Intex Solutions, Inc.
Boston/London/Tokyo

July 30, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Proposed Rule regarding Asset-Backed Securities: File No. S7-08-10

Dear Ms. Murphy:

Intex Solutions, Inc. ("Intex"), a leader in modeling cash flows as well as providing analytics and structuring software for asset-backed securities ("ABS"), appreciates the opportunity to submit comments to the Securities and Exchange Commission (the "SEC") on the proposed rule to implement new ABS requirements (the "Proposal").

Intex is commenting on the specific aspects of the Proposal that relate to Intex's core competency in modeling ABS cash flows – the proposed requirement that ABS issuers be required to file, in addition to the prospectus, a computer program describing the contractual cash flow provisions (the "waterfall"). The Proposal further specifies that the program be in the form of downloadable source code written in Python, an "open source" computer language.[1] The SEC states that this aspect of the Proposal is "designed to make it easier for an investor to conduct a thorough investment analysis of the ABS offering at the time of its initial investment decision" as well as "monitor ongoing performance of purchased ABS" and thus generally "market participants would be able to conduct their own evaluation of ABS and may be less dependent on the analysis of third parties such as credit rating agencies."

While Intex supports the SEC's goal of a more transparent secondary market that provides investors with timely and accurate information, Intex does not believe that the SEC's Proposal addresses the ills it seeks to cure and in fact believes the Proposal will stymie the rebirth of the securitization market. By requiring issuers to include in their prospectuses waterfall models, the SEC believes it will reduce reliance on credit ratings and give investors access to better, more timely information. However, during the boom times, waterfall models were widely available to, and were widely utilized by, the majority of participants for most RMBS transactions. So a lack of waterfall models in the marketing phase is not indicated as a cause of the financial crisis. Rather, the problems

[1] From informal discussions with SEC staff, Intex understands that the SEC intends the Proposal's numerous references to Python to be an example of an open source computer language that could be used and is not necessarily proposing requiring Python specifically.

arose from shoddy lending standards, inadequate disclosure of loan level collateral detail in the marketing phase that would have highlighted the deteriorating quality of the mortgage collateral, and incorrect assumptions regarding housing prices and mortgage default rates by market participants.

Intex will highlight two key components of the Proposal, both of which Intex believes will hinder the future development of the secondary market. First, the SEC intends to extend liability not only to the prospectus, but also to the waterfall model. We do not believe that issuers will take on such liability, especially in light of the fact that, while models can assist in the predicted performance of a bond, it is impossible to make a perfect model and it is impossible to model every possible outcome. As proposed, there will be no limits to this liability. Further hampering investor analysis will be the mandate to utilize Python in the issuer's waterfall. Such a requirement would supplant years of programming development of structured-finance languages, injure the competitive modeling market and increase costs on issuers, who would be saddled with the liability and burden of utilizing Python, and investors, who would still not be able to read the programming language and would still need to rely on sophisticated analysts to assist in interpretation of the models.

Who We Are

Intex is a commercial provider of cash flow models, data and supporting software tools that help investors to analyze structured finance deals. For over 20 years, Intex has been the leader in modeling such deals and currently maintains cash flow models for over 20,000 U.S. RMBS, CMBS, ABS and other securitizations. We compete vigorously for clients –investors, issuers, market-makers, and underwriters – with a number of other sophisticated model providers. These competitors range from small, specialized providers similar to Intex to large companies like Bloomberg. During the course of its existence, Intex has painstakingly developed a custom programming language comprising hundreds of thousands of lines of code tailored specifically to model structured finance transactions. We believe that we have a unique perspective in the marketplace, as we serve as the fulcrum for both issuers and investors. Intex strongly believes in the importance of a robust structured-finance market and hopes to work hand in hand with the SEC to ensure the continued existence of securitization.

