February 4, 2010

Via email: ecb.secretariat@ecb.europa.eu

European Central Bank
Secretariat Division
Kaiserstrasse 29
D-60311 Frankfurt am Main
Germany

Re: Public Consultation on the Provision of ABS Loan-Level Information in the Eurosystem Collateral Framework

Ladies and Gentlemen:

TYI, LLC appreciates the opportunity to submit this letter in response to the request of the European Central Bank (the "ECB") for comments regarding its Public Consultation on the Provision of ABS Loan-Level Information in the Eurosystem Collateral Framework (the "Public Consultation").

Introduction

The Goals of Transparency and a Proposed Solution

The European Central Bank's goals in setting eligibility criteria and requiring ABS securities to have more transparent and timely information on the underlying loans and their performance, in a standardised format, include "help[ing] rating agencies and investors in their due diligence [and] be[ing] an important contributory factor to restor[ing] the weakened confidence in the securitisation markets and bring[ing] back investors who are needed to secure a robust and sustainable development of these markets."

The IMF has estimated the global financial system lost $4.1 trillion during the credit crisis. Several hundred billion dollars of those losses resulted from not having adequate transparency in securitisations. The losses would have been avoidable if the markets had not continued to support unsustainable origination practices by purchasing new securities after loan performance data indicated these practices should stop in late 2006. At that time, firms like Goldman Sachs and Morgan Stanley proved that investors who receive loan-level performance data on a daily basis and therefore full information will stop supporting unsustainable origination practices. As documented by the Wall Street Journal,

such firms recognized that risk was mispriced and they shorted asset-backed securities.

Since some market participants have access to performance data daily, the ECB should require that each securitisation eligible for acceptance as collateral provide all market participants with performance data on a daily basis on the individual loans that support the securitisation and the implication of this performance for each part of the structure of the securitisation. If all market participants receive equal and full information on a daily basis, they can evaluate the risk and return of the securitisation in both the primary and secondary markets. This is true whether the security is a securitisation or a re-securitisation.

New Infrastructure – Providing Transparency Using Today's Technology

To provide all market participants with accurate and unbiased loan-level performance data on a daily basis will require the development by independent parties of a new global data-handling infrastructure to collect, standardise and disseminate this information.

The new infrastructure would be built using existing information technology and will be optimized for analyzing and monitoring securitisations. There are no technical barriers to providing all market participants with performance data on a daily basis today.

Loan-level information should be provided daily for all asset types backing securitisations. This would apply whether the securitisation is publicly traded or privately placed or is backed by a relatively small number of commercial mortgage loans or a large number of credit card receivables.

Besides loan-level detail, the information provided daily should include online reports. These reports would show detailed information on the ongoing performance of each tranche, including losses that were allocated to each tranche and the remaining balance of financial assets supporting each tranche as well as the percentage coverage for each tranche in relation to the securitisation as a whole.

Trustworthy – Perceived to be Accurate and Unbiased

The loan-level performance data provided by the new data-handling infrastructure must be trusted in such a manner that, like stock price data from the New York Stock Exchange ("NYSE"), trusting the data is not a question. It must come from a data-handling infrastructure overseen and operated by independent third parties who have no actual or perceived conflicts of interest. Only then can all securitisation market participants use the data provided on a daily basis to value, price and trade asset-backed securities.

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Having existing market participants either directly or indirectly controlling the new data-handling infrastructure presents competitive and financial conflicts of interest. These conflicts simply cannot be escaped by erecting so-called Chinese walls. There are firms without conflicts that are perfectly capable of developing and maintaining the new data-handling infrastructure. The involvement of existing market participants in the new data-handling infrastructure would tilt an otherwise level playing field without clear value added.

Firms like IBM and Oracle have the resources and expertise to manage the day to day operation of the infrastructure. My firm has the subject matter expertise, as reflected in a U.S. patent covering this type of data handling infrastructure, to coordinate the development and ongoing operation of this infrastructure.

Cost – Built into New Securitisations and Offset by the Benefits of Transparency

The cost of providing loan-level performance data daily should be built into the flow of funds (the "waterfall") for each new securitisation transaction. This cost would be offset by the lower yield required by investors who no longer have to receive extra compensation (in the form of higher yields) because they can't see the loan-level performance data daily through the opacity of current reporting practices. Offering loan-level data daily will be an effective tool for increasing the demand for and reducing the cost of an issuer's asset-backed securities.

If the cost of providing loan-level performance data daily is built into each new securitisation transaction, then this data can be made available for free to market participants. This will create competition in the value added portion of the information supply chain as third party pricing services would be expected to use such loan-level data in order to provide services that reduce investors' reliance on ratings or dealer pricing models. With third party pricing services also comes information based trading that reflects competing views of the future and more liquid secondary markets.

