

MEMORANDUM

TO: File No. S7-14-11

FROM: Jay Knight
Special Counsel
Office of Structured Finance
Division of Corporation Finance
U.S. Securities and Exchange Commission

RE: Meeting with Jim Callahan, Executive Director, Pentalpha
Capital Group

DATE: July 12, 2011

On June 1, 2011, Paula Dubberly, Katherine Hsu, Jay Knight, Rolaine Bancroft, David Beaning, and Robert Errett of the Division of Corporation Finance and Stanislava Nikolova of the Division of Risk, Strategy, and Financial Innovation met with Jim Callahan, Executive Director of the Pentalpha Capital Group. The discussion included, among other things, the Commission's Proposed Rules for Credit Risk Retention. Handouts are attached to this memorandum.

Attachment

PENTALPHA

What should the qualification criteria be for a firm to be a qualified OA?

An independent OA is critical. Getting merely close to the line of independence defeats the goal.

To make sure the OA is qualified and as arms length as possible, the OA must rep that it will follow each of the following:

1. Operating policies and procedures consistent with Federal guidelines, FINRA standards or better to assure:
 - a. Insider trading
 - b. Confidentiality
 - c. Email retention policies
 - d. Bond market trading practices
2. Operated as a standalone specialized company in the real estate, corporate or consumer loan and securitization oversight business (as applicable) for at least five years;
3. Provided loan level oversight services on individual defaulted loans for at least five years;
4. A demonstrated history of analyzing individual defaulted loans and making an operation decision on how to proceed in a disputed situation;
5. The necessary systems and staffing for the role that are housed in a SAS 70-Level II compliant environment with active backup. To assure that the vendor can deal with scale, we suggest that the vendor can represent that they have loaded at least half a Trillion dollars of loans (UPB) on their systems;
6. The ability to maintain and monitor large-scale databases and quantitative loan performance analytics;
7. An active practice of evaluating Servicers for compliance purposes via onsite interviews and other analysis;
8. Quantitative servicing operational filters specifically set up for Servicer oversight;
9. Specialist staff (arbitration certification is preferred) with significant conflict management resolution expertise including, but not limited to:
 - a. The experience and willingness to testify in any court for any proceedings involving the Trust or any transaction parties. This is not the world for young low cost analysts. The staff should have testimony expertise in a court of law.

- b. Documented experience in providing expert testimony regarding real estate, consumer and corporate loan operations conflicts in a Federal, State and or arbitration setting and willingness to do so as a corporate policy, if appropriate
- 10. No servicing responsibility or ownership interest in any debt or equity interest of any subject property or loan.
- 11. Must be willing to rep that it will act in its role for the entire duration of the bonds.
- 12. Does not have ancillary business relationships that could cause potential conflicts such as, but not limited to:
 - a. Maintaining ongoing relationships (contracted or not) that source or trade first lien, mezz or B note interests to/with the Depositor (or other related party) that are put into other transactions
 - b. Maintaining ongoing relationships (contracted or not) that provide diligence or other related services to/with the Depositor (or other related party) that are put into other transactions
- 13. To reduce the image of possible conflict in a court proceeding or dispute resolution, the OA will represent in the Trust and servicing agreement that neither they nor any common ownership affiliate or any fund they manage, will not make principal investments in or oversee transactions related to:
 - a. any bond or related loans throughout the life of the Trust with the exception of:
 - i. Riskless principal trades as defined in FINRA regulations or
 - ii. Trades that the OA or its affiliates intends to hold less than 6 months.
- 14. In the PSA, the OA will represent that neither it, nor its affiliates, nor the funds their affiliate manages (if any):
 - a. Is an affiliate of or has common ownership with any party listed in the offering circular or Trust and servicing agreement, including, but not limited to the Depositor and any:
 - i. Loan insurer
 - ii. Due diligence firm,
 - iii. Appraisal firm,
 - iv. Law firm,
 - v. Accounting firm,
 - vi. Bond underwriter,

vii. Trustee,

viii. Custodian,

ix. Loan originator

1. On this pool or any recent pool within the past 6 months

x. Master or Special Servicer

b. Is an affiliate or have common ownership with any party identified as an original purchaser of any bond class according to the bond underwriter.

