November 15, 2010

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Attn: Elizabeth M. Murphy, Secretary

Re: Release Nos. 33-9150 and 34-63091; File No. S7-26-10

Ladies and Gentlemen:

Clayton Holdings LLC ("Clayton") and CoreLogic, Inc. ("CoreLogic") are pleased to have the opportunity to submit this letter in response to the request of the Securities and Exchange Commission (the "Commission") for comments regarding Release Nos. 33-9150 and 34-63091; File No. S7-26-10 (the "Proposing Release"), relating to the implementation of Section 945 (Due Diligence Analysis and Disclosure in Asset-backed Securities Issues) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act"). We commend the Commission for its efforts to propose regulations requiring that due diligence of asset-backed securities ("ABS") be performed and the results disclosed to investors. Furthermore, we thank the Commission for seeking comment from industry participants regarding this important issue.

Clayton and CoreLogic are two of the largest providers of residential mortgage loan due diligence services in the United States. Traditionally, our services have been used by loan purchasers to make better decisions about how they price portfolios and manage risk. Prospectively, we can play a valuable role by independently validating the information used by market participants to make decisions relating to loans being included in securitization transactions. Clayton and CoreLogic's skill, knowledge and experience enable us to provide thorough, independent reviews to the marketplace and thus can help restore investor confidence and restart the mortgage securitization market. We are therefore uniquely positioned to offer comment to the Commission regarding the implementation of Section 945 of the Act ("Section 945"). Our comments are limited to matters relating to residential mortgage-backed securities ("RMBS") and we express no opinion concerning any other type of ABS.

Section 945 requires the Commission to implement rules mandating that the issuer of publicly offered ABS conduct a review of the assets underlying such securities and disclose the nature of such review to investors. In the Proposing Release, the Commission sets forth Rule 193 ("Rule 193") under the Securities Act of 1933 (the "Securities Act"), which would require issuers to perform a review of the assets underlying any registered ABS. In addition, the Commission proposes amending Item 1111 of Regulation AB ("Item 1111") to require the nature, the findings, and the conclusions of such review to be disclosed in the registration statement. Under Proposed Rule 193, the issuer may engage a third party due diligence provider to perform the requisite review, provided that such third party consents to being named as an expert in the issuer's registration statement.

We believe that applying the expert consent requirement of proposed Rule 193 to third party due diligence providers will have unintended and very negative consequences to the RMBS market. As a threshold matter, we note that there is a great deal of misinformation in the public domain regarding both the nature of third-party due diligence and the work performed by due diligence providers. We would welcome an opportunity to meet with the Commission to further discuss the role of third party due diligence providers in the RMBS industry and our concerns with proposed Rule 193.

Expert Consent Requirement

If Rule 193 is enacted in its proposed form, third parties engaged to perform the required review will be subject to liability for material misstatements and omissions under Section 11(a)(4) of the Securities Act (referred to herein as "expert liability"). We do not believe that subjecting third party due diligence firms to expert liability will achieve the purposes of Section 945, namely ensuring that sufficient due diligence is performed and disclosed to investors. In fact, we firmly believe that imposing expert liability will severely diminish the quality and integrity of due diligence that is performed. In addition, we believe such requirement is inappropriate due to the nature of the reviews Clayton and CoreLogic perform. Finally, we do not believe that Clayton, CoreLogic and third party due diligence providers like us fit within the scope of the Securities Act provisions that establish expert liability.

Third party due diligence providers are fundamentally different from established categories of professionals who may have expert liability

Section 11(a)(4) of the Securities Act does not impose liability upon third party due diligence providers. Section 11(a)(4) provides for potential expert liability for "every accountant, engineer, or appraiser, or any person whose profession gives authority to a statement made by him." Importantly, Section 11(a)(4) does not use the word "expert" in defining the categories of persons that have liability. Indeed, the term "expert" does not appear in Section 11 until subsection (b)(3), the section that establishes defenses for persons that may have liability under any part of subsection (a). As a result, Section 11(a)(4) does not impose liability on all persons who could be considered an "expert" and who meet the other requirements of that subsection, but rather by its terms only imposes liability on persons who are described by the phrase "every accountant, engineer, or appraiser, or any person whose profession gives authority to a statement made by him" and who meet the other requirements of that subsection.

