



TO: Members of the SEC Regulation AB Working Group

FROM: Jennifer G. Williams, Commercial/Multifamily

DATE: January 29, 2007

RE: Highlights on the Requested Interpretive Guidance for Vendor Reporting

MBA will keep you informed of any communication received from the SEC regarding the interpretive guidance requested from the MBA and the American Securitization Forum (ASF) in the joint letter to the SEC on December 21, 2006. In the meantime, MBA would like to highlight a few points on the requested interpretive guidance proposed by ASF and MBA:

- The requested interpretive guidance would not eliminate the requirement for a servicer, as defined under Item 1101(j) of Regulation AB, to certify compliance with the Item 1122 criteria. A servicer as defined under Item 1101(f) refers to any person responsible for the management or collection of the pool assets or making allocations or distributions to holders of the asset-backed securities.
- If the SEC concurs with the proposed interpretive guidance, servicer would be allowed to assert compliance over the activities the servicer has outsourced to a vendor in the scope of its own Item 1122 management assertion report. However, the servicer may elect not assert compliance over the activities actually performed by the vendor. Each servicer should make sure they review their own processes and business risk tolerance when deciding whether to expand its own Item 1122 management assertion report to cover activities outsourced to a vendor.
- All Item 1122 servicing criteria that the servicer has contracted to perform in the PSA or sub-agreement must be provided in the Item 1122 management assertion. If the servicer has outsourced any of the activities covered in the Item 1122 servicing criteria to a vendor, the proposed SEC interpretive guidance would allow servicers to assert compliance over those activities performed by such vendor only if the servicer has policies and procedures designed to monitor the activities of the vendor. Accountants will review the servicer's policies and procedures to determine whether such policies and procedures provides reasonable assurance to the servicer that the vendor's activities are compliant with the applicable Item 1122(d) criteria. If the servicer does not have policies and procedures in place to monitor a vendor's activities for the entire reporting period, then an accountant may disclose material instances of noncompliance on the accountant's attestation report for the servicer. As such, servicers should verify whether they have policies and procedures designed to monitor the activities of their outsourced vendors that relate to any of the servicing criteria provided under Item 1122(d).