STRUCTURED FINANCE ASSOCIATION

July 29, 2019

Moody's Investor Service, Inc.
7 World Trade Center
250 Greenwich Street
New York, NY 10007

Re: Moody's Approach to Rating US Prime RMBS Using the MILAN Framework – Request for Comment dated June 14, 2019

Ladies and Gentlemen,

The Structured Finance Association ("**SFA**") thanks Moody's for the opportunity to provide comment on the "Proposed Update to Moody's Approach to Rating US Prime RMBS" ("**Proposed Methodology**"). SFA represents over 360 members from all sectors of the securitization market, and our core mission is to support a robust and liquid securitization market. SFA provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs.

This response is submitted on behalf of SFA's Private RMBS and Government Guaranteed RMBS Committees (the "**Committees**," "**we**" or "**us**"). The Committees are open committees and comprised of SFA members who have a specific business interest in the RMBS asset class. Please note that no rating agency participated in this comment process. Accordingly, while many of our RMBS members, including issuers, investors, mortgage insurers, financial intermediaries, and legal counsel, are active in the Committees, the views expressed in this letter represent a consolidated set of comments from across the industry, and they do not reflect specifically the viewpoint of any single member.

The Committees recognize and appreciate that Moody's designed the Proposed Methodology to update components of your methodology. However, the Committees strongly urge Moody's to share additional historical data, assumptions and/or modelling underlying the Proposed Methodology, as detailed below. Many of our members expressed concern that without such information, they will be unable to independently evaluate significant components of the proposed criteria changes or offer constructive feedback. This additional transparency is imperative for our members to evaluate the appropriateness of the assumptions and make informed positions on the methodology. Furthermore, prior to implementing any changes set forth in the Proposed Methodology, we also urge Moody's to provide more time to allow the market to evaluate and work through the additional data. Such an interim step is a vital part of the process of allowing market participants, including investors, sufficient time to independently evaluate Moody's Proposed Methodology to rating US Prime RMBS.

We understand that in some cases, there may be little historical data from which modeling assumptions were derived. In those instances, we would request what data you did use, along with any supporting rationale used to justify the establishment of a methodology when there is a lack of such data. In such instances, the acknowledgement of a lack of data supporting a given range or threshold in the methodology is as important as transparency into the data itself.

In hopes of continuing this productive dialogue and vital level of engagement conducted to-date with industry stakeholders, the Committees would like to suggest the following topics for discussion and request additional time to review. SFA is happy to continue to serve as a resource to facilitate that process.

1. The Committees urge Moody's to provide the underlying historical data, factors or other assumptions considered by Moody's in connection with the new proposed treatment of Mortgage Insurance

We recognize the work that has gone into Moody's review of the credit given to mortgage insurance in US Prime RMBS transactions in light of recent developments in the mortgage insurance industry and the products it offers, but believe it is crucial for the market to review any and all factors, assumptions, and the underlying historical data considered by Moody's when arriving at the new treatment. This would allow market participants to better understand Moody's position and provide meaningful responses. For example, we would request all additional information surrounding:

- how Moody's established the baseline rejection rate for each GSE and private RMBS transactions;
- how it established the proposed Aaa rejection rate of 1% for GSE transactions;
- how it established the proposed Aaa rejection rate range of 5-15% for private RMBS transactions; and
- how it plans to set the specific rejection rate, within the 5 – 15% range, for each private RMBS transaction.

Our members have also expressed concerns about the way rescission relief is calculated and have requested that the tables of idealized losses be published, as well as additional clarification or transparency into the calculation of maximum insurance payout plateaus. Such transparency will help enable our members to provide additional and more granular feedback in the future.

In order better to understand the modeling assumptions, SFA requests that Moody's provide prototypical examples to illustrate the outer bounds of the 5%-15% range. Moody's could provide a hypothetical transaction that is assigned a 5% rejection rate at the Aaa level, and a hypothetical transaction that is assigned a 15% rejection rate at the Aaa level. Moody's could then detail the transaction characteristics, including (but not limited to) the type of collateral, the master insurance policy terms, other governing legal documents (if applicable), the relative financial strength of the mortgage insurer, and any other factors that are included in the assignment of the rejection rate. While we understand that this is a multi-variate process, providing the industry with prototypical examples to illustrate the outer bounds of the range will help us all get a better sense of how Moody's calculates the rejection rates for a given transaction.

Both our MI members and investor members have expressed a concern that without insights into the data used by Moody's to establish rejection rates, it is difficult to provide informed feedback. If, due to post-crisis developments within the mortgage insurance industry, there is little historical data to share, we would appreciate any insight into the rationale underlying the rejection rates. Such a rationale may help us better determine whether the credit enhancement levels are appropriate. In summary, any and all the information used by Moody's to assign credit to mortgage insurance in securities is necessary to reduce model risk and allow market participants to better understand and evaluate the upfront and ongoing rating analysis, to make informed investment decisions, and to monitor the performance of a security in comparison to the rating analysis over time.

2. The Committees request Moody's to provide clarity on treatment of Potential Home Price Depreciation in its Proposed Methodology.

Moody's proposes to incorporate a home price appreciation (HPA) factor from loan origination to the time of analysis, up to a maximum of 2% per year. It is unclear whether home price depreciation in an environment of declining home prices is also incorporated, and to what extent. SFA believes that Moody's methodology should incorporate rising or falling home prices as a factor used in its methodology, and explicitly state what caps or floors exist in both instances.

3. The Impact of Modifications on the Proposed Methodology

An additional point raised by our members is that post-crisis changes to Federal and state laws, regulations, and policies have resulted in increased volumes of modifications for distressed borrowers. SFA members note that modification-related losses exist outside the typical "loss-given-default" modeling construct and frequently impact the cashflow waterfall differently than liquidations. SFA therefore requests additional data and insight into how any increased utilization of loan modifications as a tool to assist distressed borrowers affects Moody's methodology. If Moody's does not take into account the use of loan modifications as a factor in its methodology, we would request any rationale or justification for so doing.

4. The Committees request that Moody's provide a detailed explanation on why the impact of the Proposed Methodology is generally lower credit enhancement at the same time the portfolio's expected loss is higher.

In the Proposed Methodology Moody's states that "…based on the proposal, the Moody's Individual Loan Analysis credit enhancement (MILAN CE) will generally be lower and the portfolio's expected loss (Portfolio EL) will generally be higher". This is clearly an important impact of the Proposed Methodology, and the Committee requests that Moody's provide further clarity on why and how this dynamic occurs, what criteria changes are driving this impact and by what degree. We appreciate that methodologies can be determined to be too conservative, and seek additional information to provide market participants the opportunity to independently evaluate Moody's assessment.

Conclusion

We are grateful for the opportunity to provide our response to the Request for Comment and would once again like to thank Moody's for your proposal and look forward to continuing a mutually beneficial dialogue as you review our comments and those of other market participants. As noted above, we strongly encourage Moody's to provide the additional data and insights related to the points noted above, and following our receipt of that data, to allow the industry additional time to review the data and to comment further prior to finalizing the criteria change. Should you have any additional questions regarding our feedback, please do not hesitate to contact us via Michael Bright at (202) 524-6301 or Michael.Bright@structuredfinance.org.

Sincerely,

Michael Bright, CEO
Structured Finance Association