford Park, led by former Stifel Nicolaus executive Andy Frank and Morgan Stanley alumnus Gene Martin, still is in the early planning stages of the effort. Indications are that the shop will seek to raise $250 million to $500 million of equity for a vehicle called Bradford Park Credit Opportunity Fund, according to sister publication Hedge Fund Alert.

The fund’s investments would include control-oriented stakes in CLO equity — part of a strategy encompassing a mix of exposures to mid-size businesses. Other holdings would include interests in asset-management companies and direct corporate-loan investments.

In some of those cases, the positions would dovetail with plans by Frank and Martin to start a CLO-issuing operation, or possibly a business development company or small business investment company. In fact, the fund itself eventually may adopt one of those structures.

The vehicle would aim to produce annual returns of 11-16%, while using leverage equal to 1-2 times its equity.

Frank and Martin share the title of chief investment officer at Bradford Park. Frank left Stifel Nicolaus this May. He had been head of leveraged-finance syndication and CLO origination at the brokerage, which so far has led one CLO. Martin parted ways with Morgan Stanley in April 2013. He was co-heading the bank’s leveraged-finance desk at the time.

Also involved are Bruce Toll, co-founder of homebuilder Toll Brothers, and Doug Topkis, chief executive of coal-mining company Lehigh Natural Resources. Both are named as partners in Bradford Park’s marketing documents, and are supplying financial backing. Frank and Martin plan to contribute about $25 million of their own money to the firm’s fund as well.

Rental Financing Still Taking Shape

The outlook for securitizations of rental-home receivables continues to evolve.

The latest twist results from an increased emphasis that companies including Blackstone and Cerberus have placed on financing acquisitions of single-family homes by investors — as opposed to purchasing foreclosed-upon properties themselves.

Initially, indications were that the lenders would construct multi-borrower securitization pools in which the underlying landlords might take out loans to buy, say, 100 homes at a time. But with most of the rental market controlled by smaller property owners, the buzz now is that batches of perhaps six homes apiece eventually could become more prominent.

Mortgages on individual investment properties even could find their way into the mix.

The projected changes are coming even before the asset class has produced a multi-borrower deal. Blackstone and Cerberus are aiming for the first half of next year to start issuing such bonds, with Blackstone working through its B2R Finance unit and Cerberus operating via its FirstKey Lending subsidiary. Colony American Homes also has a transaction in the works.

The efforts fit into a broader trend in which shops including Blackstone, Cerberus and Colony recently have reduced their direct purchases of foreclosed homes for conversion to rentals, while turning their attention to financing other property buyers instead. As those initiatives recently began to take shape, it became clear the shops would offer fewer bonds backed directly by rental cashflows and more secured by multiple loans.

FirstKey said on Nov. 24 that it would offer 30-year fixed-rate loans to landlords with no restrictions on the sizes of their portfolios. BR2 and Colony, meanwhile, recently reached out to investors with as few as five houses. “This could go in a number of ways,” one property buyer said. “The B2Rs of the world can become almost like mortgage lenders . . . They could really build out [correspondent-lending programs] and make loans to persons with 2-5 houses.”

The shift was on display Dec. 3-5 at Information Management Network’s “Third Annual Single Family Rental Investor Forum” in Scottsdale, Ariz. The 950-person gathering, initially geared toward institutional investors, this time included sessions like “100 flips a year, how to scale up your operation.”

According to an Oct. 6 report by Keefe, Bruyette & Woods that pegs the number of single-family rental homes in the U.S. at 14 million, half of the market is controlled by landlords who own just one investment property. Those with portfolios of 2-10 make up another 35%. While institutional investors hold the largest individual pools of rental homes, those that have assembled portfolios of at least 250 properties since 2012 weigh in at just 4%.

In the past, smaller landlords typically have financed their property purchases with a mix of bank loans and cash.

