



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Restoring Investor's Confidence in the RMBS Market**





- After nearly two years of dormancy in the private RMBS market, Redwood Trust successfully closed a \$238 million transaction called “Sequoia Mortgage Trust-H1” in April 2010
- The securitization was made up of private adjustable rate jumbo mortgages
- Ratings received on the deal according to the most recent prospectus

<b>Class</b>	<b>Principal or Notional Amount</b>	<b>Approximate Initial Interest Rate</b>	<b>Principal Type</b>	<b>Moody's Rating</b>
A-1	\$ 222,378,000	3.75%	Senior	Aaa
A-IO	\$ 222,378,000	0.795%	Notional/Senior	Aaa
B-1	\$ 5,946,000	4.55%	Subordinate	A2
B-2	\$ 2,379,000	4.55%	Subordinate	Baa2

# Private Mortgage Securitization – the start of a streak or an anomaly?



- Characteristics of the underlying mortgages

	<b>Weighted Average</b>
Number of Mortgage Loans	255
Total Stated Principal	\$ 237,838,333
Mortgage Principal	\$ 932,699
Mortgage Rates	4.80%
Original Terms	360
Remaining Term	352
Original LTV	56.57%
Number of IO Mortgages	184
Geographic concentration > 10%	
California	46.30%
New York	16.28%
FICO (at origination)	768
Occupancy Type	
Primary	96.64%
Second Home	3.36%
Loan Purpose	
Purchase	19.41%
Cashout Refinance	4.14%
Documentation Type	
Less than One Year Income with Asset Verification	3.56%
One Year Income with Asset Verification	23.36%
One Year Income without Asset Verification (Refi)	0.21%
Two Years Income with Asset Verification	71.17%
Two Years Income without Asset Verification (Refi)	0.70%

# Private Mortgage Securitization – the start of a streak or an anomaly?



- Details and Structure of the Deal

<b>Sponsor</b>	RWT Holdings, Inc
<b>Seller</b>	RWT Holdings, Inc
<b>Depositor</b>	Sequoia Residential Funding, Inc
<b>Issuing Entity</b>	Sequoia Mortgage Trust 2010-H1
<b>Trustee</b>	Wells Fargo Bank
<b>Servicer</b>	CitiMortgage, Inc
<b>Originator</b>	CitiMortgage, Inc
<b>Custodian</b>	Wells Fargo Bank

<b>Description</b>	The certificates will represent beneficial ownership interests in a pool of hybrid mortgage loans secured by first liens on one - to - two family residential properties, condominiums, cooperative units planned unit developments and townhouses, which generally provide for interest at a fixed rate during an initial period of five years from their origination and at an adjustable rate thereafter
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<b>Priority</b>	First, to the Class A-1, Class R and Class LT-R Certificates, prorata, and then to the Class A-10 Certificates, accrued and unpaid interest
	Second, sequentially, to the Class LT-R, Class R and Class A-1 Certificates, in that order, the senior principal distribution amount, until their respective class principal amounts have been reduced to zero
	Third, sequentially, to the Class B-1, Class B-2, Class B-3 and Class B-4 Certificates, in that order, interest and then principal due, with both interest and principal being paid to one class before any payment are made to the next class