Contributing Factors to Market Failure

The Proposal is aimed at addressing perceived causes of the financial crisis, which was triggered by the widespread, cascading failure of residential mortgages, residential mortgage-backed securities ("RMBS"), and collateralized debt obligations based on RMBS to perform as expected. Key among these causes was a lack of transparency. Poor lending standards were masked by inadequate disclosure of collateral. At the time of issuance, most historic transactions were priced using "representative" collateral lines to

generate collateral cash flows. Loan level data was generally not available until a deal's first payment date and even then often lacked information that would facilitate proper credit modeling (i.e., credit scores, loan purpose, documentation level, occupancy type, etc.). As is now clear, evidenced most recently in the form of the 64 subpoenas issued by the Federal Housing Finance Agency to RMBS trustees and servicers to obtain every shred of loan-level documentation, a critical piece of the problem was the lack of loan-level collateral information.

Another significant contributing factor to the poor investment decisions was the economic and other assumptions employed by market participants. An investor with perfect collateral information employing a perfect model could still make poor choices if the investor employs inaccurate assumptions about payment performance, direction of collateral values, prepayment speeds, default probability, and numerous other economic factors common to all investment decisions. First and foremost, market failures were a result of the improper assumptions input into these models – that housing prices would not go down, for example, or that a rise of unemployment would not affect housing prices, or the effect that even a flattening of housing prices would have on loan performance – and had nothing to do with the accuracy of the models themselves. Market participants often ignored proper collateral diligence, instead relying solely on the ratings from the NRSROs to justify purchases. In fact, dealers often structured and sold, and investors purchased, ABS before the underlying collateral had even been purchased. Evidence of this is the fact that many investors purchased securities with extended pre-funding or ramp-up periods, ultimately making investment decisions with little knowledge of the backing credits.

Nonetheless, if finalized, the Proposal's requirement to provide transparency on collateral would certainly improve the ABS market by curing the problems created by modeling the performance of unspecified collateral and thus would allow investors to perform better diligence. Intex is highly supportive of the Proposal's requirement to provide detailed asset level disclosure.

Conversely, one area that did not contribute to the crisis was a lack of investor access to the complex models that help investors understand how an ABS transaction will perform in different economic scenarios. At the height of issuance, models for nearly 100% of RMBS and CMBS transactions were made available by issuers and underwriters prior to sale. Most recently, other ABS sectors, like student loans and auto loans, have followed suit, with dealers sharing models with potential investors. We believe that 80% of recent securitizations were structured using a model that investors were given access to in the marketing phase. Furthermore, in cases where models were not made available to investors, or investors did not have internal or commercially modeling capability, it was common market practice for investors to request "runs" from the underwriter – price/yield and other outputs for a given prospective transaction under prepayment and default assumptions defined by the investor.

There is no question that many of the largest and most sophisticated ABS market participants – the ones that took the greatest portions of the collateral risk (including bond insurers, Wall Street dealers, credit default swap parties and others) – employed models. The losses and the consequent crisis were not based on any lack of models or even misunderstanding of the waterfalls.

While we applaud the SEC's efforts to make markets more transparent, increase the amount of data available to investors, and encourage investors to perform their own analysis rather than rely on credit ratings, we would like to now address in more detail the nature of modeling waterfalls and cash flows to illustrate why mandating the filing of waterfalls in Python neither addresses the causes of the financial crisis nor provides a firm foundation for the redevelopment of the ABS market.

Liability Provisions

As noted above, Intex and companies like Intex have been providing waterfall models since a relatively early stage in the development of the ABS market. However, notwithstanding the now decades of experience developing models and thousands of lines of code that have been tested and can be drawn upon, even expert modeling companies like Intex are unwilling to take on open-ended liability on the models that they develop for transactions. A model filed as a critical part of the prospectus under the Securities Act would carry substantial legal consequences which will deter participation in the ABS market (and modeling) by the very participants with the experience to provide the best models.