Bingham ... From Page 1

securitization practice,” one source said. “This gives the Bingham guys a much larger footprint in the middle of the country and [access] to top companies that they can now offer securitization as a funding strategy.”

In the newsletter’s most recent ranking, Bingham finished first among underwriter counsel, with 31 deals totaling $17.5 billion during the first half of this year. It finished second among issuer counsel behind Mayer Brown, with 23 deals totaling $8.6 billion.

Morgan Lewis completed its deal with Bingham on Nov. 24, absorbing 226 partners and 525 other lawyers. Nearly a quarter of Bingham’s partners left, but its structured-finance practice was left virtually intact. Only one partner in the practice, mortgage-bond specialist Robert Gross, opted to leave. He joined Clifford Chance on Dec. 1.

Arnholz and Auerbach filled his shoes by elevating associate Asa Herald to partner, effective Jan. 1. They are now considering hiring more lawyers to further expand the 30-plus member practice.

Bingham agreed to the takeover by Morgan Lewis following a year of partner defections and mounting financial difficulties. Bingham’s liabilities are estimated at about $100 million.
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Mortgage-Agency Plans Remain Wild Card

The government’s plans for Fannie Mae and Freddie Mac have taken a far higher profile on securitization professionals’ lists of key regulatory matters — with some moves suggesting that the agencies soon will unwind and others indicating that they’re here to stay.

One of the latest developments on that front took place in the past week or two, when U.S. Treasury Department official Richard Stegman narrowed down a list of banks that might issue a $1 billion “benchmark” securitization of private-label mortgages. Candidates include Credit Suisse, J.P. Morgan and Redwood Trust. Stegman also has spoken to potential investors, including Pimco and TIAA-CREF.

Stegman, whose official capacity is as counselor to the secretary for housing finance policy, has been working since mid-year to rally support for the initiative. On Nov. 12, for example, he addressed issuers, investors, trustees, servicers and rating agencies at a roundtable on the project. The idea is to stimulate financing for non-agency mortgages through the creation of a universal securitization structure — a move that would better equip private-label lenders to step in for Fannie and Freddie.

But at the same time, the Federal Housing Finance Agency has been working under Director Mel Watt to cement the agencies’ presence. For example, the regulator relaxed credit-quality requirements for borrowers on Dec. 1 and is considering a reduction in “guarantee fees” for agency loans (see article on Page 1).

Given the possibility of a power struggle, Stegman could lose some backing among Congressional Republicans — who long have seen the shuttering of Fannie and Freddie as a priority. For instance, House Financial Services Committee chairman Scott Garrett (R-N.J.) and Jeb Hensarling (R-Texas) sent a letter in the past few weeks distancing the GOP from his efforts. “They said they saw what Stegman was trying to do, but he needed to resolve the conflict with Watt,” one source said. “I don’t see the GOP helping him in the least.”

That said, Republican lawmakers have been looking at their newly won majority in the Senate and expanded majority in the House as possibly supporting the passage of a bill that would withdraw government support of Fannie and Freddie.

The situation contrasts with other matters on the regulatory front, where the outlook is clearer than it has been since before the 2007 market meltdown. For instance, the FDIC, FHFA, Federal Reserve, HUD, SEC and Treasury Department finally decided in October which types of assets could be securitized without triggering a Dodd-Frank Act requirement that issuers retain 5% exposures to their deals.

The SEC, after a three-year wait, also discarded the “Franken Amendment” in favor of a more modest approach to rating-agency regulation. And wrapping up a four-year process, the SEC in August completed revisions to Regulation AB.

Separately, Finra is readying a plan to disseminate trade-by-trade data on a variety of asset-backed bonds. Efforts by various municipalities to seize underwater mortgages through the use of eminent domain also have caught a second wind. And Republicans again are eyeing the creation of a regulatory framework for covered-bond sales. The following is a rundown of the most pressing regulatory developments of relevance to securitization professionals in the U.S.