Based on the cost of comparable services for securitisations, the anticipated cost of providing market participants with loan-level performance data on a daily basis for an individual securitisation transaction would be approximately 5 basis points (0.05%) of the principal amount of the loans supporting the transaction.

Minimum Requirements for Restoring Investor Confidence

Providing loan-level data on a daily basis should encourage investors to return to the securitisation markets as they know they will be able to use the data to monitor and independently value both existing and potential investments. The ability to independently value a security in turn translates into deeper and more

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liquid secondary markets as buy, hold and sell decisions can be made on dealers' quoted prices.

The three things necessary to increase transparency in securitisations and restore investor confidence in securitisation markets are:

a) Performance data on a daily basis on the individual loans that support the securitisation and the implication of this performance for each part of the structure of the securitisation;

b) A data-handling infrastructure which allows all market participants to look at information on their desktops for a particular securitisation at a summary level or to drill down into loan-level detail to answer specific questions for monitoring and valuing the securitisation; and

c) Data that can be trusted.

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Frequency of Disclosure

Best Practice is to Look at Loan-Level Performance Daily

The most important issue in improving disclosure standards in securitisations is the frequency with which loan-level performance data is disclosed to market participants. To date, most of the industry's focus has been on the less important issue of what specific standardised data elements should go into the disclosure of loan-level data. Without the right disclosure frequency, the benefits of standardised data are limited because the data cannot be the basis for market participants making fully informed investment decisions.

In May 2009, the European Parliament passed the Amended European Capital Requirements Directive. The Directive sets the global standard for best practices in securitisations. Under this legislation, investors are required to know what they own and issuers are required to provide the necessary data.

In the context of securitisations, knowing what one owns requires understanding the structure of the securitisation and the impact of the underlying assets' performance. This performance must be regularly monitored from the time an initial investment is contemplated through purchase and until the asset-backed security matures or is sold. Successful monitoring requires readily available, timely, reliable and relevant information on the underlying assets.

As exemplified by Goldman Sachs and recommended by its CEO in an October 12, 2009 Financial Times column as the basis for systemic risk monitoring, the best practice in knowing what one owns when it comes to a loan or securities portfolio is to look at every position every day. Packaging loans into a securitisation should not change the best practice -- monitoring their performance daily -- for investors.

Current Collateral Performance Reporting Practices

There is a process built into most securitisation transactions to generate a once-per-month report. At the beginning of the month, the servicer or sub-servicer performing the daily billing and collecting function transmits to the trustee, at a minimum, a monthly servicer report that reflects the daily data for the prior month. The trustee then forwards the monthly servicer report to other market participants.

Once-per-month or less frequent reporting did not prevent the several hundreds of billions of losses in or the freezing of the securitisation market, nor did it subsequently help the market to thaw.

Information Asymmetry: The Gap Between Current and Best Practices

Current reporting practices create an information gap in the securitisation markets. Currently, through their billing and collecting subsidiaries, firms like Deutsche Bank, Goldman Sachs and Morgan Stanley have access to information on the performance of the underlying loan collateral on a daily basis. All other market participants, including investors and rating agencies, must wait to receive summary information in a once-per-month or less frequent report.

The gap between the information available to most securitisation market participants and the daily information available to some securitisation investors (particularly those that have billing and collecting subsidiaries) can be described as "information asymmetry". Columbia University Professor Joseph Stiglitz won a Nobel Prize in Economics for observing that in markets with information asymmetry, when the firms with the information take advantage of the firms without such information, the firms without such information leave the market until the information advantage is eliminated.

Some Firms Have Used Information Asymmetry to Their Benefit

The press has reported on how some firms have used information asymmetry in the securitisation market to their benefit.

On November 9, 2007, the Wall Street Journal's Heard on the Street column documented how Morgan Stanley used its daily access to subprime loan performance data from its ownership of a subprime mortgage company. According to the column, Morgan Stanley used such loan performance data to profitably short the securitisation market. Morgan Stanley's reported use of this information suggests that there is no legal or Chinese wall between an investor's access to performance data daily and its trading and/or underwriting businesses.

Morgan Stanley was not the only firm that used its superior daily access to loan performance data to profitably trade in the securitisation market. On January 21, 2010, the Wall Street Journal discussed Goldman Sachs' acquisition of a subprime mortgage lender. Goldman invested in the subprime lender when it was launched in 2005 and bought the firm in 2007. According to the article, "mortgage experts say the acquisition likely gave Goldman a clearer view of the market as other parts of the company made bets on home loans." These bets generated nearly $4 billion in profits for Goldman.

