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 John W. O'Brien, Managing Partner, Home Equity Securities LLC and Adjunct Professor at University of California Berkley

DATE: June 13, 2011

On May 5, 2011, Jay Knight of the Division of Corporation Finance and Stanislava Nikolova and Eric Emre Carr of the Division of Risk, Strategy, and Financial Innovation met with John W. O'Brien, Managing Partner at Home Equity Securities LLC and an Adjunct Professor at University of California, Berkley. The discussion included, among other things, the Commission's Proposed Rules for Credit Risk Retention. Handouts are attached to this memorandum.

Attachment

Illustrating Shared-Equity in a Down Payment Scenario

John O'Brien, Managing Partner
Home Equity Securities LLC
May 3, 2011

There are variations on the below theme, but one basic way to look at shared-equity in a down payment scenario is described below.

Home Purchase price –	200K
1rst Mortgage –	160K
Homeowner down –	20K
Shared-equity investor –	20K

The shared-equity investor (50/50, for example) is on an equal risk-tier with the homeowner; both are a tier below the mortgage investor. If the house later is sold for 160K, the lender gets it all. If it sells for 240K, the lender gets 160K; the homeowner and shared-equity investor each get 40K; etc.

The shared-equity investor is similar to a family gift provider; only, if the home later sells above the initial mortgage amount, the shared-equity investor shares the gain – that's the motivation to attract private equity investment into the residential equity market. We envision that the ultimate shared-equity investor is an institutional pension, endowment, foundation or sovereign fund. Initially, there would various intermediaries.

We call the shared-equity instrument a Home Equity Fractional Interest (HEFI) instrument (patent filed in 2003; issued in April, 2009). The HEFI is a standardized contract, filed with the county as a lien. HEFIs can be transferred (sold) to subsequent investors; it is the basis for an equity capital market in residential real estate. A market that is nearly as big as the US stock market. This would be a big boost for residential home finance, without increasing mortgage risk.

Solving the Foreclosure Crisis:

Principal Reductions via Equity Sharing

Current Problem(s):
'Underwater' Homeowners & Widespread Foreclosures

- An effective solution requires going beyond lowering mortgage payments.
- *It requires principal reduction.*

"The evidence is irrefutable. Negative equity is the most important predictor of default.... We are concerned that if policies continue to kick the can down the road – working with a modification problem that does not address negative equity – delinquencies will continue to spiral down with no end in sight." *Laurie Goodman, Senior Managing Director, Amherst Securities, House Financial Services Committee Testimony, December 8, 2009*

"The best way to modify an underwater loan is to reduce the principal balance, lowering the monthly payment and restoring equity.... To avert the worst, the White House should alter its loan-modification effort to emphasize principal reduction." *Editorial, New York Times, January 5, 2010*

