

Innovation Series
GLOBAL CORPORATE TRUST

Increasing Tri-Party Repo and Securitization Transparency: A Roundtable Discussion



THE BANK OF NEW YORK MELLON.



The views contained herein may not be representative of The Bank of New York Mellon and are solely those of the author.

In July 2007, U.S. mortgage fears began spreading to the global capital markets. As investors retrenched, a broad range of debt issuance slowed. Structures that had obtained safe ratings suddenly fell into question.

Unforeseen risk and widening yield spreads led to greater caution among investors, leading them to reevaluate how much to pay for a bond, how much yield to expect in return, and whether to accept lower yields in exchange for bond insurance. They also began demanding greater loan-level data to determine whether underlying assets were actually performing.

Over the past several years, The Bank of New York Mellon has been diligently building a sophisticated, end-to-end collateral management platform that will provide the detailed loan-level information investors want.

To better understand these efforts, we asked Patrick Tadie, Executive Vice President, Head of Global Structured Finance; Harold Fudali, Managing Director, Collateral and Trust Services; and James Malgieri, Executive Vice President, Collateral Management, to explain how their system is addressing the growing demand for transparency. Mr. Fudali agreed to moderate the discussion.

James Malgieri: Over the past several years we've been meeting with clients and potential clients to understand what tri-party reverse repo data was needed and how they wanted to access that information. It was an important question to ask because The Bank of New York Mellon currently handles more than US\$1.5 trillion in tri-party balances each day. In addition, one of our fastest-growing tri-party business lines has been individual mortgage loans, also known as mortgage whole loans.

Patrick Tadie: Mortgage whole loans typically are purchased by investment banks or other financial intermediaries after origination and held until a loan securitization package can be created. In the interim, the loans are used as collateral to secure cash financing through warehouse lending arrangements, commercial paper issuance, or a bilateral or tri-party repurchase agreements. After studying the responses, we realized clients were looking for a more comprehensive approach. They wanted a provider who could support origination and warehousing, and then act in a collateral agent capacity all the way through to securitization and post-securitization. By building this end-to-end service, we would be able to provide clients with the increased transparency, efficiency, and cost savings they told us they wanted.

"The Bank of New York Mellon currently handles more than US\$1.5 trillion in tri-party balances each day. In addition, one of our fastest-growing tri-party business lines has been individual mortgage loans, also known as mortgage whole loans."

- James Malgieri

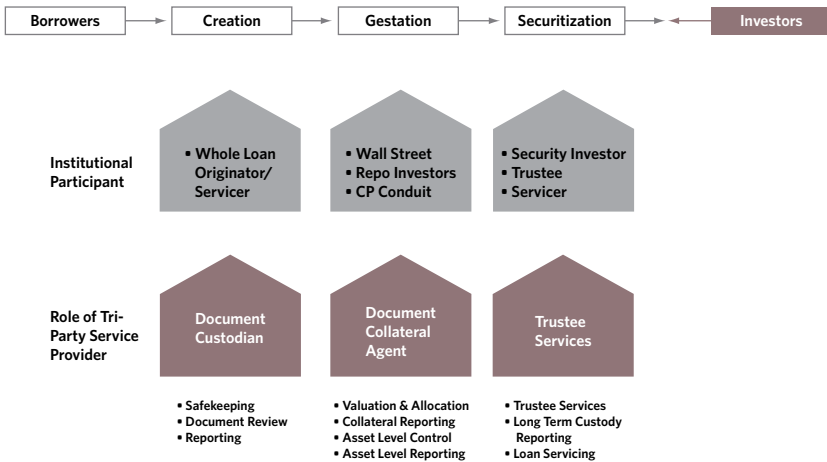
Harold Fudali: You have to look at the whole-loan process in its entirety to see why a comprehensive approach is necessary. There is a long list of third-party services that may be required to support a custodial file as it moves from origination to securitization. These services generally include the need for a document custodian, a collateral agent, and a trustee.

When a whole loan is originated, a document custodian is typically charged with receiving a physical collateral file that contains a mortgage note, the mortgage itself, the title policy, the deed of trust (depending on the state of origination), the assignment form, as well as insurance and other documents. The document custodian is charged with safekeeping, document review, loan exception reporting, performing base calculations when loans are held in relation to warehouse lending lines.

Each time the loan is sold prior to final securitization the documents may be transferred between document custodians, which may include a custodian for a warehouse lending agent, a commercial paper conduit, or a repo collateral agent. Therefore, these documents may change hands numerous times before securitization. At each step, the custodian must review and certify collateral file documents. The need for continual shipping, reshipping, and re-review of the file creates a greater risk for loss of documentation as well as delays in the process. It also means that no one custodian gains familiarity with the underlying loan information.

Whole Loan Tri-Party

Asset Life Cycle



"We're providing this enhanced level of service through our document custody service centers. These centers can manage in excess of five million mortgage files under various warehousing and custody arrangements - from the warehousing phase of a transaction to post-securitization."