Risk Retention — CFPB

The FDIC, Federal Housing Finance Agency, Federal Reserve, HUD, SEC and Treasury Department adopted a final version of the Dodd-Frank Act’s risk-retention rules on Oct. 21 and 22, at last spelling out the instances in which issuers will have to keep 5% exposures to their securitizations. Implementation is expected in late 2016. For private-label mortgage bonds, the skin-in-the-game requirement will apply to all deals whose underlying assets don’t meet the regulators’ definition of “qualified residential mortgages” — a set of conditions that includes documentation of borrowers’ abilities to prepay and maximum debt-to-income ratios of 43%. Auto-loan securitizations generally are subject to the retention mandate, but can gain exemptions if all of the underlying borrowers have down payments of at least 10% and are current on their other bills. For student-loan deals, issuers of bonds backed by Federal Family Education Loan Program credits will have to keep exposures equal in percentage to the largest unguaranteed portion of any underlying account. That works out to 3% for most deals, reflecting a 97% limit that the U.S. Department of Education placed on its guarantees in 2006. Private student-loan bonds will be subject to the full 5% requirement, as will most other types of asset-backed securities.

As for collateralized loan obligations, which also fall under the 5% rule, the Loan Syndications and Trading Association filed a lawsuit in U.S. Appeals Court in Washington on Nov. 10 seeking to reverse the measure. While many CLO managers have been setting up affiliated entities to take on the necessary stakes in their deals, the complaint argues that small and mid-size issuers would find it too difficult to remain in the business. The LSTA already had been fighting the measure for years, suggesting alternatives while asserting that the regulators didn’t have jurisdiction over CLOs. Its action, which is expected to take at least a year, names the Federal Reserve and SEC as defendants.

Volcker Rule — Congress

A bill that would ease the Volcker Rule’s effects on collateralized loan obligations could find new life. The measure, sponsored by Rep. Andy Barr (R-Ky.), was passed by the House See ROUNDPUP on Page 10
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in April but stalled in the Democrat-controlled Senate. With Republicans assuming control of both chambers in January, however, the belief is that the proposal is likely to be reintroduced. At issue is language in the Volcker Rule that allows banks to invest in CLOs only if the deals are backed entirely by loans. While issuers have adjusted by omitting any bonds from the asset pools backing new deals, they have struggled to remove such receivables from some older ones. Barr's solution: To modify Volcker to allow banks to hold any CLOs completed before Jan. 31, 2014.

The Volcker Rule, part of the Dodd-Frank Act, was adopted in December 2013 by the Commodity Futures Trading Commission, Federal Reserve and SEC. Amid a lawsuit from the American Bankers Association and complaints from other trade groups, the agencies later extended the deadline for compliance by two years, to July 21, 2017. While that gives existing deals more time to run off, concerns remain that banks will have to hold forced sales of non-compliant holdings.

Trade Reporting — Finra

The SEC gave Finra the go-ahead on Aug. 3 to begin disseminating trade-by-trade data on a range of asset-backed bonds. The expanded protocol adds securities underpinned by auto loans, credit-card accounts and student loans to the products subject to such disclosures via the self-regulatory body's Trade Reporting and Compliance Engine, effective April 2015. Collateralized loan and debt obligations will remain exempt, however, as will commercial mortgage bonds. As for non-agency home-loan bonds, Finra is expected to announce its plans by yearend. There have been some indications that those products will receive the same pass granted to CLOs and commercial MBS. But bond brokers remain nervous that the agency will treat the deals like asset-backed securities — and have been urging against such a move as a threat to their profits. Their fears have been stoked in part by SEC Chairman Mary Jo White, who has been pushing for added transparency in the fixed-income market.

Trace currently reports trading and pricing information for structured products on an aggregate basis.

