

The Royal Bank of Scotland (“RBS”) is pleased to respond to the Federal Housing Finance Agency’s (“FHFA”) request for comments on its proposed framework for a common securitization platform and a model Pooling and Servicing Agreement. RBS certainly supports all efforts to align and improve the business practices of Fannie Mae and Freddie Mac, (the “Enterprises”). We also agree that, among others, the core components of mortgage securitization, (“a securitization platform to process payments and perform other functions that could be used by multiple issuers; and a contractual framework supporting the new infrastructure”) may very well be desirable in the housing finance system going forward. In light of our understanding that any plan to prepare the Enterprises for the future has yet to have been determined, we would counsel that any such plan first provide a sound operating environment for the GSE’s in the near and intermediate term and not preclude any longer term housing system likely to be adopted by policymakers.

RBS believes that the investment contemplated in the white paper should first foster the goals of U.S. housing policy. We strongly advocate that securitization be an integral part of the U.S. mortgage finance system. Clearly the Enterprises will be a large part of housing policy in the near term future. RBS, however, is of the opinion that the longer term shape of the mortgage finance system is properly the province of Congress and the Administration and would not want any actions taken with respect to the Enterprises preclude policy makers from having a complete menu of options as possible. Conversely, we do understand that the Enterprises will need to invest in their infrastructure to remain viable until policy decisions are made and very likely well past any resolution of the Enterprises’ status to allow for transition.

RBS applauds the steps and FHFA and the Enterprises have made to align their business model and their operations. The investment in a common infrastructure and legal framework contemplated in the white paper obviously continues this theme and RBS is broadly in support of those efforts; (we understand that the separate issue of a common security is NOT part of the scope of the white paper). RBS is, nonetheless, supportive of efforts that would reduce unnecessary expenditures on the Enterprises and/or overly complex operating and securitization models.

We will give our opinion on the specific questions you asked below but will start with two overarching questions we believe to be worthy of your consideration.

1) Who will “Own” the Proposed Platform?

RBS understands the initial investment in the software and ancillary items for the Platform will be made by the Enterprises and therefore control will rest with the Enterprises, under the conservatorship of the FHFA. If the Platform is intended to be used by the industry as a whole, particularly in a post current Enterprise environment world, RBS recommends that careful consideration be given to the ownership of the Platform. Control of a utility by one or both of the Enterprises may very well counteract the purpose of such a utility, i.e. cause potential participants to avoid the use of the utility for fear of a too powerful potential competitor. Joint ownership by industry participants, similar to that of the DTCC may be preferable. While the Enterprises are in conservatorship, the FHFA may consider operating a utility directly, again to foster acceptance as well as promote a single business model.

2) What is the Governance of the Proposed Platform?

A closely aligned question to that of ownership is how the Platform as well as the model Pooling and Servicing Agreement legal and operational infrastructure will work. Again, if the desire is to have an industry utility with wide acceptance, substantial input and control from participants should be present.

The current model of Enterprise setting standards and terms of business may not be viable in a more decentralized post-conservatorship model.

RBS would also like to bring to the FHFA's attention a few other points for their consideration. While not directly raised in the white paper, we believe the impressive progress exhibited by the white paper can be fostered by:

3) RBS recommends more frequent communication by and between the various constituents in the mortgage finance system, the FHFA, Fannie and Freddie. In particular, we advocate continuous communication between the Enterprises to generate a single source of dialog with industry participants.

4) In the past, the policies of the Enterprises have acted as a starting point for the design of PLS. RBS believes a completely uniform operating model of the Enterprises will reinforce their status as the 'beacon' for the market as a whole. However, the other regulatory bodies with jurisdiction over various parts of mortgage finance have not finalized their requirements for participants with the mortgage finance system. We therefore suggest a measured approach to the 'virtual' infrastructure improvements so as to allow for a consistent mortgage finance regime among all regulatory bodies. RBS therefore is of the opinion that Enterprise centric work should be the focus in the near future.

5) RBS believes that nothing contemplated in the white paper should preclude the efficient working of the TBA market. We believe that the immediate body of work around aligning the Enterprise's business model will reduce the observed differences in security performance to the benefit of the market as a whole. Over time and as we all get a better sense of the future environment, the FHFA and interested industry participants should have a robust discussion of aligning, in some fashion, the issuance regimes of the Enterprises as well.