- Harold Fudali

Tadie: The optimal way to mitigate these problems is to serve clients as overall custodian for each issue, ideally holding the collateral file from loan origination (through the interim funding vehicles) to securitization and beyond. That approach would allow for one file review and one asset certification, in addition to one custodian holding the collateral file through each change of loan ownership.

Fudali: We're providing this enhanced level of service through our document custody service centers. These centers can manage in excess of five million mortgage files under various warehousing and custody arrangements – from the warehousing phase of a transaction to post-securitization. Staff members perform a variety of functions that include document and portfolio reviews, certification, reporting and analytics, and more.

Malgieri: With the markets in turmoil, the role of the collateral agent becomes more critical than before. That is because the collateral agent acts as the custodian between the buyer and seller of a repurchase agreement, maintaining cash and securities accounts for both parties, verifying collateral eligibility, and providing daily reporting to both parties.

A sophisticated collateral management platform that can support complex collateral selection criteria and optimize results can add a lot of transparency. For dealers and originators, the interface can provide the detail needed to create multiple pools of collateral across multiple asset types. For investors, the system can provide a platform for matching trades and monitoring activity via the internet.

The Bank of New York Mellon's underlying infrastructure, for example, is based on a proprietary collateral management system designed to efficiently handle all asset types denominated in any currency and targeted toward a global customer base. It can process a wide array of transaction types, including tri-party repurchase agreements, portfolio swaps, collateralized loans, swap collateralization deals and more.

We're also streamlining our collateral agent role, in which we maintain cash and securities (or non-securities) accounts for each party, verifying collateral eligibility and providing daily reporting to both parties.

Fudali: As collateral managers, our goal is to give investors a level of comfort about the data being provided to them as collateral. The last thing the market needs is for investors to sit on the sidelines because they do not understand the underlying risks of a given portfolio.

Tadie: As loans move from origination, through financing and to securitization, it's also critical to choose the right trustee, because it can affect an issue's rating and its potential performance in the secondary market. In addition, the diversity of structures, governing laws, and differing expectations require a trustee to be flexible and innovative in approach to each transaction.

Our service platform and product suite offer a single source for all trustee needs. Service delivery is supported by highly focused teams in Europe, the Americas, and Asia Pacific, ensuring a high level of familiarity and understanding of each market's needs. This fully integrated global business structure brings the teams together to capitalize on available resources and enables inclusive administration and smooth management of multifaceted and multi-jurisdictional transactions.

"The ability to operate as trustee under a number of local and international laws, as well as through our network of offices, partnerships, and affiliates around the globe, allows us to manage even the most sophisticated cross-border transactions."

-Patrick Tadie

"A sophisticated collateral management platform that can support complex collateral selection criteria and optimize results can add a lot of transparency. For dealers and originators, the interface can provide the detail needed to create multiple pools of collateral across multiple asset types. For investors, the system can provide a platform for matching trades and monitoring activity via the internet."

-James Malgieri

The ability to operate as trustee under a number of local and international laws, as well as through our network of offices, partnerships, and affiliates around the globe, allows us to manage even the most sophisticated cross-border transactions.

In April, we took the lifecycle idea one step further, adding master- and backup servicing to our end-to-end whole loan client service. As a master servicer, The Bank oversees the primary servicing functions for public and private mortgage-backed securities, servicing the loans in the pool through maturity. These duties include overseeing primary and special servicers, managing payment flows, collecting their monthly reports, aggregating and validating loan level data, and customizing investor reporting.

By adding master servicer capabilities, we are able to provide transparency and efficiency throughout the life of the loan.

Fudali: The tri-party repo market has experienced tremendous growth in the past 10 years, both in the US and Europe. Over the years, third-party custodial service providers have helped further its growth by facilitating transactions that offer a parking place for large influxes of short-term cash without a long-term commitment. Also, these transactions do not require investors to incur any special infrastructure or transactional costs.

Tadie: As part of our commitment to this business, we will continue to build out our platforms, adding more pieces in 2008. We plan, for example, to expand our document custody centers in Australia and the UK and enhance our collateral management platforms to support complex collateral selection criteria. This build-out, coupled with the worldwide standardization of our trustee platform and product suite, will take the Bank of New York Mellon a long way toward providing the transparency, efficiency, and cost savings clients want through each transaction's life cycle.

“By adding master servicer capabilities, we are able to provide transparency and efficiency throughout the life of the loan.”