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Investors Link Loan-Level Performance Data and Their Return to the Market

On December 3, 2008, the global structured finance industry trade groups published Restoring Confidence in the Securitisation Markets. They asked McKinsey & Company to conduct both an on-line survey of their membership and in-depth interviews with over 100 members including issuers, investors, dealers, servicers and rating agencies. McKinsey reported that stakeholders view disclosure and valuation as most critical to restarting the markets. The number one ranked factor in relative importance to restoring confidence in the securitisation market in the near-term was disclosure of information on underlying assets. Confidence in data and assumptions informing valuation methodologies was second.

According to Total Securitisation, an industry trade publication, as a member of the Global ABS Researcher Panel Discussion on June 3, 2009, a J.P. Morgan vice president said "in an investor survey just carried out by the bank asking what would bring them back to the market, 60% said a greater level of deal information was their number one requirement." He cited this statistic in support of a fellow panelist's observation: "We don't have all the information we need. The loan-level data is not available. We can't rely on the rating agencies, so we need data that allows us to make our own educated forecasts. The more information we get … the better."

On December 24, 2009, the Employee's Retirement System of the Government of the Virgin Islands sued Morgan Stanley on the grounds that Morgan Stanley defrauded it and other investors in a collateralized debt obligation ("CDO") arranged by Morgan Stanley. The assets of the CDO included credit default swaps that referenced residential mortgage-backed securities. The lawsuit alleges that Morgan Stanley had "unparalleled access to material non-public information…that other investors did not have" concerning the deteriorating quality of the loans underlying the CDO and that Morgan Stanley was betting against the mortgages that it was marketing to investors. It can be inferred that if the investors in the CDO would have had access daily to the same data as Morgan Stanley, the investors wouldn't have invested in the CDO that is the subject of this lawsuit.

On January 29, 2010, the American Securitisation Journal published the findings of its Winter 2009 survey of the dealers, servicers, issuers, rating agencies and investors who are members of the American Securitisation Forum ("ASF"). When asked "what effect will having improved information on underlying loans in ABS deals, such as ASF's Project RESTART, have on your willingness to participate in securitisation transactions," fifty-six percent (56%) responded that they would be more likely to participate.

At a minimum, the surveys and lawsuit referred to above highlight three facts:

1. Investors want more information on the assets supporting securitisation transactions. They are not satisfied with what is currently available through prospectuses, dealer price quotes and once-per-month or less frequent remittance reports.
2. The buy-side is aware of the informational advantage that firms like Deutsche Bank, Goldman Sachs and Morgan Stanley have in the securitisation market. To level the playing field, the buy-side wants more frequent disclosure of collateral performance data.
3. Without more frequent disclosure of collateral performance data, investors in securitisations are being asked to trade against these same firms who have already shown they will use their information advantage to the detriment of the investors both in the assembly and the recommendation of securities to purchase. Many investors recognize that this is a losing proposition and, as predicted by Professor Stiglitz, have been staying away from the securitisation market. Even with substantial subsidies, securitisation market activity today is low compared to pre-credit crisis levels.

Eliminating Information Asymmetry in the Securitisation Market

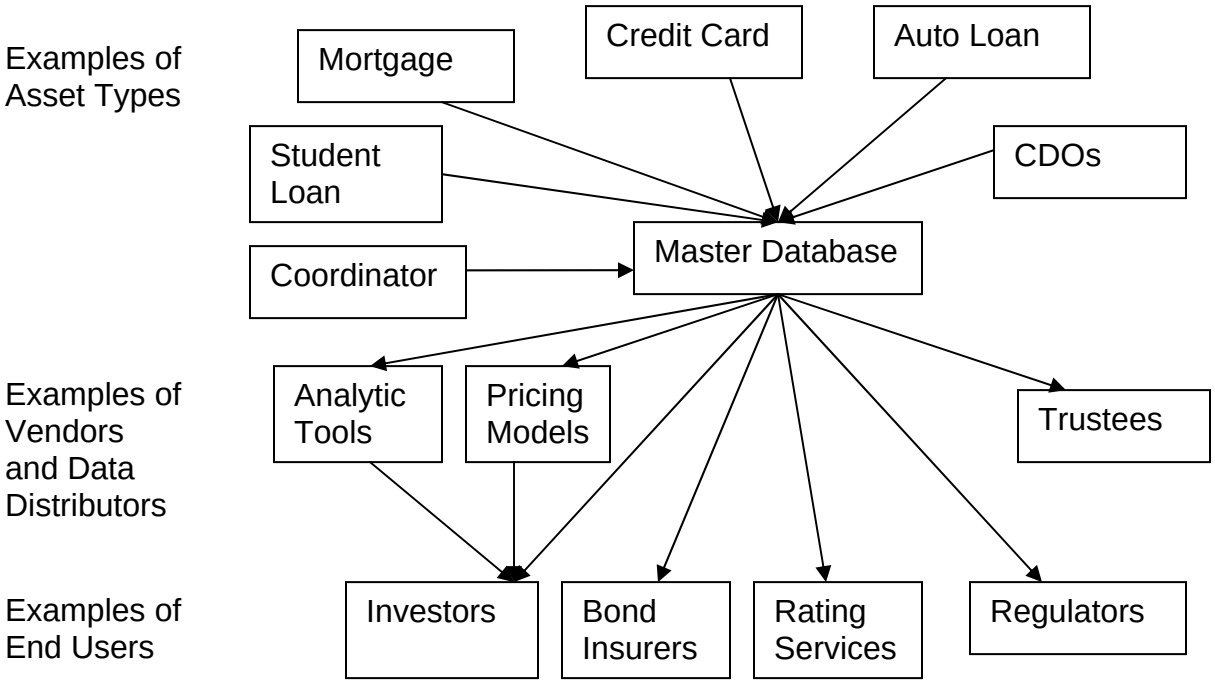
The best billing and collection practices require that the firms that perform the billing and collecting of loans backing securitisations track those loans on a daily basis. The information systems used to track the loans are also the source of information for the once-per-month or less frequent reports. The way to eliminate the information asymmetry is to get the data daily from the information systems and not wait for the once-per-month or less frequent reports.