Unfortunately, modeling is inherently imperfect, and cannot address every situation that an investor or issuer may later believe to be material or important to its rights.[2] Unlike a Prospectus, which is static and describes a few scenarios at issuance that an issuer can stand behind, a computer program is dynamic and opens up the assumptions to thousands of scenarios. By tying this waterfall program to loan-level data and the variety of collateral models associated with that data, the issuers would become liable for an infinite number of outcomes.[3] No issuer or software developer will be able to guarantee that the

[2] While the Proposal suggests that the waterfall program should accept prepayment, default, delinquency, and interest rate forecasts, it is unclear as to whether the model would need to accept forecasts of, for example, hedge counterparty failures, monoline failures, loan modifications, unexpected expenses or cash shortfalls. These, and many other forecasts, can materially influence a bond's value, but they are not addressed in the Proposal.

[3] We would also note that, if the SEC requires inclusion of a full-blown cash flow engine, and not just the waterfall, the issuer will be exposed to even more liability not defined in the deal documentation. While the flow of funds are fully defined in the prospectus, there are no legal standards in place to define how to derive accurate loan cash flows from complex forecasts of prepayment, default, rate volatility, loan modifications, or any of the other myriad variables include in this forecasting.

model always performs. This is why the market for models has developed with limited liability typical of software contracts rather than "10b-5" liability ordinarily associated with securities offerings. As a small company that has bargained with financial giants, we can promise the SEC that the limits on liability did not arise as a result of our possession of excessive bargaining power compared to some of the largest financial institutions in the world that purchase our software.

As a result, Intex assumes that if the Proposal is adopted, issuers will have to take on the additional liability that this would create (and will be unable to receive back-to-back representations and indemnities from providers like Intex). Given the current focus on risk, issuers will either price the risk – and the price will be high – or simply refuse to issue, further retarding the renewal of the ABS market. If the risk is priced, of course, that additional expense will be borne by the individual obligors on the financial assets that back the ABS – the students, homeowners, consumers and others whose debts are pooled, and this additional price will affect the determination of whether the ABS market provides a reasonable and competitive outlet for the loans. In our view, the current market structure that generally finds investors separately purchasing ABS models or finds issuers or dealers sharing their internal models with potential investors (in the absence of Securities Act liability but subject to regular common law claims of fraud or deception for cases of bad faith) is far more likely to allow for the revival of the ABS market,

In the current market environment, a transaction's flow of funds may be depicted in multiple documents – the prospectus, PSA, and in marketing term sheets. Occasionally discrepancies will be found between such documents. Ultimately, the PSA is determined to be the binding legal agreement. If adopted, a waterfall program would introduce yet another waterfall representation. Unlike the other documents, which are all written in common English, a programmatic depiction of the waterfall will most certainly introduce translation and legal interpretation issues that may ultimately create more ambiguity, not less. Fueled by these concerns, issuers have been adamant that should a waterfall be mandated, the PSA needs to remain the defining legal document.

As an alternative, if the SEC is concerned that unsophisticated investors will attempt to purchase ABS without appropriate diligence, including use of modeling, we suggest that the SEC develop and require a standard disclosure that suggests the use of a financial model of the investor's choice to run a variety of key assumptions and scenarios prior to purchasing the ABS securities.

Waterfall Mandate

Requiring the Waterfall Computer Program will Not Level the Playing Field

Requiring a waterfall computer program to be issued along with the prospectus will not meet the SEC's goal of assisting investors, especially smaller investors. In addition,

Intex believes that the Proposal is premised on incorrect information about the accessibility and availability of models in the marketplace, and that such incorrect information has led the SEC to understate the Proposal's cost to ABS investors.

In outlining the premise for its proposal, the SEC states that, although an ABS issuer or underwriter will have a computer model of the waterfall, the issuer/underwriter is under no obligation to share the computer model with actual or potential ABS investors and, because the investor does not have the model it must create its own computer program. The SEC goes on to note that it is often not possible for the investor to create the model prior to making the investment decision and that smaller institutional investors were merely forced to rely on NRSRO credit ratings rather than their own models.