Mortgage Agencies — Congress

The Federal Housing Finance Agency relaxed the mortgage-buying guidelines of Fannie Mae and Freddie Mac on Dec. 1, making it easier for lower-credit-quality borrowers to take out agency loans. Under their regulator's new conditions, the agencies will lend to individuals with credit scores as low as 620, down from 660, and will accept down payments as small as 3%, down from 5%. The moves come as unwelcome news for private-label mortgage specialists, as Fannie and Freddie now are positioned to build on the estimated 90% of the home-loan market that they already control. They also add to mixed signals about long-running efforts in Washington to unwind the two agencies.

On one hand, an expanded lending mandate suggests that those initiatives have lost much of their momentum. But FHFA chief Mel Watt has acknowledged in recent hearings before the Senate Banking Committee and the House Financial Services Committee that he expects Congress to act in reducing the government's role in the mortgage market. To that end, Republicans indeed are eying their newly won majority in the Senate and expanded majority in the House as a likely path to shuttering the agencies.

One possible plan would call for the reintroduction of the Housing Finance Reform and Taxpayer Protection Act. That measure, which stalled after receiving approval from the Senate Banking Committee in May, would replace Fannie and Freddie in five years by establishing a new guarantor called the Federal Mortgage Insurance Corp. Meanwhile, Watt appointed former GMAC Mortgage head David Applegate on Nov. 4 as chief executive of an FHFA-sponsored operation called Common Securitization Solutions that is tasked with creating a shared bond-issuing program for the agencies.

Disclosure — SEC

The SEC finalized revisions to its Regulation AB on Aug. 27, more than four years after starting the process. The updated disclosure rule requires issuers of most SEC-registered securitizations to supply loan-by-loan descriptions of the deals' underlying assets in a prescribed format. For transactions backed by residential mortgages, commercial mortgages or auto loans, the requirement takes effect after two years. Issuers in those asset classes also will have to start filing prospectuses at least three days before pricing their offerings, effective December 2015. Collateralized loan obligations are exempt, however, as are securitizations of student loans, equipment receivables and leases on vehicle fleets.

The goal of the Reg AB revision is to create more transparency among asset- and mortgage-backed bond deals. But issuers of auto-loan securities have said the measure would allow competitors to view proprietary information about their lending programs, and that they therefore would opt for privately placed offerings instead. Meanwhile, data companies are equipping themselves for a rush of business — while the SEC seeks volunteers for a pilot project under which issuers would comply ahead of schedule.

Liquidity Coverage Ratios — BIS

The Comptroller of the Currency, Federal Reserve and FDIC won’t count asset- and mortgage-backed toward banks’ “liquidity coverage ratios.” The agencies finalized their so-called LCR
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... From Page 10

rule on Sept. 3, directing large banks to hold enough high-quality liquid assets to cover all projected outflows over a 30-day period of stress. The measure — part of the U.S. government’s plan to implement the Bank for International Settlements’ Basel 3 accord — is meant to equip the institutions to withstand the types of runs by investors that many experienced during the credit crisis. But banks in the States complain that it places them at a disadvantage to their peers in Europe, who can count asset- and mortgage backed bonds toward their ratios.

U.S. banks also have to be fully compliant by Jan. 1, 2017, two years before the Europe version is in effect. The rule applies to banks with assets of $250 billion or more, or at least $10 billion of on-balance-sheet foreign exposure. Non-bank institutions deemed “systemically important” also must comply. Speaking at the Clearing House’s annual conference in New York on Nov. 20, Federal Reserve Governor Daniel Tarullo said the central bank plans to scout out financial companies with poor liquidity positions for corrections or even enforcement actions.

Covered Bonds — Congress

With Republicans calling the shots in both chambers of Congress, Rep. Scott Garrett (R-N.J.) is poised to reintroduce a covered-bond bill next year. The measure would mimic a proposal from Garrett that stalled after passing the House Financial Services Committee in 2011. The goal: To spell out acceptable structures for covered bonds backed by mortgages, auto loans, credit-card accounts, student loans and small-business loans in the U.S. Look for Garrett to come out with a new House version early next year, with a companion bill following in the Senate soon after.