With today's technology, this data can be collected, verified, standardised, analyzed and distributed each day so that it is available to all market participants.

New Infrastructure

How Loan-Level Performance Data is Provided Daily

An important issue in improving disclosure standards in securitisations is how securitisation data is provided daily to market participants. What is the appropriate infrastructure for collecting, storing and distributing asset-backed security ("ABS") loan-level deal specific performance information daily for the global securitisation market? The chart below shows the basic framework.



The collateral performance data will be collected electronically on a daily basis from every servicer and/or sub-servicer that handles the daily billing and collecting for every securitisation whether or not the securitisation was publicly issued or privately placed. This collateral performance data will be stored in a master database (the "Master Database").

Information That Will be Made Available to Market Participants

The information in the Master Database will be made available to end users either directly for free over the Internet or through existing data distribution channels (such as Bloomberg and Reuters). Existing vendors and data distributors in the securitisation market can continue to sell their reporting, analyzing, modeling, forecasting and pricing services to end users using information from the Master Database.

Besides loan-level detail, daily reports should be made available online that show the implication of the loan performance for each part of the structure of the securitisation. This would include detailed information on the ongoing performance of each tranche, including losses that were allocated to each tranche and the remaining balance of financial assets supporting each tranche as well as the percentage coverage for each tranche in relation to the securitisation as a whole.

Each end user will be able to obtain the securitisation data and reports that the end user wants. Each market participant will be able to choose the level of detail that it wants to see regarding the loan-level data. Some, like investors in AAA-

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rated tranches, might choose pool or tranche summarized loan-level information. However, these investors need the option to be able to drill down into the loan-level data daily in order to know what they own. Investors in subordinated tranches, such as hedge funds, might want to have the loan-by-loan data daily because they are first in line to absorb any losses and would want to closely monitor the performance of the underlying assets.

Support for and Coordination of the Master Database

There are many high quality firms with no conflicts of interest, such as IBM and Oracle, which can supply all of the technical resources from data integration to hosting to support the day-to-day operation of the Master Database. Such a firm would be the data portal provider described in the Public Consultation.

The selected firm will do the heavy lifting to support the data-handling infrastructure. It will be responsible for the ongoing collection of the data from the servicers and sub-servicers, the verification and validation of this data, the standardisation of this data using industry templates when available, the linking of the data to the specific securitisation, the production of summary reports and the dissemination of the information to market participants.

What these potential data portal providers lack is the proven subject matter expertise to see the pitfalls in designing, developing and implementing a daily loan-level deal specific data-handling infrastructure for securitisations. Such a firm would need to be given the right design for the Master Database and specific tasks if the data-handling infrastructure and Master Database are to be completed in a timely manner. In addition, such a firm would have to be overseen on an ongoing basis once the infrastructure is in place in order to promote the proper functioning of the Master Database.

The industry specific subject matter expertise behind the design of the Master Database and the data-handling infrastructure resides with an independent coordinator (the “Coordinator”).

The role of the Coordinator is critical. It bridges the gap between the servicers and the other participants in the securitisation markets. It works with the market participants to be sure that they obtain the data that they need on a daily basis. It establishes the various processes and systems necessary for the servicers to submit the loan-level data electronically daily. It directs compliance of the Master Database so that differences in regulations between nations are properly implemented. It reduces both the complexity and the industry’s cost of providing loan-level deal specific performance information daily to each market participant’s desktop while maintaining the highest possible quality standards for the data. It maximizes the flexibility of the transparency transmission mechanism so that it can meet the evolving needs for transparency into the future.