In today's marketplace, issuers will often make available their waterfall to actual or potential investors. We estimate that as many as 80% of deals are modeled by the dealer, with the issuer then subsequently, and in timely fashion, providing the model to the investor. In the past 6 months alone, nearly 2,000 waterfall models have been posted to Intex's online bulletin board to enable investors to perform analysis on prospective structures, and provide feedback prior to pricing.[4] The majority of these were created by dealers and issuers using Intex's structuring software (Intex DealMaker), though many were modeled by Intex as part of its Priority Modeling Service.[5] While we would be willing to work with the SEC and other providers of models on a way to put models into the hands of qualified investors who the SEC deems disadvantaged, the main point is clear that reliance on ratings during the boom times was not actually related to an investor's inability to obtain a model. In addition, it is certainly inaccurate to suggest that most investors are merely stuck analyzing the textual description.

The SEC further suggests that investors could simply and "promptly" run the waterfall computer program in combination with internally developed, or commercially available,

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[4] Many of the models posted on the Intex bulletin board represent hypothetical structures, multiple iterations of a model throughout the marketing process, or partial structures for multi-group securitizations. In addition to the bulletin board, numerous dealers email Intex models directly to investors. These models are not included in the 2,000 mentioned above.

[5] Nearly all waterfall models for RMBS and CMBS, as well as other ABS deals issued so far in 2010 have been available to investors prior to pricing. The following is a small subset of 2010 issuances where this is the case: Kentucky Higher Education Assistance Authority 2010-1; CSMC Series 2010-RR3; CSMC Series 2010-RR4; CSMC Series 2010-RR5; CSMC Series 2010-RR6; Defeased Loan Trust 2010-1; Defeased Loan Trust 2010-2; FREMF 2010-K7 Mortgage Trust; JPMorgan Commercial Mortgage-Backed Securities Trust 2010-RR1; OBP Trust 2010-OBP; RBSCF Trust 2010-RR3; JP Morgan Chase Commercial Mortgage Securities Trust 2010-C1; RBS Commercial Funding, Series 2010-MB1; Bank of America Student Loan Trust 2010-1; SLM Private Education Loan Trust 2010-B; SLM Private Education Loan Trust 2010-B; Educational Funding of the South Series 2010-1; EFS Volunteer 2010-1; SLC Student Loan Trust 2010-1; Westlake Automobile Receivables Trust 2010-1; Capital Auto Receivables Asset Trust 2010-SN1; Mercedes-Benz Auto Receivables Trust 2010-1

interest rate, prepayment, default and loss-given default models, or cash flow engines to generate present value estimates for ABS tranches. However, Intex believes that the SEC improperly separates discussion of the waterfall and the cash flow engine and underestimates the complex interplay between the two. While developing the waterfall is difficult, developing the collateral model, or the cash-flow engine, is incredibly complex. For instance, while a typical program to model the waterfall will run roughly between a few hundred and a few thousand lines of code, the cash flow engine that models collateral cash flows consists of roughly 400,000 lines of intricate code. We believe that the SEC's proposal overstates the utility and cost savings that would be passed on to the investor and understates the complexity inherent in utilizing both of these components of modeling a transaction. As is noted above, the inclusion of a full blown cash flow engine will expose the issuer to further liability that is not defined in the deal documentation.[6]

In fact, providing a waterfall program by itself will do investors no good if you cannot pass accurate collateral cash flows through it.

Updating Models to Reflect the Most Recent Collateral and Bond Payment Information Is a Highly Complex Process

The SEC will find that investors will not be able to simply plug a new collateral file into the original model to analyze the transaction once the deal has seasoned – the models have to keep changing. As a common-sense manifestation of this fact, we note that approximately half of Intex's analysts are involved in original modeling, and half in updating existing models to reflect the most recent collateral and bond payment information. That provides some indication of the size and complexity of the updating task.