While the legislation is expected to receive strong bipartisan support, the Republican takeover of Congress has raised hopes among supporters that they can overcome objections from the FDIC. In the past, the deposit insurer has quashed similar efforts, citing concerns that it would be unable to seize cover-pool assets in the event that an issuing bank were to fail.

Conflicts of Interest — SEC

Industry professionals are still waiting for the SEC to draft a Dodd-Frank Act rule designed to eliminate “material conflicts of interest” among structured-product issuers and underwriters. Indications had been that the agency would begin working on the measure once it finalized the Volcker Rule. But there has been no apparent movement since the Commodity Futures Trading Commission, Comptroller of the Currency, FDIC, Federal Reserve and SEC adopted Volcker a year ago. The conflict-of-interest rule, known as Section 621, would prohibit issuers and underwriters of securitizations from taking positions at odds with the interests of investors within a year of a deal’s closing. That likely would bar transactions that benefit from declining bond values. Legitimate hedging, market making and meeting of liquidity commitments still would be allowed.

Eminent Domain — Municipalities

Just when it appeared that efforts had ended among various municipal bodies to use eminent domain to retire underwater mortgages, the idea gained new life. A proposed “joint-powers” resolution would see San Francisco team up with the neighboring city of Richmond to revive a long-developing project that Richmond shelved earlier this year. Richmond has been working with investment firm Mortgage Resolution Partners since 2012 to start a program under which it would use its eminent-domain rights to buy upside-down mortgages for less than the amounts owed and place borrowers in new, lower-balance loans. But the city shelved the effort early this year when it became clear the measure wouldn’t win the necessary supermajority vote. Richmond officials then approached their peers in San Francisco, invoking a California law under which such resolutions can be enacted with simple majorities if adopted jointly with other municipalities. The San Francisco Board of Supervisors delayed a vote on the matter in October, pending further study.

Meanwhile, several members of the New York City Council began lobbying Mayor Bill de Blasio in June to move forward on a plan to buy more than 50,000 mortgages on homes facing default. Should one or both of the initiatives gain approval, groups including Sifma and the Federal Housing Finance Agency likely would sue to stop them.

Rating Agencies — SEC

The SEC finally put the “Franken Amendment” to rest on Aug. 26, adopting an alternative rule that requires rating agencies to “establish, maintain, enforce, and document an effective internal control structure.” As originally written, the Dodd-Frank Act measure would have created a government panel to distribute rating assignments for structured-product transactions unless the SEC came up with a replacement — something the regulator apparently achieved with its adaptation.

The new rule, which goes into extensive detail about how to implement the required controls, answers long-running complaints from securitization professionals that the original version wouldn’t work. But it goes against the wishes of Franken, who had written a letter to the SEC on Aug. 1 requesting that the 3-year-old regulation take effect as-is. It also faced opposition from SEC officials who feel it does little to fix the main problem with the bond-rating process: That issuers, rather than investors, pay for the grades. ❖
# Main Events

<table>
<thead>
<tr>
<th>Dates</th>
<th>Event</th>
<th>Location</th>
<th>Sponsor</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 7-9</td>
<td>CLO Summit</td>
<td>Dana Point, Calif.</td>
<td>Opal Financial</td>
<td><a href="http://www.opalgroup.net">www.opalgroup.net</a></td>
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<tr>
<td>April 20-22</td>
<td>Single Family Rental Investment Forum</td>
<td>Miami</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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<tr>
<td>April 21-22</td>
<td>Investors' Conference on CLOs &amp; Leveraged Loans</td>
<td>New York</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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<tr>
<td>June 16-18</td>
<td>Global ABS 2015</td>
<td>Barcelona</td>
<td>AFME &amp; IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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<tr>
<td>Sept. 16-18</td>
<td>ABS East</td>
<td>Miami</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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# Events in US