Historically, liability under Section 11(a)(4) has generally been limited to a narrow category of professionals-- accountants, engineers, appraisers and attorneys.[1] These professionals share a number of common and significant attributes, none of which are shared by independent third party due diligence firms:

- These are widely recognized, established professions.

- Persons who serve as certified public accountants, professional engineers, real estate appraisers and attorneys must be licensed by a state and must pass an examination or follow practices established by a recognized independent professional organization. For example, a lawyer must be admitted to practice law pursuant to rules and procedures of the court system of a particular state after passing a state's bar examination. Likewise, a certified public accountant is licensed by a state to provide auditing services, and must have passed an examination administered by the American Institute of Certified Public Accountants. A Professional Engineer must be registered with or licensed by a particular state, and each state has an engineering board that requires examinations administered by the National Council of Examiners for Engineering and Surveying. Finally, real estate appraisers are required to be licensed by a state, and the states have adopted appraisal standards known as the Uniform Standards of Professional Appraisal Practice that are promulgated by a professional organization.

- The practice of the profession involves the exercise of independent judgment in the application to a specific context of a body of knowledge, a set of generally recognized principles, or a set of recognized practices, which in each case are independently set as opposed to being determined solely by the professional or the client.

- Persons entering these professions are required to go through specialized education or training prior to commencing employment - they cannot qualify solely by employer provided training or by experience.

In short, the above categories of persons that traditionally have been exposed to liability under Section 11(a)(4) are persons who are individually licensed professionals, and who in the practice of their profession apply highly specialized understanding of a body of knowledge or set of industry established practices to a given situation.

[1] In addition to these categories, investment bankers providing fairness opinions in merger and acquisition transactions have been found to be within Section 11(a)(4), and credit rating agencies are now deemed to be within Section 11(a)(4) as a result of the Act's repeal of Rule 436(g). Both of these categories are discussed below.

Independent third party diligence providers are fundamentally different from these categories of professionals. Neither individual employees nor the company are required to be licensed by any state or federal authority in order to perform third party due diligence reviews. There is no formal educational degree needed in order to begin a career in this field, nor is there any examination mandated by a professional association or regulatory body that must be passed as a pre-requisite. There is no industry established or recognized body that specifies standards or best practices. There is no need to be able to express an independent professional opinion about the application to the client's situation of an independent body of knowledge or set of established practices. Rather, the review work is limited to an objective, fact based review of certain attributes of a loan against objective criteria that are provided or specified by the client.

Moreover, other persons that perform similar functions in other contexts are not considered experts similar to the above categories of professionals. For example, Section 11(a)(4) does not generally impose expert liability upon the underwriters who originate loans. The very essence of independent third party due diligence is the re-underwriting of loans. It would be fundamentally unfair to impose a heightened standard of liability on re-underwriters of loans than that which applies to the original underwriting of the very same loans. Indeed, the purpose of the third party due diligence requirements in Section 945 and Rule 193 is to provide investors with an independent and impartial review of the assets underlying ABS, and not to create a unique expertise that would qualify a third party provider as an expert under the Securities Act.

In addition to the above types of professionals, investment bankers providing fairness opinions have been found to be within the scope of Section 11(a)(4), and credit rating agencies are now effectively within Section 11(a)(4) as a result of the repeal of Rule 436(g), although to date credit rating agencies have not been required to be named in a registration statement. While these examples do not share all of the attributes of categories of professionals discussed above, we feel that they are different enough from third party diligence firms to not undercut the arguments made above. Fairness opinions are normally rendered by companies that are registered broker dealers and members of the Financial Industry Regulatory Authority, and through employees that are generally accredited securities professionals. A fairness opinion does represent an independent professional opinion about a transaction, in light of a standard of "fairness" which reflects a judgment relative to what is reasonable and customary in the industry. While the "fairness" standard may be somewhat nebulous, for purposes of this discussion it is important to note that the standard is subjective, and that it is not set or defined by the client obtaining the opinion. By comparison, the scope of a due diligence review is set by the client and is generally limited to comparing loan characteristics to objective, defined criteria.