At a very basic level, when updating the model, each tranche needs to reflect the current balance; current interest shortfall; current carry-over shortfall and cumulative writedown. In addition, an updated model needs to reflect the current status of any credit enhancements (reserve funds, financial guarantees, letters of credit, etc.), as well as the status of the various triggers in the structure. Moreover, many performance measures and down-stream variables need to be tracked to allow for accurate model forecasting including, among other things, rolling delinquency levels, cumulative losses, IRR target proximity.[7] We would be pleased to provide the SEC with a more in-depth description

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[6] While the flow of funds are fully defined in the prospectus, there are no legal standards in place to define how to derive accurate loan cash flows from complex forecasts of prepayment, default, rate volatility, loan modifications, etc.

[7] Most standard shifting interest RMBS deals will employ the following step-down rules taken from the prospectus of Sequoia Mortgage Trust 2010-H1:

Step-Down Test *means, as to any distribution date, the test that will be satisfied if both of the following conditions are met: first, the outstanding principal balance of all mortgage loans delinquent 60 days or more (including mortgage loans in foreclosure, REO Property or bankruptcy status), any mortgage loan*

of the updating process, but the key point is that the model is dynamic and the updating process is not a matter of plugging a new collateral file into the original model.

Mandating the Use of Python

Mandating a Single Technology Will Diminish Creativity and Undermine 20 years of Innovation

Throughout its history, Intex has worked hard to assist investors in understanding ABS issuances. Through years of development and refinement, Intex has created, and continually enhances, a programming language specially developed for modeling structured-finance transactions. Intex believes that this unique language allows it to offer the best possible models to its clients, just as the languages used by other commercial modelers are chosen for their various attributes.

Mandating that waterfalls be offered in Python will undermine the marketplace without yielding additional transparency or standardization. After all, just because Python is open source does not mean that just anybody can read it. By mandating Python, the SEC is promoting a solution for the programming literate but, in this case, transparency, as the SEC desires it to be, comes from making public information pertaining to the collateral, not the type of language used to model the waterfall.

Moreover, structural transparency is better depicted through the robust analytical tools that are commercially available to the marketplace. An important feature that analytic firms provide is standardized modeling and reporting of common waterfall elements. There are many ways to model a transaction that will produce accurate cash flows and analytics. However, standardized modeling allows for intermediate calculations in the waterfall to be captured and presented. These intermediate calculations are crucial for understanding the ultimate results of a cash flow run.[8] An open source solution like Python would promote modeling in various styles, with the only requirement being that accurate cash flows are output. There is no guarantee that these

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subject to a servicing modification within the 12 months prior to that distribution date and any mortgage loans 120 or more days delinquent that were purchased by the Controlling Holder within the 12 months prior to that distribution date, ***averaged over the preceding six-month period,*** *as a percentage of the aggregate Class Principal Amounts on such distribution date (without giving effect to any payments on such distribution date) of the subordinate certificates, does not equal or exceed 50%; and second,* ***cumulative Realized Losses*** *on the mortgage loans do not exceed:*

[8] Some examples include calculating and displaying credit-support percentages, particularly on complicated multi-group transactions with crossed subordination and super-senior tranches, deal trigger results, required credit enhancement levels, Available Funds Cap coupon rates, Split Loan information on CMBS transactions, implied writedowns, hedges, etc....

critical structural features will be presented to the user, which will actually make these models more opaque and not, as the SEC desires, more transparent. In fact, modeling firms compete not just on the accuracy of their cash flows, but on the clarity and transparency they can deliver to investors.

Requiring issuances in Python would mean that a generic programming language that does not have the ability to take into account nuances in structural finance modeling would supplant all those languages developed for the sole purpose of structural finance modeling. Throwing out this institutional knowledge would set the industry back 20 years, all the while depriving the investors – the very people the SEC aims to help – of accessing the best models.

Throwing out institutional knowledge and mandating Python will also make errors more likely because Python programming does not have the benefit of ongoing testing over the course of many years.