The FHFA asked for feedback on 7 specific questions with respect to the white paper, (RBS responses are in italics).

1. The proposed securitization platform has four core functions (issuance, disclosure, bond administration and master servicing). Will these core functions provide an efficient and effective foundation for the housing finance system going forward? *RBS believes that these functions are necessary but not sufficient for a smoothly functioning, future mortgage finance system. While there are many areas to be completed, the role of private capital anticipated for underwriting credit risk is of over riding concern. Building a new housing finance infrastructure must consider allocation of credit risk at the onset.*

2. Are there additional functionalities that should be considered as core functions of the platform? For example, should the platform independently verify or determine the following or rely on an issuer or guarantor:

a. underwriting and loan eligibility rules? *RBS believes that, as long as the Platform is being used to issue Enterprise MBS, then the Platform must verify eligibility criteria. If the Platform is used to support Private Label Securities, ("PLS"), assignment of liability to the Platform for making such a determination for disparate PLS seems problematic. We are not against the concept but suggest it may not be feasible.*

b. pooling rules? *The same answer for 2a applies. If the use of the Platform is for Enterprise MBS, RBS believes that the Platform must perform the service. If it is for PLS, we believe it may be difficult to accomplish.*

3. Will the framework for a model PSA described in this paper provide the foundation for a

standardized contractual framework for the housing finance system going forward? *The Enterprises already have standardized documentation for their individual business. RBS strongly supports further homogenization of documentation between the Enterprises. The Enterprises' procedures are also generally a default for non-negotiated PLS practices. RBS believes a model PSA, negotiated in concert with the industry as a whole, can become more of a starting point for PLS documentation, with the caveat that PLS may be more heterogeneous than Enterprise MBS. Therefore, a model PSA may not become the sole form of documentation for PLS.*

4. Are there additional elements/attributes that should be included in a model PSA? For example,

a. should the model PSA define when a non-performing loan is required to be purchased out of the trust? *RBS supports standardized repurchase for Enterprise MBS. However, for PLS contractual repurchase provisions could be adopted but will not probably be uniform, or perhaps even common, for the foreseeable future.*

b. should the model PSA define when a non-performing loan is required to be transferred to a specialty servicer? *Neither Enterprise MBS nor PLS require specialty servicers. RBS is not sure that a speciality servicer is warranted in all cases. Perhaps performance below a set standard evidenced by a 'service scorecard' could trigger a transfer to a specialty servicer.*

5. If the framework for a model PSA is a good contractual foundation, how should compliance with the PSA be monitored in the future? *Please refer to our fundamental questions above. If the Platform and PSA is owned and governed by the industry as a whole, RBS believes that the governance authority easily could have a self-policing component similar to that of the DTCC or 'good delivery' under TBA guidelines. If the model PSA is not required by statute but neither operated by the industry as a whole, it is difficult to imagine a viable enforcement mechanism.*

6. What enhancements to the role of trustee should be considered in order to better attract private capital to the housing finance system? *RBS believes that this question as to the Trustee is bound up with the ownership and governance questions we raised earlier and is also part and parcel with question 5 immediately above. Generally, RBS suggests that the Trustee should have a more active part in safeguarding the interests of all investors in both PLS and Enterprise MBS.*

7. How should document custodial and assignment responsibilities be handled in the housing finance system going forward? *While the MERS has generally worked to alleviate some of the issues with respect to recording and ownership issues, MERS has clearly generated substantial controversy with respect to its business model. RBS would support an industry wide utility for document custodial and assignment responsibilities which could easily be MERS. Any such utility should be operated with careful consultation with all parties, including county recording authorities, consumer advocates and the participants in the mortgage finance system.*

Once again, RBS applauds the thought process, effort and desire of the FHFA to obtain industry input as you manage the conservatorship of the Enterprises. RBS appreciates the opportunity to comment on the white paper and hopes that you may find our feedback helpful. We are most ready to provide additional color for the FHFA either in person or via a call as you see fit.

Regards,