<b>Credit Enhancement</b>	Senior/Subordinate Structure - with the B tranches serving as sequential pay subordinate securities
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<b>Mortgage Loans</b>	The issuing entity will consist primarily of a pool of hybrid first lien residential mortgage loans with a total stated principal balance of \$237,838,333. The mortgage loans have interest rates that are fixed during an initial period of five years from origination and that adjust annually thereafter, based on one-year LIBOR. all of the mortgage loans have original terms to maturity of 30 years.
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<b>Retention of Risk</b>	The Class A-10, Class B-1 and Class B-2 and the other subordinate certificates will be purchase by one or more affiliates of the seller, and the residual certificates and 5% of the initial principal amount of the Class A-1 Certificates will be purchased by the seller. The seller and affiliates of the seller will continue to retain these certificates until such time as regulations governing seller risk retention have been finalized and become effective. Once regulations have become effective, the seller and its affiliates may cease to retain any portion of these retained certificates that are in excess of what is then required to be retained under applicable regulations, regardless of whether those regulations retroactively apply to the certificates.
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- H.R. 4173 “Wall Street Reform and Consumer Protection Act of 2009” (passed by the House in December 2009) in section 1501 requires that:
  - “a creditor or securitizer retain 5 percent of the credit risk on a loan that is transferred, sold, or conveyed by such creditor or securitized by such securitizer except—
    - “an appropriate agency may specify that the percentage of risk may be less than 5 percent of the credit risk, or exempt such creditor or securitizer from the risk retention requirement , if —”
      - “the credit underwriting by the creditor or the due diligence by the securitizer meets such standards as the appropriate agency prescribes; and”
      - “the loan that is transferred, sold, or conveyed by such creditor or securitized by such securitizer meets terms, conditions, and characteristics that are determined by an appropriate agency to reflect loans with reduced credit risk, such as loans that meet certain interest rate thresholds, loans that are fully amortizing...”



- Mr. Dodd’s “Restoring American Financial Stability Act of 2010” (currently in the Senate) proposes that:
  - Securitizers are required to retain:
    - “not less than 5 percent of the credit risk for any asset that is transferred, sold, or conveyed through the issuance of an asset backed security by the securitizer; or
    - “less than 5 percent of the credit for an asset that is transferred, sold, or conveyed through the issuance of an asset backed security by the securitizer, if the originator of the assets meets certain underwriting standards (underwriting standards developed by appropriate agency for each asset class)
    - The bill indicates that amortizing residential mortgages would most likely be subject to the “less than 5 percent” risk retention section but that is to be determined by the “appropriate agency”



- The Securities and Exchange Commission approved a proposal to require issuers of asset-backed securities to retain at least 5% of the credit risk across all tranches of the security
- However, FNMA and FHLMC and GNMA are all exempt from registration requirements
  - Also included in this proposal:
    - Requirement to provide computer-readable, standardized loan level information
    - Computer program that provides the waterfall for the transaction structure
    - Offer more time to consider transaction-specific information
    - Remove the investment grade ratings criterion for ABS shelf-eligibility
    - Increase transparency in the private structured finance market



- The Federal Deposit Insurance Corp. is seeking comment on a measure requiring sellers of securitized loans to keep 5 percent of the credit risk in exchange for safe-harbor protection
  - Also included in this proposal:
    - Disclosures of:
      - › Structure of the bond
      - › Credit and payment performance of the loans
      - › Compensation paid for the securitization



- It seems as if every agency involved in financial regulation are proposing new “skin in the game” regulations
- There seems to be a constant theme of requiring 5 percent risk retention and increased reporting requirements for issuers of ABS
- There seems to be some contradictions on whether FNMA, FHLMC and GNMA would be held to the same risk retention and registration requirements
- Currently, the Senate bill is coming to a forced vote on either 5/20/2010 or 5/21/2010



- Both versions of financial regulation legislation increase the transparency of the ABS market:
  - H.R. 4173
    - “The commission shall adopt regulations under this subsection requiring each issuer of an asset-backed security to disclose, for each tranche or class of security, information regarding the assets backing that security. In adopting the regulations under this subsection, the Commission shall set standards for the format of the data provided by issuers of an asset-backed security, which shall, to the extent feasible, facilitate comparison of such data across securities in similar types of asset classes...”
  - Restoring American Financial Stability Act of 2010
    - “In general- The Commission shall adopt regulations under this subsection requiring each issuer of an asset-backed security to disclose, for each tranche or class of security, information regarding the assets backing that security. In adopting regulations under this subsection, the Commission shall– set standards for the format of the data provided by issuers of an asset-backed security, which shall, to the extent feasible, facilitate comparison of such data across securities in similar types of asset classes; and require issuers of asset-backed securities...”