Translating To and From Python Will Create Significant Costs and Burdens

The SEC has significantly understated the cost and time required to translate waterfall programs from non-Python languages to Python languages. The SEC estimates that issuers will incur a one-time setup cost of 672 hours to create mechanisms such as adapting languages. It is apparent that the SEC has not taken into consideration a number of variables that will greatly increase the cost of any final rule.

In addition to underestimating the time and cost of putting together a fully functional waterfall that can accurately depict any and all scenarios, the Proposal also seems to ignore the time and cost associated with supporting these tools to the public. Although end users might, as the SEC suggests, be able to download the waterfall onto their computers, they will still need significant support not only in getting the program to run, but also in interpreting its results. Intex does not simply create a program or model and send it out to its clients; rather, at least 30 percent of Intex's efforts are directed at assisting its clients in running and utilizing its products. If the Proposal is adopted in its current form, the responsibility to provide technical support would ultimately fall upon the issuers. Furthermore, issuers will be subjected to ongoing development costs to enable new waterfall programs to keep pace with inevitable structural innovations and new lending products offered by the market. Investors will, as a whole, see greater costs as a result of the Proposal because issuers will pass the cost of these new requirements onto the end user.

Requiring Python, or Any Particular Language, Will Not Help Small Investor

Based on its market experience, Intex does not believe that small investors, even if they have the expertise to download and operate the Proposal's prescribed Python waterfall

program, will be assisted in making prudent investment decisions if the waterfall is written in Python. As it's highly unlikely that the proposed model, by itself, will allow for the complex analysis and transparent output provided by current third party systems, investors will be left with a choice to either: program these value added tools themselves, hire a third party to provide such tools, or simply rely on the limited analysis available in the base Python model. Most small investors will not have the programming resources for the first option, nor will they have the financial means for the second option. Furthermore, reliance on a third party vendor would eliminate any cost savings that the Proposal may have offered. This leaves the last option whereby investors will put their faith in a system that's clearly inferior to those employed by larger firms with far greater resources. As long as the SEC mandated model lacks all of the features available in commercially available models, small investors could fall prey to arbitrage opportunities between the free Python model and commercially available models.

The Proposal Does Not Address the Fact That Python May Become Obsolete

We believe it is a mistake for the SEC to mandate the use of Python, or any other open source software, because it will inevitably become outdated, or be updated to reflect key attributes to ABS modeling, or could cause special custom versions to be created for use in ABS modeling. For instance, a number of business programming languages, such as COBOL, were exceedingly popular, but later became obsolete. Outdated language will hurt the ABS market by rendering the models less sensitive and will cut against the SEC's goals set forth in the proposal.

Let the Market Determine the Technology

Should the SEC directive require model availability to all investors, Intex strongly suggests that there be no specific technology mandate. The industry will be best served by allowing market participants to choose the technology best suited to analyze a particular asset class. This should include commercial providers such as Intex

Possible Alternative Proposals to Assist the SEC in Obtaining its Goals

As described above, Intex has numerous concerns regarding the Proposal's modeling provisions. However, Intex is interested in working with the SEC to develop more workable responses narrowly tailored to addressing the SEC's policy concerns. Some concepts that we believe are worth exploring, and would be happy to address more fully with the SEC, are:

- Reinforcing the concept of a qualified investor, by requiring on ABS transactions a standard disclosure that warns investors to employ a financial model to run a variety of key assumptions and scenarios prior to purchasing the ABS securities.

- Giving issuers the option of making a cash flow model available to investors during the initial marketing period.

- Letting the market dictate which technologies and/or methods to employ. This could be in Excel, Python, or a commercial structured finance language;[9]

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Intex appreciates the opportunity to submit these comments, and we would welcome any questions or follow-up on this that the SEC may have.

Very truly yours,

Kevin F. McCarthy
Managing Director
Intex Solutions, Inc.

[9] Intex is open to working with market participants to make Intex cash flow models available on a limited basis to qualified investors during the marketing phase, regardless of subscription, provided the firm can protect its commercial interests.