As the Commission is aware, the Act eliminates the exemption from expert liability for rating agencies whose ratings are disclosed in the registration statement. However, the due diligence reviews conducted by firms such as Clayton and CoreLogic can clearly be distinguished from the analyses that are performed by rating agencies. Rating agencies use credit risk grading scales that they develop, and they create and maintain procedures and methodologies for gathering and assessing information in developing a rating. None of these procedures or methodologies are specified by the person requesting the rating. Also, rating agencies define the scope of the review that they perform in developing ratings. Rating a securitization requires a highly specialized, quantitative analysis by highly educated individuals who must render an assessment as to the likely future losses on the underlying assets. Finally, rating agencies that have obtained a designation as a "nationally recognized statistical rating organization" are subject to regulations under the Securities Exchange Act of 1934 as well as to standards of conduct set by the International Organization of Securities Commissions.

Unlike rating agencies, independent third party due diligence firms do not engage in detailed analysis of the information presented to them in order to make subjective determinations about the expected performance of the assets. We do not estimate or project future losses on the assets. Rather, we simply compare the assets to predetermined underwriting guidelines and tolerances to determine if the relevant criteria are met.

Subjecting third party due diligence providers to expert liability is inappropriate because of the nature of the review performed

The due diligence review on the assets underlying RMBS is not of a type that requires an "expert." Clayton and CoreLogic generally take a "modular" approach to loan review services, under which a client may select from a number of different types of reviews, including but not limited to those set forth below (or any combination).

- *Data integrity*. We review loan level data fields as contained in a loan level data file against source documentation made available to us.

- *Credit*. We assess the credit quality of a loan by re-underwriting it against the originator's underwriting guidelines and/or specified overlays, including for example recalculating debt to income ratios and reviewing credit reports.

- *Compliance*. We review loans to determine if they comply with specific consumer protection laws. For example, we determine if the loans have interest rates, points or fees that cause them to exceed limits specified under federal and state "high cost" loan laws. Generally, this review involves entering loan specific data points into proprietary or outsourced computer programs. We do not provide any legal advice to our clients.

- *Property valuation*. We review the appraisal obtained at origination of the mortgage loan to determine if the value assigned to such loan is supported by the appraisal. If the value is not supported and if doing so is within the scope of the engagement, we use a tiered reconciliation approach defined by the client that might include reviewing an update to the appraisal (determined through the use of an automated value model or broker price opinion) or, in some cases, reviewing a new appraisal. Third party service providers assist us from time to time in performing property valuation services.

Historically, both the scope of the review and the standards against which the review is made are dictated by the party requesting it. We do not exercise professional judgment as to the scope or sufficiency of such review, but rather perform only the specific tasks dictated to us by our clients on the loans chosen by them. We rely upon the source documents contained in loan files provided to us by our client and do not independently verify the validity or completeness of such loan files.

Expert liability is particularly inappropriate for independent third party firms because in addition to subjecting experts to liability for material misstatements, Section 11 of the Securities Act also establishes liability for material omissions. This is inappropriate for asset review services, given the limited scope of our typical review. For example, we review loans against specified underwriting guidelines, but we do not express an opinion about the adequacy and sufficiency of underwriting guidelines. Nevertheless, even if we accurately reviewed a sample of loans against a specified set of underwriting guidelines, with liability for material omissions third party reviewers would potentially face allegations of not having identified and disclosed potential weaknesses in the specified underwriting guidelines. Moreover, our clients have traditionally used third party due diligence firms to review loans against client specific tolerances that exceed originator underwriter guidelines. These tolerances also may differ significantly from client to client, from transaction to transaction, and from product to product. We request clarification from the Commission that third party diligence providers will not be responsible for determining the suitability or appropriateness of any such tolerance.