<table>
<thead>
<tr>
<th>Dates</th>
<th>Event</th>
<th>Location</th>
<th>Sponsor</th>
<th>Information</th>
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<tbody>
<tr>
<td>Dec. 12</td>
<td>Securitization Pricing, Investment &amp; Risk Seminar</td>
<td>London</td>
<td>SCI</td>
<td>structuredcreditinvestor.com</td>
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<tr>
<td>March 16-17</td>
<td>Residential Mortgage Servicing Rights</td>
<td>New York</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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<tr>
<td>April 8-10</td>
<td>Real Estate Lending Conference</td>
<td>Baltimore</td>
<td>ABA</td>
<td>www aba.com</td>
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<tr>
<td>April 30-May 1</td>
<td>Sunshine Backed Bonds</td>
<td>New York</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
</tr>
<tr>
<td>April 30-May 1</td>
<td>Residential Mortgage Litigation &amp; Reg. Enforcement</td>
<td>Washington</td>
<td>ACI</td>
<td><a href="http://www.americanconference.com">www.americanconference.com</a></td>
</tr>
<tr>
<td>May 7-8</td>
<td>Education Finance &amp; Loan Symposium</td>
<td>Washington</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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# Events Outside US

<table>
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<th>Event</th>
<th>Location</th>
<th>Sponsor</th>
<th>Information</th>
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<tr>
<td>Dec. 8-12</td>
<td>Risk Minds International</td>
<td>Amsterdam</td>
<td>ICBI</td>
<td><a href="http://www.riskmindsinternational.com">www.riskmindsinternational.com</a></td>
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<td>Dec. 11-12</td>
<td>Nordic High Yield Bond Conference</td>
<td>Oslo</td>
<td>Euromoney</td>
<td><a href="http://www.euromoneyseminars.com">www.euromoneyseminars.com</a></td>
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<tr>
<td>Dec. 12</td>
<td>Securitization Pricing, Investment &amp; Risk Seminar</td>
<td>London</td>
<td>SCI</td>
<td>structuredcreditinvestor.com</td>
</tr>
<tr>
<td>March 5-6</td>
<td>Global Covered Bonds Conference</td>
<td>London</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
</tr>
<tr>
<td>March 9</td>
<td>Investors' Conf. on European CLOs &amp; Leveraged Loans</td>
<td>London</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
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<tr>
<td>March 16-20</td>
<td>Risk Minds Insurance</td>
<td>Amsterdam</td>
<td>ICBI</td>
<td><a href="http://www.riskmindsinsurance.com">www.riskmindsinsurance.com</a></td>
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<tr>
<td>April 29-30</td>
<td>CLOs &amp; Leveraged Loans Forum</td>
<td>London</td>
<td>C5</td>
<td>c5-online.com/clo</td>
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<tr>
<td>May 28</td>
<td>Conf. on European Alt. Financing &amp; Marketplace Lending</td>
<td>London</td>
<td>IMN</td>
<td><a href="http://www.imn.org">www.imn.org</a></td>
</tr>
</tbody>
</table>

To view the complete conference calendar, visit The Marketplace section of ABAAlert.com
Shop Sheds Light on Peer Loans

A New York technology company with a focus on peer-to-peer lending is launching a software package that helps loan investors monitor and communicate with originators.

**Orchard Platform** unveiled its Orchard Originator Database today, billing the product as a first-of-its-kind source of aggregated information on so-called marketplace lenders. Users can filter the data according to a number of parameters, including terms, borrower types and credit histories.

While the fee-based offering currently is geared toward loan investors, it eventually could be used by buyers of bonds backed by the accounts. Orchard also is pitching the product as a way for lenders to inform investors about their activities, and to interact directly with them.

The project is meant to complement Orchard’s core business of helping marketplace lenders build their technology infrastructures.