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Expertise is the single most important factor for evaluating and selecting the Coordinator. My firm has the expertise required for the Coordinator role. I have devoted a substantial portion of my career to developing daily loan-level reporting methodologies for the securitisation industry. As an example of my subject matter expertise, I patented a data-handling infrastructure for the securitisation markets. This patented infrastructure includes collecting, storing and distributing borrower privacy protected, deal specific, loan-level performance information daily.

Trustworthiness of Data

Perceived to be Accurate and Unbiased

Improving disclosure standards in securitisations requires providing accurate and unbiased securitisation data daily to market participants in such a manner that, like stock price data from the NYSE, trusting the data is not a question.

The current infrastructure has actual conflicts of interest like Goldman Sachs and Morgan Stanley receiving data daily on the loans backing securitisations and trading on this information before other market participants received this data.

The Public Consultation recognizes that in order to provide deal specific loan-level information to all market participants, a new data-handling infrastructure will be needed to collect, store and distribute the information to the market. The ECB recommends that at least one data portal be set up to perform this function. The data portal would establish all of the various processes and systems necessary for the firms handling the daily billing and collecting to electronically submit the loan-level data. This data will be checked for accuracy and consistency and entered into a database. The data will then be made available to all market participants including investors, rating services, data providers, central banks and other regulators.

The ECB asked whether there should be one data portal or whether there should be several data portals competing to perform the collection, storage and distribution function.

Regardless of whether there are one or multiple data portals, the new infrastructure for collecting, storing and distributing loan-level data should be free of actual or perceived conflicts of interest. All market participants need to know that they can trust the data on a daily basis to credibly value, price and trade asset-backed securities. This is necessary if the new infrastructure is going to help restore confidence in the securitisation market.

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The new data-handling infrastructure and the daily loan-level deal specific data should also be perceived as free of the types of structural conflicts of interest that would be present if the infrastructure was controlled by and the data offered by a single existing market participant. Each existing market participant would be perceived as being able to gain a competitive advantage if it controlled the new data-handling infrastructure. The involvement of existing market participants in the new data-handling infrastructure would tilt an otherwise level playing field without clear value added.

The ideal conflict free data-handling solution is a single point of entry data portal coordinated and operated by two independent third parties. This single point of entry data-handling infrastructure would combine the global resources of the firm handling the data on a day-to-day basis with the subject matter expertise of the firm coordinating the data-handling infrastructure.

Full Disclosure Requirement

Any firm that is proposed to be involved in either the day-to-day operation of the Master Database or the Coordinator role should be required to make a full disclosure of all competitive and financial interests in the design of the database, the presentation of the data, the analysis of the data, and the use of the data, including:

- Is the firm engaged in a related business that could gain a competitive advantage from its role? Examples of such related businesses include data distribution, pricing services, trustee services, monitoring, analytic solutions, consulting, ratings services, investment as a principal or agent or portfolio manager, and underwriting.
- Does the firm have investments that could benefit from its role, such as long or short positions in securitisation transactions?

Accuracy of Data

The new data handling infrastructure should also provide an audit trail. Market participants should know that the data they are receiving from the Master Database is the same as the data submitted by the servicers or sub-servicers to the Master Database.

Description of the ABS loan-by-loan data

Question 1: What would be in your view the foreseeable benefits and costs of having loan-level data available on an ongoing basis to market participants? Do you see alternative ways of achieving a major improvement in ABS transparency?

Foreseeable Benefits of Having Loan-Level Data Available

The best way to achieve greater transparency for securitisations is by providing loan-level data daily on an on-going basis to all market participants. There are three major benefits to this approach.

First, providing market participants with loan-level data on a daily basis will promote robust and liquid primary and secondary markets for securitisations. Daily loan-level data should be the starting point for market participants independently analyzing and valuing securities in both the primary and secondary markets and then making buy, sell and hold decisions. In addition, with this data there is an opportunity for growth by independent valuation firms to complement the in-house capabilities of securitisation investors and reduce reliance on both the rating agencies and the proprietary pricing models of firms like Deutsche Bank, Goldman Sachs and Morgan Stanley.

Second, if investors are provided with full information regarding asset-backed securities, they can do a better job of aligning the pricing of each individual security with the risks of the underlying assets. This will help to encourage good underwriting practices at the banks because the pricing of future deals will reflect the quality of the underwriting of the assets that support their outstanding securitisations.

Third, access to loan-level deal specific performance data daily should limit the excesses of future credit cycles. In the credit cycle leading up to the current crisis, fewer problematic securitisations would have been completed and fewer problematic loans would have been originated if market participants, namely investors and regulators, had loan-level deal specific data daily. With this data, market participants would have been forced to confront the deterioration in loan underwriting and performance sooner in the credit cycle. As a result, they would have exerted more discipline and have reduced the ultimate size of the losses by buying far fewer securities backed by loans of dubious value.

