MEMORANDUM

TO: File No. S7-14-11

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

RE: Conference call with SFIG representatives

DATE: May 16, 2014

On April 28, 2014, Katherine Hsu, Arthur Sandel and David Beaning of the Division of Corporation Finance and Sean Wilkoff and Igor Kozhanov of the Division of Economic and Risk Analysis participated in a conference call with the following representatives of the Structured Finance Industry Group, Inc. ("SFIG"): Richard Johns and Sairah Burki of SFIG; Stuart Litwin of Mayer Brown LLP; Phoebe Moreo of Deloitte & Touche LLP; Ken Morrison of Kirkland & Ellis LLP; Sam Smith, Dan Mellett and Matt Stovcsik of Ford Motor Credit; and John Di Paolo and Gary Horbacz of Prudential Fixed Income.

The following staff of other federal regulators also participated: James Basham and Kevin Korzeniewski of the OCC; Kathy Russo, Phil Sloan, Tom Lyons, James Boria, Elliott Pinta, Sumaya Muraywid and Rohit Dhruv of the FDIC; Flora Ahn, David Alexander, Matthew Suntag, Steve Schoen and Donald Gabbai of the Federal Reserve Board; Ron Sugarman and Tom Joseph of the FHFA; Samuel Pearson-Moore and Camille Acevedo of HUD; and Beth Mlynarczyk, Olga Gorodetsky and Ankur Datta of the Department of the Treasury.

The participants discussed topics related to the Commission's August 28, 2013 joint proposed rules regarding credit risk retention. Handouts are attached to this memo.
Attachments

Risk Retention Re-Proposal

Supplemental Materials

Matrix Approach

April 28, 2014

Alternative: Matrix Approach

- The matrix approach proposed herein is intended to replace the single point loss and discount rate assumptions within the original EHRI fair value proposal with a reasonable range of loss and discount rate assumptions
  - It is not intended to wholly replace the "simplified approach" proposal we discussed in our October 2013 comment letter, which we are no longer pursuing following your feedback
- This approach remains aligned with the fair value approach outlined in re-proposal
  - Avoids the false precision of “single-point“ loss and discount rate assumptions
  - Continues to be completed by and not revisited after point of sale
  - All calculations can be recomputed by accountants
- Ranges on the loss and discount rate assumptions would be set to establish reasonable higher and lower boundaries around the expected outcome
- The resulting matrix of fair value calculations would be accompanied by disclosure that the sponsor’s analysis provides reasonable assurance that risk retention is greater than 5% over the life of the transaction
  - Note that in circumstances in which some numbers in the matrix are less than 5% (as the following example shows) this assurance would be equivalent to the issuer providing a lower boundary on its estimated losses / upper boundary on its estimated discount rates
- Disclosure can be presented in form of a matrix (showing minimum forecasted risk retention % over the projected life) or in a monthly matrix format (showing the projected risk retention % at each cashflow date)

Alternative: Matrix Approach

Example Disclosure of Minimum Risk Retention Over The Projected Life Of The Transaction*:

		Cumulative Loss %			
		0.75%	**1.25%**	**1.75%**	**2.25%**
Annual Discount Rate	**7.5%**	6.9%	6.4%	5.7%	5.1%
	10.0%	6.8%	6.2%	5.6%	4.9%
	12.5%	6.7%	6.1%	5.4%	4.8%
	15.0%	6.5%	5.9%	5.3%	4.6%

"The sponsor performed a review of the projected performance of the receivables and related amortization of the notes, and has made assumptions about the discount rate applicable to the cash flows associated with its retained interest. The following table shows the present value of its retained interest divided by the value of the total ABS interests (the "risk retention ratio"), at varying discount rates and cumulative loss assumptions. Based upon this review, the sponsor has concluded that it has reasonable assurance that its risk retention ratio is projected to remain at least 5%."

* The example shown is the same as referenced on page 25 of the October 30, 2013 SFIG comment letter, with the further assumption -- for illustrative purposes – that 4.5% of the original retained interest has been sold externally. This allows the example to be calibrated more closely to the 5% threshold on an expected case basis.