**Policy ... From Page 1**

relationship is on the table,” one major issuer said. “It could be a very different year for us in 2015.”

It’s unclear why issuers are just now taking J.P. Morgan to task. One likely explanation: Most initially tolerated the higher charges as the price of access to the bank’s deep pockets and massive distribution channels, but lately have faced more pressure to cut expenses amid a general rise in securitization costs and forecasts for more volatility next year. “They’re looking to save anywhere they can,” one investor said.

So why did J.P. Morgan switch its benchmark? Indications are that the bank’s treasury department issued the directive, acting on expectations of a broad rise in interest rates that would include a steeping of the yield curve. That is, it believes three-month Libor will rise faster than the one-month rate — resulting in more generous returns from its warehouse lines.

“It’s an easy way for J.P. Morgan to make money,” one source said. “Up until now, no one has complained, publicly that is. And issuers have continued to use J.P. Morgan to run their deals. But the topic almost always comes up during discussions, more so in the last few weeks.”

J.P. Morgan is the world’s most active underwriter of structured-product transactions, with $55.9 billion of bookrunning assignments during the first nine months of this year, according to **Asset-Backed Alert’s** ABS Database. Its highest-profile clients include Ally Bank, Discover, Ford, Freddie Mac, GE Capital, Navient and Santander Consumer USA.

**Fees ... From Page 1**

Watt,” a mortgage-bond banker said.

FHFA officials aren’t commenting, other than to say Watt plans to address the issue early next year.

The matter has pitted housing-industry groups including the Mortgage Bankers Association and National Association of Realtors against non-agency mortgage professionals who have been pushing for an increase in guarantee fees. Private-label professionals argue that they won’t be able to compete with the agencies until the fees are comparable to credit-enhancement costs for their deals.

Some fear Watt ultimately wants to roll back guarantee fees even further, virtually guaranteeing the continued dominance of Fannie and Freddie — and an ongoing dearth of jumbo-mortgage securitizations.

**INITIAL PRICINGS**

**Nissan Auto Receivables Owner Trust, 2014-B**

<table>
<thead>
<tr>
<th>Class</th>
<th>M/F</th>
<th>Amount</th>
<th>Yield</th>
<th>WAL</th>
<th>Spread</th>
<th>Benchmark</th>
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<tbody>
<tr>
<td>A-1</td>
<td>F-1+</td>
<td>179,000</td>
<td>0.230</td>
<td>0.33</td>
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<tr>
<td>A-2</td>
<td>AAA</td>
<td>243,000</td>
<td>0.606</td>
<td>1.03</td>
<td>+23</td>
<td>EDSF</td>
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<tr>
<td>A-3</td>
<td>AAA</td>
<td>343,000</td>
<td>1.114</td>
<td>2.29</td>
<td>+23</td>
<td>Int. Swaps</td>
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<tr>
<td>A-4</td>
<td>AAA</td>
<td>85,000</td>
<td>1.670</td>
<td>3.68</td>
<td>+27</td>
<td>Int. Swaps</td>
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**DT Auto Owner Trust, 2014-3**

<table>
<thead>
<tr>
<th>Class</th>
<th>S/K</th>
<th>Amount</th>
<th>Yield</th>
<th>WAL</th>
<th>Spread</th>
<th>Benchmark</th>
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<td>AAA</td>
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<tr>
<td>B</td>
<td>AA</td>
<td>40,000</td>
<td>1.768</td>
<td>1.80</td>
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<td>EDSF</td>
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<tr>
<td>C</td>
<td>A</td>
<td>58,000</td>
<td>3.062</td>
<td>2.49</td>
<td>+210</td>
<td>Int. Swaps</td>
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<tr>
<td>D</td>
<td>BBB</td>
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<td>4.512</td>
<td>3.42</td>
<td>+320</td>
<td>Int. Swaps</td>
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**MARKET MONITOR**