A significant amount of losses could have been avoided if investors had access to loan-level deal specific data daily and had been able to accurately assess the risk in securitisations. According to the Securities Industry and Financial Market Association, over $1.75 trillion in non-agency mortgage backed securities, home equity loan-backed securities and CDOs were issued globally between the time

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that securities firms with access to daily data (such as those with billing and collecting subsidiaries) decided to stop buying such securities and the beginning of the credit crisis in 2007. Analysts and traders estimate that there were several hundred billion dollars of losses on these thinly traded securities. These losses would have been avoidable if either the other investors had exerted market discipline (based on more up-to-date data) by not providing liquidity for unsustainable origination practices or regulators had noticed that securities firms (such as Goldman Sachs and Morgan Stanley) with access to loan-level performance data daily were placing massive shorts on the market and intervened. In addition, there were other avoidable losses in the financial system as there were loans made during this time period that ended up on the balance sheets of financial institutions both to replace the loans sold into the capital markets and to grow the financial institutions' internal loan portfolios. If market discipline had been exerted in late 2006, these loans might not have been made. These loans have also incurred a significant amount of losses. At a minimum, the benefit to the financial system from providing loan-level deal specific data on a daily basis would be several hundred billion dollars of losses avoided.

Cost

The annual cost of providing loan-level deal specific data daily for securitisation transactions will be much lower than the losses described above. In order to provide this data, a data-handling infrastructure will be needed to collect, store and distribute this information. Based on the cost for comparable information services for securitisations, the on-going annual cost of the proposed infrastructure for loan-level deal specific performance data daily would be approximately 5 basis points (0.05%) of the principal amount of the loans that are supporting a particular securitisation.

Benefit Outweighs Cost

By spending 0.05% per year of the amount of securitised loans, the securitisation market can avoid repeating the several hundreds of billions of losses from not being able to accurately assess and price the risk of securitisations. Spending such amount also will restore confidence in and will restart the securitisation markets.

Valuation Models Need Daily Loan-Level Performance Data to Work

Without loan-level data daily, market participants cannot independently analyze and credibly value asset-backed securities based on full information. As pointed out by well-known economists Harry Markowitz and John Taylor, the only way to value these asset-backed securities is to have the information on the underlying collateral.

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In the absence of loan-level performance data on a daily basis, the securitisation market has relied on dealer and ratings-based models that use out-of-date information. All the dealer models, including cash flow, correlation and spread, used for valuing asset-backed securities failed in August 2007 when BNP Paribas could no longer credibly value asset-backed securities for a fund. Ratings-based models failed shortly thereafter. In the fall of 2007, Moody's and S&P testified before the U.S. Congress that they did not have the data necessary to make timely updates to their ratings.

Without access to loan-level deal specific performance data daily, no amount of improvement in these models would provide the credibility to restore confidence for a liquid, functioning secondary market for securitisations. Data provided on a daily basis should be the starting point for modeling. In addition, such data would be used to check the accuracy of the assumptions in the model against the actual performance of the loans underlying the asset-backed securities.

Secondary Market Trade Price Reporting Needs Independent Valuation to Work

One frequently mentioned way to improve transparency in securitisations is a secondary market trade price reporting system. A secondary market trade price reporting system cannot achieve the same outcome as a system that provides loan-level data on a daily basis. Price data by itself does not tell the value of an asset-backed security. To make a buy/hold/sell decision, investors need to be able to independently value the asset-backed security using current cash flow information and then compare this valuation with the prices shown by dealers. Price transparency without daily data is just market participants bidding blindly.

Question 2: Is the concept of different but standardised loan-level reporting templates for all European ABS transactions and for each asset class valid? For what ABS classes could there be problems?

While the Concept is Valid, it is Unnecessary

Some market participants are proposing that a specific set of data fields, known as a "template", be provided for loan-level data as the solution to the lack of transparency in securitisations. This proposed solution has two significant limitations. First, it does not address the frequency with which market participants need data. Second, waiting for a template to be developed and agreed to before data can be provided ensures that nothing happens in the interim.

Focusing on templates is a distraction as they are not a requirement for collecting and standardizing the data in a single point of entry Master Database and making it available to all market participants. As a result, whether templates exist or not

for a specific asset class should not stand in the way of providing loan-level data daily for all asset classes to market participants.

In the absence of a reporting template for a specific asset class, the company coordinating the Master Database would still have the data standardised prior to its inclusion in the Master Database. This standardised data would be made available to all market participants and they could choose which fields they would like to receive. Subsequently, if a template is adopted, the data fields offered could be adjusted to comply with the template.