Expert liability is inappropriate for independent due diligence firms because of the material role third party vendors play in the due diligence process

When performing a due diligence review on behalf of a client, due diligence firms routinely outsource certain material aspects of the review process to third party vendors who perform specific services or maintain automated systems for making certain determinations. These third party vendors include: real estate appraisers; real estate brokers who provide broker price opinions; services that verify employment, or occupancy of a mortgaged property. Many third party due diligence providers do not maintain their own proprietary systems for reviewing loans for compliance with consumer protection laws, and these providers may perform that review using, or outsource that review to, a vendor that provides access to software that checks for compliance with consumer protection laws. Compliance reviews are fundamental to the due diligence process. The information provided by these companies is then relied on by us in preparing the report we provide to our clients. If proposed Rule 193 is adopted in its current form, it would appear that due diligence providers could be subject to expert liability for errors in their reports that are caused by errors in information obtained from these third party vendors. This would be inappropriate because while due diligence providers should select third party vendors with care, they have no ability to control the quality of the work performed by the third party vendors, nor do they have the systems and procedures in place necessary to verify the accuracy of information provided by third party vendors.[2] In some circumstances, the diligence provider's client will dictate which third party vendor should be used, making it even less appropriate for the diligence provider to be liable for the work performed by such vendor.

Subjecting third party due diligence providers to expert liability will severely diminish the quality of due diligence that is performed

For the reasons previously discussed, there is a significant risk that Clayton, CoreLogic and other well-established third party due diligence providers will refrain from accepting engagements to perform the asset review mandated by Rule 193 if in doing so we will be required to assume expert liability. Therefore, if the expert consent requirement is included in the final rule, it is possible that sponsors will decide to perform the review required by Rule 193 in-house, giving rise to risks of potential conflicts of interest, instead of engaging Clayton, CoreLogic or another third party to perform the review for them. Since Clayton, CoreLogic and third party due diligence providers like us are not affiliated with the parties to an RMBS transaction, we bring both independence and impartiality to the review process. We believe RMBS transactions benefit significantly from such independence and impartiality, and the loss of such benefits would be harmful to the interests of investors.

We are concerned that if third party providers such as Clayton and CoreLogic are not willing to perform the diligence reviews mandated by Rule 193, the market will experience an influx of new, less qualified firms to fill the associated gap. Such firms may have few assets and therefore be more willing to assume expert liability, since their risk of loss will be limited. By strongly encouraging the use of third party diligence providers, while at the same time discouraging established firms such as Clayton and CoreLogic from performing reviews on behalf of issuers out of concerns for expert liability, the proposed rules could result in new and less qualified firms entering the market, particularly since the third party diligence business does not have the barriers to entry like those that apply to other professions which have potential expert liability.

Avoiding conflicts of interest for third party due diligence providers

In the Proposing Release, the Commission suggests that subjecting third party due diligence providers to expert liability is necessary to ensure that they are not unduly influenced by issuers who pay for their services. We strongly support the Commission's goal of promoting

[2] Although it might be technically possible to devise a procedure by which due diligence firms perform an audit or quality control review of the third party vendor's operations, this is not realistic considering the significant additional expense that would be incurred.

the independence of third party due diligence providers and believe that the continued presence of such independent providers is essential to the proper functioning of the RMBS market. However, for the reasons discussed above, assigning expert liability is not the appropriate mechanism through which to achieve this goal.

Clayton and CoreLogic have never been paid based on whether our reviews achieve a particular set of results. As such, we are not motivated to allow pressure from issuers to influence our reports. However, in the interest of providing greater transparency, we propose that issuers be required to disclose to investors their relationship with the third party due diligence provider. Investors would then have the information necessary to make their own judgments regarding whether the third party due diligence provider is sufficiently independent.