-Patrick Tadie

Tri-Party Collateral Management:

Summary of Benefits

- Global coverage on an integrated platform -cost efficient, real-time, fails-free 24/5 securities settlement
- Eliminates Unsecured Daylight exposure and Income risk
- Sophisticated collateral selection: enforce diversification & credit quality; control adequacy, volatility & liquidity
- Cutting-edge infrastructure: economies of scale facilitate extensive data warehousing, access to more asset classes and markets, auto-substitution, auto-allocation & optimization technology, same-day reporting
- Introduction to new counterparts: A "Global Collateral Clearing House"
- Enables INVESTORS to outsource collateral operations, control risks better, access new business opportunities and maximize risk-adjusted returns
- Enables DEALERS to convert fixed into variable cost, finance more diverse inventory, across product/ geographic silos, optimize usage, continue to trade collateral beyond local market cut-off times and to leverage operational efficiencies conferred by a centrally settled pool of collateral



Harold Fudali is the head of the Collateral and Trust Services team of our Global Structured Finance Services unit. He leads a team of professionals spanning both broker-dealer services and global corporate trust in developing and providing world-class services related to non-securities assets held for entities both in the U.S. and internationally. His primary area of focus relates to the Tri-Party Repo product offering, working to enhance our mortgage-related products on both the loan-level and trust-receipt level, and to enhance and develop current systems and processes to handle mortgage whole loans and other assets globally.

Prior to joining The Bank of New York Mellon, Harold worked for JPMorgan Chase and its heritage firms for more than 19 years, where he held a variety of management roles spanning broker-dealer services, escrow, collateral management, and structured finance.

Harold Fudali wishes to thank Patrick Tadie, Executive Vice President, Head of Global Structured Finance and James Malgieri, Executive Vice President, Global Collateral Management, The Bank of New York Mellon, for their contributions to this roundtable discussion.

This article first appeared in the *Institutional Investor Guide to Custody & Asset Servicing*, September 2007.

The Bank of New York Mellon's corporate trust business services \$11 trillion in outstanding debt from 54 locations around the world. It services all major debt categories, including corporate and sovereign debt, mortgage-backed and asset-backed securities, collateralized debt obligations, derivative securities and international debt offerings.

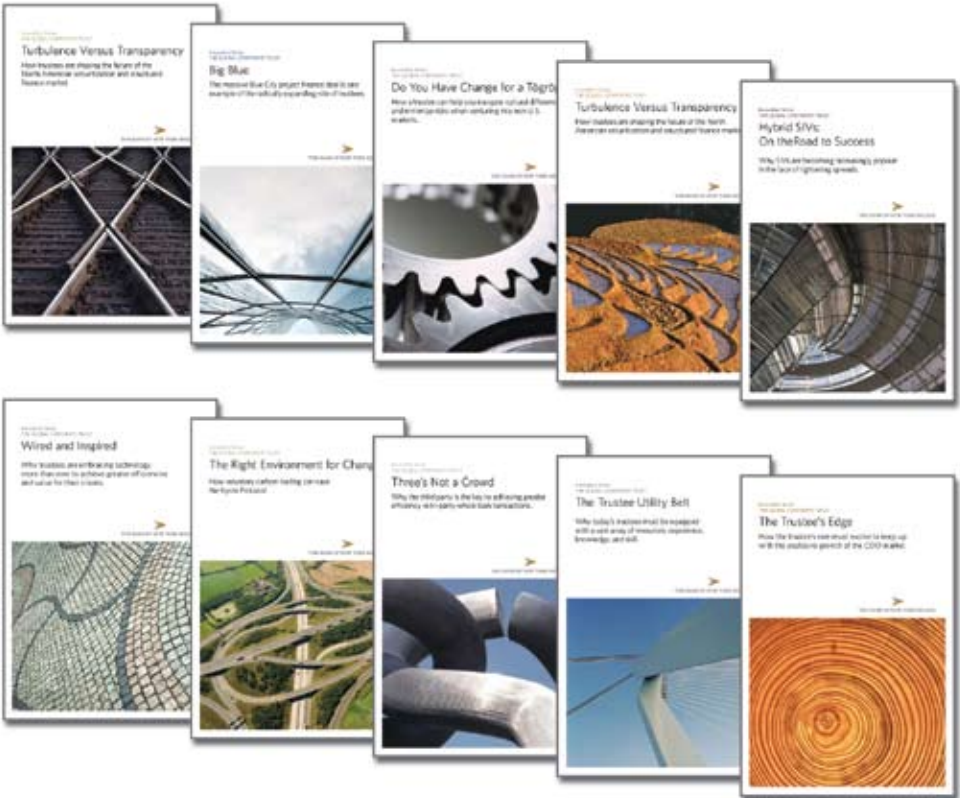
For more information, please contact:

Harold Fudali, Managing Director
New York: 212 815 2043
harold.fudali@bnymellon.com

Come see the future
of Global Corporate Trust.

Innovation Series
GLOBAL CORPORATE TRUST

Who's Helping You?



THE BANK OF NEW YORK MELLONSM

The subprime crisis has led many investors to demand greater loan-level data in order to determine whether underlying assets are actually performing. In this edition of the Global Corporate Trust Innovation Series, you'll learn about a sophisticated, end-to-end collateral management system that will provide the transparency investors demand.

Who's Helping You?

A Roundtable Discussion with:



James Malgieri



Patrick Tadie



Harold Fudali



THE BANK OF NEW YORK MELLON.

The Bank of New York Mellon
Corporate Trust Publishing
bnymellon.com/gctinnovation