Daily reports that specify loan-by-loan information should be required for all asset classes. Each market participant should be able to choose the level of detail that it wants to use. Some, like investors in the AAA-rated tranches, might choose pool or tranche summarized loan-level information. However, these investors need the option to be able to drill down into the loan-level data daily in order to know what they own. In addition, investors, such as hedge funds, that purchase the riskiest tranches of the securitisations that facilitate creation of the AAA-rated tranches, might want to have the loan-by-loan data daily because they are first in line to absorb any losses and would want to closely monitor the performance of the underlying assets.

For what ABS classes could there be problems?

From a technological perspective, given the proposed data-handling infrastructure, in terms of capturing and standardizing the loan-level data daily, there are not any asset classes that are particularly problematic.

Question 3: In relation to the RMBS loan-level reporting template, what fields would not be applicable in certain national markets? Why? What additional fields would be required, if any?

From the standpoint of creating the Master Database, it is actually easier to collect all the fields tracked for an individual loan. Subsets of these fields, customized to the regulations in each national market, can then be offered to end users. Regardless of where the end user is located, the data made available would be governed by the regulations of the applicable nation.

Also, it is highly likely that there will be value added resellers who add fields to the core data. For example, while retaining the borrower's privacy, consumer credit bureau data might be added to show the borrower's performance on other types of credit.

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Question 4: What impediments, if any, would originators face in submitting loan-by-loan information to fulfill the loan-level data requirements?

From the technological perspective, given the proposed data-handling infrastructure, there are no significant impediments to originators providing daily loan-by-loan information.

Alternative Scenarios for Data-Handling Infrastructure

In scenario 1, originators/servicers would have a clear single entry point for submitting the data. The single data portal could be selected from among existing market data platforms that are willing to take up the role of portal provider. The portal would need to ensure that the data are made available to other data providers and that the users of the portal services would be charged an appropriate price.

In scenario 2, originators/servicers would have the option to choose from a set of registered portal providers. A list of registered data portal providers would be established using a set of broad criteria against which the potential portal providers would be evaluated and selected. In this scenario, the registered portal providers would compete to provide the best service at the lowest cost to their users.

Question 5: Which of the scenarios presented, or combination thereof, would provide the best solution to the market, taking into account considerations such as data consistency and quality, competition, governance, cost, ease of data transmission, etc.?

Scenario 1 with a couple of major modifications would provide the best solution to the market. First, as discussed at length earlier, the single data portal must be capable of operating on a global basis and be free of the conflicts of interest that would exist if it were offered by a current market participant. Second, rather than use a subscription based model, the cost of providing loan-level performance data on a daily basis should be built into the flow of funds (the waterfall) for each securitisation transaction. The data should be made available for free to all market participants.

Why Should the Cost be Included in new Securitisations?

In today's markets, investors in securitisation transactions require extra compensation (in the form of a higher yield) because they cannot see the current loan performance data through the opacity of once-per-month or less frequent reporting practices. By offering loan-level performance data daily, issuers would save themselves this cost of opacity.

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The cost of opacity in securitisations, which can be referred to as the "opacity premium", comes in the form of higher interest rates and greater over-collateralization. One way to measure the opacity premium is to look at the increase, since the credit crisis began, in the risk and liquidity premiums in the primary issuance market for securitisations. Even with substantial government subsidy programs, the increased opacity premium reflects the concern that, without loan-level deal specific data daily, investors may have to hold an asset-backed security for the life of the securitisation. This is because other investors who might buy the asset-backed security in the secondary market are asked to independently value the asset-backed security using stale data and therefore are unlikely to buy it.

How large is the opacity premium in securitisations? For those issuers who can't tap the capital markets on acceptable terms, the cost of opacity is the ability to access the capital markets. For those issuers who need government subsidies in order to access the securitisation market, the cost of opacity is the need to comply with the rules for qualifying for the subsidy. For those issuers who can access the capital markets without a government subsidy, the cost of opacity includes the higher spread they are paying, the higher level of over-collateralization they must provide, the fewer and smaller the riskier tranches of the deal and the more risk they must retain. Depending on the collateral asset type, analysts report that the opacity premium for non-subsidized issuers is between 50 and 100 basis points (0.50%-1.00%) annually.

Offering loan-level deal specific data daily will be an effective tool for increasing the demand for and reducing the cost of securitisations. When there is no opacity and market participants have full information, an active secondary market for securitisations can be maintained. When investors know that there is a liquid market for reselling asset-backed securities, this will drive primary market demand. It will also lower the issuers' costs as the investors will not require the current level of extra compensation for the illiquidity of such asset-backed securities. Based on conversations with investors, for issuers who can access the capital markets, the size of the reduction in the opacity premium will save more than the cost of providing loan-level data daily through a Master Database.

Why is the Modified Scenario 1 Superior to Scenario 2?

From the standpoint of data consistency and quality, ease of data transmission, governance, cost, competition and similar considerations, the modified Scenario 1 is clearly superior as it eliminates the Pandora's Box of operational problems opened by having multiple market participants acting as points of entry for collecting and distributing daily loan-level data daily.