### WORLDWIDE ABS ISSUANCE

**Year-to-date volume ($Bil.)**

<table>
<thead>
<tr>
<th>2014</th>
<th>2013</th>
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<tbody>
<tr>
<td>US Public</td>
<td>125.5</td>
</tr>
<tr>
<td>US 144A</td>
<td>86.3</td>
</tr>
<tr>
<td>Non-US</td>
<td>82.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>294.3</td>
</tr>
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</table>

### US NON-AGENCY MBS ISSUANCE

**Volume in past 15 months ($Bil.)**

### US CLO ISSUANCE

**Volume in past 15 months ($Bil.)**

### NON-US ABS ISSUANCE

**Volume in past 15 months ($Bil.)**

### 5-YEAR FIXED CARD SPREADS

**Last 15 months (basis points)**

### SPREADS ON TRIPLE-A ABS

<table>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Credit card - fixed rate (vs. Swap)</td>
<td>2.0</td>
<td>+25</td>
<td>+25</td>
<td>+17.6</td>
</tr>
<tr>
<td>Credit card - floating rate (vs. 1 m Libor)</td>
<td>2.0</td>
<td>+24</td>
<td>+24</td>
<td>+16.9</td>
</tr>
<tr>
<td>Auto loan - Tranched (vs. Swap)</td>
<td>2.0</td>
<td>+25</td>
<td>+25</td>
<td>+18.3</td>
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<tr>
<td>Swap spreads (bid/offer midpoint)</td>
<td>2.0</td>
<td>+22</td>
<td>+22</td>
<td>+16.6</td>
</tr>
<tr>
<td>5.0</td>
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<td>+40</td>
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<tr>
<td>3.0</td>
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<td>+13</td>
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<tr>
<td>10.0</td>
<td>+13</td>
<td>+12</td>
<td>+11.6</td>
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</tbody>
</table>

**Source:** Deutsche Bank

### MBS SECONDARY TRADING

**Weekly volume reported to FINRA ($Bil.)**

### ABS SECONDARY TRADING

**Weekly volume reported to FINRA ($Bil.)**

**Source:** Federal Reserve Board

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Data points for all charts on this page can be found in The Marketplace section of ABAAlert.com.
Shepard also has worked at Deutsche Bank and Tricadia Capital. Shenkman has a number of CLOs to its name, including two deals totaling $1.1 billion that it completed this year.

With RBC Capital set to inform its employees of their yearend bonuses in the coming week, industry professionals are watching for signs of how the bank’s brass will respond to a decline in its underwriting volume. RBC’s year-to-date tally of structured-product bookrunning assignments worldwide stood at $14.5 billion as of Sept. 30, down 9.5% from $16.5 billion a year earlier, according to Asset-Backed Alert’s ABS Database. That followed years of growth for the bank, including a big jump from 2011-2012 that was rewarded with fatter yearend checks for its staff.

Vice president Gabi Mattison has left Angel Oak Funding, where she was aiding in the development of a subprime-mortgage lending program that the Atlanta company plans to fund through securitization. Mattison now works at Citigroup as the head of a correspondent-lending group with a focus on agency loans, also in Atlanta. She also has spent time at Nationstar Mortgage, Stonegate Mortgage and Bank of America.

Prudential is seeking a researcher to help its senior analysts review investments in asset-backed bonds, mortgage securities and collateralized debt obligations on behalf of clients. The recruit would be stationed in the insurer’s Newark, N.J., headquarters. The position requires at least two years of experience.

Los Angeles law firm Lim Ruger has added a securitization lawyer to its staff. Jake Cho, whose work includes structuring deals for foreign issuers, most recently worked in the structured finance practice at Blank Rome. Before that, he was at S&P and Clifford Chance.

Kroll has an opening for a credit-policy officer. The New York-based recruit would review proposed rating methods for all types of asset- and mortgage-backed bonds, reporting to senior managing director Glenn Costello. Candidates can email resumes to careers@kbra.com.