Restructuring Distressed Businesses

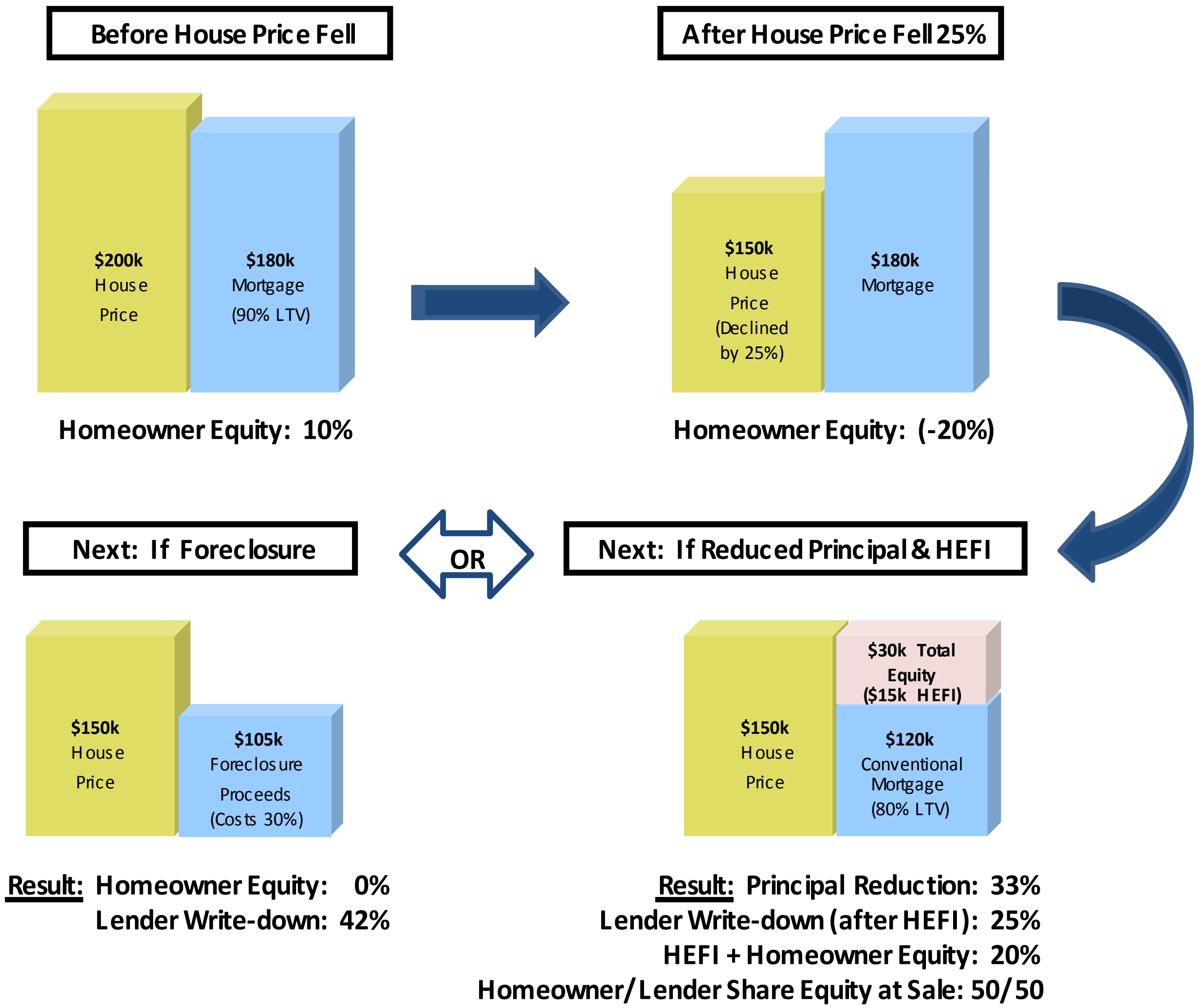
- Distressed businesses often undergo debt restructuring.
  - Lenders *reduce debt in exchange for equity.*
  - The resulting de-leveraged business is able to continue as a going concern, avoiding dead-weight bankruptcy costs.
  - Equity retained by original owners and new lenders' equity provides for aligned incentives and future equity growth.

- This distressed business solution can be applied to the distressed homeowner with analogous benefits for lender and homeowner.

Home Equity Fractional Interest (HEFI) Restructure Mimics the Business Restructure

- Lender reduces mortgage principal in exchange for equity – the HEFI.
  - The HEFI confers a specified fraction of home's price appreciation.
  - The HEFI receives cash only when the home is sold. The homeowner makes no intermediate payments.
- Homeowners retain full ownership of their homes, with reduced payments and principal, and participate in potential future home price appreciation.
- Homeowners, lenders, and communities are spared costly foreclosures.

Example: HEFI (Home Equity Fractional Interest) Program



HEFI is Unique

- **Represents a passive investor partial interest in a home's price appreciation**
  - Distressed homeowners "pay" for principal reduction with HEFI: fair to lenders, taxpayers, non-distressed homeowners and renters.
  - The HEFI is legally separate and NOT tied to the mortgage.
  - Homeowner retains full ownership, subject only to HEFI fractional claim of value upon future sale.
  - At lender's option, can augment Government programs
  - Patent granted in April 2009.
- **Can be sold into capital markets**
  - Institutional investors will be interested in HEFIs to achieve diversification beyond stocks and bonds.
  - The residential equity asset class is as large as the entire U.S. stock market.

Home Equity Securities

Home Equity Securities LLC (HES) is comprised of leading finance and real estate academics at UC Berkeley, and private individuals who have specialized in these areas.

HES is uniquely focused on expanding home finance to include fractional home equity ownership. Their patented approach has both rigorous academic foundations and important practical applications. The HES HEFI foreclosure mitigation solution is ready for implementation on the scale necessary for the current crisis.

Information about HES and its professional team can be found at:
www.HomeEquitySecurities.com

The managing partner of HES is John O'Brien. He may be contacted at
jobrien@HomeEquitySecurities.com