Alternative: Matrix Approach

Example Monthly Matrix

	7.5% Discount Rate				10% Discount Rate				12.5% Discount Rate				15% Discount Rate			
	0.75%	1.25%	1.75%	2.25%	0.75%	1.25%	1.75%	2.25%	0.75%	1.25%	1.75%	2.25%	0.75%	1.25%	1.75%	2.25%
0	8.5%	8.2%	7.8%	7.4%	8.1%	7.8%	7.4%	7.1%	7.8%	7.4%	7.1%	6.7%	7.4%	7.1%	6.7%	6.4%
1	8.5%	8.1%	7.8%	7.4%	8.1%	7.8%	7.4%	7.0%	7.7%	7.4%	7.0%	6.7%	7.4%	7.1%	6.7%	6.4%
2	8.5%	8.1%	7.7%	7.3%	8.1%	7.7%	7.4%	7.0%	7.7%	7.4%	7.0%	6.6%	7.4%	7.0%	6.7%	6.3%
3	8.4%	8.1%	7.7%	7.3%	8.1%	7.7%	7.3%	6.9%	7.7%	7.3%	7.0%	6.6%	7.4%	7.0%	6.7%	6.3%
4	8.4%	8.0%	7.6%	7.2%	8.0%	7.7%	7.3%	6.9%	7.7%	7.3%	6.9%	6.6%	7.3%	7.0%	6.6%	6.3%
5	8.4%	8.0%	7.6%	7.2%	8.0%	7.6%	7.2%	6.8%	7.6%	7.3%	6.9%	6.5%	7.3%	7.0%	6.6%	6.2%
6	8.3%	7.9%	7.5%	7.1%	8.0%	7.6%	7.2%	6.8%	7.6%	7.2%	6.9%	6.5%	7.3%	6.9%	6.6%	6.2%
7	8.3%	7.9%	7.5%	7.0%	7.9%	7.5%	7.1%	6.7%	7.6%	7.2%	6.8%	6.4%	7.3%	6.9%	6.5%	6.1%
8	8.3%	7.8%	7.4%	7.0%	7.9%	7.5%	7.1%	6.7%	7.6%	7.2%	6.8%	6.4%	7.3%	6.9%	6.5%	6.1%
9	8.2%	7.8%	7.4%	6.9%	7.9%	7.5%	7.0%	6.6%	7.5%	7.1%	6.7%	6.3%	7.2%	6.8%	6.4%	6.0%
10	8.2%	7.7%	7.3%	6.9%	7.8%	7.4%	7.0%	6.6%	7.5%	7.1%	6.7%	6.3%	7.2%	6.8%	6.4%	6.0%
11	8.1%	7.7%	7.2%	6.8%	7.8%	7.4%	6.9%	6.5%	7.5%	7.1%	6.6%	6.2%	7.2%	6.8%	6.4%	6.0%
12	8.1%	7.6%	7.2%	6.7%	7.8%	7.3%	6.9%	6.4%	7.5%	7.0%	6.6%	6.2%	7.2%	6.8%	6.3%	5.9%
13	8.1%	7.6%	7.1%	6.7%	7.7%	7.3%	6.8%	6.4%	7.4%	7.0%	6.6%	6.1%	7.1%	6.7%	6.3%	5.9%
14	8.0%	7.6%	7.1%	6.6%	7.7%	7.3%	6.8%	6.3%	7.4%	7.0%	6.5%	6.1%	7.1%	6.7%	6.3%	5.8%
15	8.0%	7.5%	7.0%	6.5%	7.7%	7.2%	6.7%	6.3%	7.4%	6.9%	6.5%	6.0%	7.1%	6.7%	6.2%	5.8%
16	7.9%	7.5%	7.0%	6.5%	7.6%	7.2%	6.7%	6.2%	7.3%	6.9%	6.4%	5.9%	7.1%	6.6%	6.2%	5.7%
17	7.9%	7.4%	6.9%	6.4%	7.6%	7.1%	6.6%	6.1%	7.3%	6.9%	6.4%	5.9%	7.1%	6.6%	6.1%	5.7%
18	7.9%	7.4%	6.8%	6.3%	7.6%	7.1%	6.6%	6.1%	7.3%	6.8%	6.3%	5.8%	7.0%	6.6%	6.1%	5.6%
19	7.8%	7.3%	6.8%	6.3%	7.5%	7.0%	6.5%	6.0%	7.3%	6.8%	6.3%	5.8%	7.0%	6.5%	6.0%	5.5%
20	7.8%	7.2%	6.7%	6.2%	7.5%	7.0%	6.5%	5.9%	7.2%	6.7%	6.2%	5.7%	7.0%	6.5%	6.0%	5.5%
21	7.7%	7.2%	6.7%	6.1%	7.5%	6.9%	6.4%	5.9%	7.2%	6.7%	6.2%	5.6%	6.9%	6.5%	5.9%	5.4%
22	7.7%	7.1%	6.6%	6.0%	7.4%	6.9%	6.3%	5.8%	7.2%	6.6%	6.1%	5.6%	6.9%	6.4%	5.9%	5.4%
23	7.6%	7.1%	6.5%	6.0%	7.4%	6.8%	6.3%	5.7%	7.1%	6.6%	6.1%	5.5%	6.9%	6.4%	5.8%	5.3%
24	7.6%	7.0%	6.5%	5.9%	7.3%	6.8%	6.2%	5.7%	7.1%	6.6%	6.0%	5.5%	6.9%	6.3%	5.8%	5.3%
25	7.5%	7.0%	6.4%	5.8%	7.3%	6.7%	6.2%	5.6%	7.1%	6.5%	6.0%	5.4%	6.8%	6.3%	5.7%	5.2%
26	7.5%	6.9%	6.3%	5.7%	7.3%	6.7%	6.1%	5.5%	7.0%	6.5%	5.9%	5.3%	6.8%	6.3%	5.7%	5.1%
27	7.5%	6.9%	6.3%	5.7%	7.2%	6.6%	6.1%	5.5%	7.0%	6.4%	5.8%	5.3%	6.8%	6.2%	5.7%	5.1%
28	7.4%	6.8%	6.2%	5.6%	7.2%	6.6%	6.0%	5.4%	7.0%	6.4%	5.8%	5.2%	6.8%	6.2%	5.6%	5.0%
29	7.4%	6.8%	6.1%	5.5%	7.2%	6.6%	5.9%	5.3%	6.9%	6.3%	5.7%	5.1%	6.7%	6.1%	5.6%	5.0%
30	7.3%	6.7%	6.1%	5.4%	7.1%	6.5%	5.9%	5.3%	6.9%	6.3%	5.7%	5.1%	6.7%	6.1%	5.5%	4.9%