For competition in the collection of data, each of these databases would have to collect loan-level data from a subset of the servicers of securitisation transactions.

- *The Data Coordination Problem.*

  With multiple data portals dividing up the data, there is the problem of bringing all the relevant data together for analytical purposes. When data is dispersed across multiple data portals, data vendors and other market participants must solve the problem of how to bring all of the data together to look at each individual issuer's deals, to look at all of the deals of a specific asset type, or to look at all the deals underlying a CDO. Getting data from multiple data portals increases the complexity, cost and burden on data vendors and other market participants to access the relevant data. This is important because if the loan-level deal specific performance information is not readily available daily on market participants' desktops on a cost effective basis to the market participant it is useless. This problem is avoided with a single data portal.

- *The Cost of a Monopoly Problem.*

  Even with multiple data portals for loan-level data for securitisations, price competition would be very limited. The providers of these databases have two basic choices for generating revenue from provision of the service. They can either charge the servicers supplying the loan-level data or the market participants who use the data. Since the data portals have to obtain data to be in business, there will be significant pressure to gravitate to the model where they collect the data for free and charge the market participants a subscription fee. Under a subscription model, there is no competition on subscription fees as each data portal is a mini-monopolist with respect to its data. Because market participants will want to have data from all of the data portals, there may not be an incentive to any individual data portal for cutting its subscription price for data that it has that other data portals do not have. One can anticipate that if there are multiple data portals, the price for the data that is exclusive to a particular data portal will be at least equal to and may be more than the maximum level a single data portal would charge for such information.

  Under a single data portal infrastructure, a different revenue model can emerge. A single data portal can charge each securitisation for collecting the data and provide the data to all market participants for free. The charge would be built into the flow of funds for each securitisation. Making the loan-level deal specific performance data free to all market participants daily would create competition in the value added portion of the information supply chain. For example, data vendors (like Bloomberg and Reuters) and analytical tool providers (like Markit, LoanPerformance and Intex) will compete in the area of value added services to attract other

market participants to access the loan-level performance data daily through them. Not charging market participants for the data will also promote the growth of new value added services like independent third party pricing services which would in turn reduce investors' reliance on rating services and dealer pricing models.

Timing

Question 6: Is an envisaged preparation time of 12 months after the announcement date sufficient to adapt to the loan-level data requirements? If not, why?

Based on discussions with several of the largest global issuers and leading information consulting firms, the single entry point data-handling infrastructure solution for securitisation transactions discussed in this letter can be implemented in approximately a twelve (12) to eighteen (18) month timeframe.

Conclusion

To restore confidence in the securitisation market, market participants must perceive that the changes in disclosure practices adopted by the ECB will actually work. The foundation for this is a new market-based disclosure delivery system that will collect, standardise and disseminate loan-level data on a daily basis for securitisation transactions.

An effective loan-level disclosure system should be developed around six core principles.

1. **It should treat all participants equally.** No market participant should be given a timing advantage when accessing material information relating to securitisations that have the benefit of being eligible to be pledged as collateral to the Eurosystem.
2. **It should be fair.** It is only fair that all market participants be able to receive on their desktops at the same time in an easily understood and useable format the most recent performance of the underlying loans and the implication of this performance for each part of a securitisation's structure.
3. **It should provide information on a daily basis.** The best practice in managing a loan or securities portfolio is to look at every position every day. In order to know what they own, securitisation investors must be able to track the performance of the individual loans backing each securitisation they own on a daily basis. Packaging the loans into a security does not change best practices.
4. **It should be trusted.** For loan-level information on a daily basis to be trusted and used by market participants to credibly value, price and trade

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asset-backed securities, it must come from an infrastructure that is managed by and overseen by independent third parties who have no conflicts of interest. The independent third parties must not actually be or be perceived to be in a position where they can gain a competitive advantage in the market or in a related business from access to the loan-level information before other market participants have access to that information.

5. **It should minimize technical costs and complexity.** Using a single central database for securitisation transactions minimizes the issues for both the firms submitting the loan-level data daily and the market participants receiving the information. By contrast, using multiple databases for receiving information from servicers and sub-servicers would add unnecessary cost and complexity to the transparency solution.
6. **It should be paid for by each securitisation.** The cost of providing data daily should be built into each new securitisation and the data should be provided for free to all market participants. This cost will be offset by the lower yield required by investors who no longer have to be paid extra compensation (in the form of higher yield) because they cannot see the loan performance data through the opacity of current securitisation reporting practices.

Thank you again and I very much appreciate the opportunity to submit these comments. If you have any questions, please do not hesitate to contact me. You can reach me at (781) 453-0638 or at tyillc@comcast.net.

Sincerely,

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