# Enhanced Quality Standards improves FNMA Loans



- Summary of FNMA quality initiative

<p><b>Borrower Identity</b> Lender must confirm borrower's identity</p>	<p><b>Social Security Number</b> All borrowers must have a valid SSN</p>	<p><b>Borrower Occupancy</b> Lender must obtain documentation confirming borrower's intent to occupy</p>	<p><b>Validation of Qualified Parties</b> Required use of GSA and HUD excluded party lists</p>
<p><b>Undisclosed Liabilities</b> Lender must determine that borrower liabilities incurred up to closing are disclosed</p>	<p><b>Lender Quality Control</b> New and updated lender QC requirements</p>	<p><b>Identification and Delivery of Property Unit Number</b> Unit number must be on the mortgage note</p>	<p><b>Appraisal Data Delivery</b> Require electronic appraisal data delivery</p>
<p><b>Required delivery data and validations</b> Required fields: Monthly Income, Monthly Debt Expense, Date of Mortgage, Appraisal Amount, Purchase Price, Borrower DOB</p>	<p><b>Calculate/verify Debt-to-Income Ratio</b></p>	<p><b>Credit Score Must be 620 or Higher</b></p>	<p><b>LTV Ratio Rules</b> Updated guidelines for lender LTV ratio calculation and comparison of LTV with delivered LTV ratio</p>
<p><b>DU Refer with Caution/IV</b> Requires that a loan that is manually underwritten must be delivered as a manually underwritten (not DU) loan</p>	<p><b>DU-Acquisition Compare</b> DU Loans must match delivered data in LTV, CLTV, Loan Purpose, Credit Score, Occupancy, Amortization, IO, DTI, SSN, Units, Inspection, DU recommendation, Property Type</p>	<p><b>Loan Delivery Edit Reports</b> Provide insight into delivery edits and identify areas that require attention in preparation for the fatal edits</p>	<p><b>Pre-delivery validation capability</b> New tool to enable lenders to run many of the new delivery checks prior to delivery</p>
<p><b>Additional Loan Data Elements</b></p>	<p><b>Reporting and Validation of Mortgage Insurance (MI) Coverage</b></p> <ul style="list-style-type: none"> <li>Lenders are required to provide specific information regarding the origination, servicing, and coverage of insured loans owned or securitized by FNMA.</li> <li>FNMA to obtain and validate information concerning MI coverage directly from mortgage insurers on a regular basis, before, at, or following loan deliver</li> <li>New policy requiring servicers to direct mortgage insurers, in writing, to provide FNMA with information concerning insured loans</li> <li>New Policy requiring servicers to notify FNMA when MI coverage has been rescinded</li> </ul>		



- In working with one of our clients, Phoenix looked at all loans that had been identified for repurchase requests and looked at the number of payments that had been made and the resulting number of recourse loans. The following table

indicates what we found:

Payments Made	Total Loans	Recourse Loans	Recourse %
>30	45	0	0%
25-30	20	3	15%
19-24	20	1	5%
13-18	29	7	24%
7-12	26	10	38%
0-6	25	11	44%
	165	32	19%

- Phoenix believes that this indicates that the repurchase risk is highest when less than 24 payments have been made
- Based on these findings and sentiment in the industry, Phoenix proposes a “sunset” on repurchases of between 2 years after origination of the loan
- In working with the same client, we found that vast majority of recourse loans came from the wholesale channel

Channel	Number of Loans	Recourse	%
Wholesale	135	30	22%
Retail	26	2	8%
Correspondent	4	0	0%
	165	32	19%



- Investor confidence will also be restored when newly designed fraud prevention technology has been implemented across the industry and has been given time to prove its effectiveness.
- Elimination of yield spread premium will likely reduce the wholesale channel originations and certainly change the way retail loan officers are compensated. Both of these changes will likely result in a higher quality book of business
- Implementation of higher quality monitoring tools and improved structure transparency give servicers and investors the ability to make more informed decisions
- The role of servicers should be increased to not only provide better reporting to investors but also to provide forecasts of future performance based on substantiated models



- In summary, we believe the following factors will bring start to restore the RMBS market and provide investors the confidence in the underlying they need to being investing again
  - Loan transparency
  - Structure transparency
  - Risk retention
  - Higher loan quality