31	7.3%	6.7%	6.0%	5.4%	7.1%	6.5%	5.8%	5.2%	6.9%	6.3%	5.6%	5.0%	6.7%	6.1%	5.5%	4.8%
32	7.3%	6.6%	6.0%	5.3%	7.0%	6.4%	5.8%	5.1%	6.8%	6.2%	5.6%	5.0%	6.6%	6.0%	5.4%	4.8%
33	7.2%	6.6%	5.9%	5.3%	7.0%	6.4%	5.7%	5.1%	6.8%	6.2%	5.5%	4.9%	6.6%	6.0%	5.4%	4.7%
34	7.2%	6.5%	5.9%	5.2%	7.0%	6.3%	5.7%	5.0%	6.8%	6.2%	5.5%	4.9%	6.6%	6.0%	5.3%	4.7%
35	7.1%	6.5%	5.8%	5.2%	6.9%	6.3%	5.6%	5.0%	6.8%	6.1%	5.5%	4.8%	6.6%	5.9%	5.3%	4.7%
36	7.1%	6.5%	5.8%	5.1%	6.9%	6.3%	5.6%	5.0%	6.7%	6.1%	5.4%	4.8%	6.6%	5.9%	5.3%	4.6%
37	7.1%	6.4%	5.8%	5.1%	6.9%	6.2%	5.6%	4.9%	6.7%	6.1%	5.4%	4.8%	6.5%	5.9%	5.3%	4.6%
38	7.0%	6.4%	5.7%	5.1%	6.9%	6.2%	5.6%	4.9%	6.7%	6.1%	5.4%	4.8%	6.5%	5.9%	5.3%	4.6%
39	7.0%	6.4%	5.7%	5.1%	6.8%	6.2%	5.6%	4.9%	6.7%	6.1%	5.4%	4.8%	6.5%	5.9%	5.3%	4.6%
40	7.0%	6.4%	5.8%	5.1%	6.8%	6.2%	5.6%	5.0%	6.7%	6.1%	5.4%	4.8%	6.5%	5.9%	5.3%	4.7%
41	7.0%	6.4%	5.8%	5.2%	6.8%	6.2%	5.7%	5.0%	6.7%	6.1%	5.5%	4.9%	6.5%	5.9%	5.3%	4.8%
42	7.0%	6.4%	5.9%	5.3%	6.8%	6.3%	5.7%	5.2%	6.7%	6.1%	5.6%	5.0%	6.5%	6.0%	5.4%	4.9%
43	7.0%	6.5%	6.0%	5.5%	6.9%	6.4%	5.8%	5.3%	6.7%	6.2%	5.7%	5.2%	6.6%	6.1%	5.5%	5.0%
44	7.1%	6.6%	6.1%	5.7%	6.9%	6.5%	6.0%	5.5%	6.8%	6.3%	5.9%	5.4%	6.6%	6.2%	5.7%	5.3%
45	7.1%	6.7%	6.4%	6.0%	7.0%	6.6%	6.2%	5.8%	6.8%	6.5%	6.1%	5.7%	6.7%	6.3%	5.9%	5.6%
46	7.2%	6.9%	6.6%	6.4%	7.1%	6.8%	6.5%	6.2%	6.9%	6.7%	6.4%	6.1%	6.8%	6.5%	6.2%	6.0%
47	7.3%	7.2%	7.0%	6.9%	7.2%	7.0%	6.9%	6.7%	7.1%	6.9%	6.8%	6.6%	7.0%	6.8%	6.6%	6.5%
48	7.5%	7.5%	7.5%	7.5%	7.4%	7.4%	7.4%	7.4%	7.3%	7.3%	7.3%	7.3%	7.1%	7.1%	7.1%	7.1%
49	7.5%	7.5%	7.5%	7.5%	7.3%	7.3%	7.3%	7.3%	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%
50	7.4%	7.4%	7.4%	7.4%	7.3%	7.3%	7.3%	7.3%	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%
51	7.4%	7.4%	7.4%	7.4%	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%
52	7.3%	7.3%	7.3%	7.3%	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%
53	7.3%	7.3%	7.3%	7.3%	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%
54	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
55	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%
56	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%
57	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%
58	7.2%	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%
59	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%
60	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
61	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%
62	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%
63	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
64	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
65	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
66	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
67	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
68	7.4%	7.4%	7.4%	7.4%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%