In addition, when engaged to perform a Rule 193 review, third party due diligence firms could be required to provide a certification stating that (i) they were not subjected to any coercion or duress that either limited the scope of their review or affected their ability to conduct an independent and thorough review, and (ii) the review was conducted in accordance with established standards (which could be standards established by the sponsor, the underwriter of the transaction, the rating agencies or the originator of the mortgage loans). It is currently industry practice for third party due diligence firms to provide a similar certification to rating agencies when they perform loan reviews in connection with rated securitizations.

As noted previously, we believe that a consequence of assigning expert liability to third party due diligence providers will be that many such providers will decline to perform the reviews required by Rule 193, leaving a vacuum in the market that will likely be filled by less experienced firms that have limited or no assets at risk. Consequently, sponsors may then be forced to perform the mandated review themselves, and as a result the benefit of independent reviews will be lost and the potential for conflicts of interest will increase.

Type and Level of Review required for RMBS pursuant to Proposed Rule 193

We believe that Rule 193 should mandate the minimum scope of review that must be performed on the assets underlying RMBS transactions (including specifying the percentage of assets included in such transactions that must be reviewed).[3] In addition, we suggest that the Commission consider requiring that such review be performed by a third party that is not affiliated with the issuer or sponsor, especially if the issuer or sponsor is affiliated with the originator. This would promote the independence of due diligence reviews and foster a greater degree of trust and confidence among issuers and investors. Such requirement would also be consistent with the position taken by the rating agencies active in the RMBS market.

[3] We express no view concerning whether it is appropriate for the Commission to establish a minimum standard of review for other types of ABS.

We suggest that in order to comply with Section 945 on RMBS transactions, the review of the assets include the following: (i) verification of data (i.e., confirmation that the information on the mortgage loan schedule matches what appears in the actual mortgage loan files), (ii) credit re-underwriting to the loan requirements set forth in the originator's underwriting guidelines, (iii) compliance with underwriting guidelines (including noting exceptions made to underwriting guidelines and describing compensating factors),[4] (iv) compliance with the originator's property valuation guidelines, and (v) compliance with applicable consumer protection laws and noting any violations thereof. For seasoned loans, a review of compliance with underwriting guidelines should not be required. Instead, a review of borrower payment history should be conducted. We note that in its release relating to due diligence requirements for seasoned loans, Standard & Poor's Ratings Services concurred in this assessment.[5]

In light of the large number of mortgage loans that generally secure RMBS, it would not be appropriate for the Commission to require that all of such loans be reviewed in order to comply with Section 945. However, the Commission should mandate that due diligence be performed on a statistically significant sample of such mortgage loans. In establishing the percentage of mortgage loans that must be reviewed, we urge the Commission to consider the minimum sample sizes set forth by the various rating agencies in their published reports. We note that the standards set forth in such reports were established after substantial input from various market participants, including investors, issuers and third party due diligence providers.

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[4] In order to make a review of underwriting guidelines meaningful, it is imperative that issuers be required to disclose the applicable underwriting guidelines to investors. Without such disclosure, it will not be possible for investors to assess the risks associated with such loans or the meaning of any exceptions to the guidelines.

[5] *See* Standard & Poors Ratings Services Criteria Update, *Methodology For Seasoned Loans In U.S. RMBS Transactions* (April 30, 2010).

Thank you for providing us with the opportunity to comment on the implementation of Section 945 and proposed Rule 193. If you have any questions concerning these comments, or would like to discuss them further, please feel free to contact Steven Cohen of Clayton at (203) 926-5600 or scohen@clayton.com or Mark Hughes of CoreLogic at (646) 596-2530 or markhughes@corelogic.com. You may also contact our outside counsel on this matter, Stephen S. Kudenholdt of SNR Denton US LLP at (212) 768-6847 or steve.kudenholdt@snrdenton.com. We would welcome an opportunity to meet with members of the Commission's staff to further discuss our comments and concerns.

Sincerely,

Steven Cohen
Senior Vice President and General Counsel
Clayton Holdings LLC

Mark Hughes
Vice-President
CoreLogic, Inc.