HUNTON & WILLIAMS

Structured Finance and Securitization

2014 Year in Review



Clients and Friends:

As one of the nation's leading structured finance and securitization practices, Hunton & Williams LLP represented clients in a wide range of matters in 2014, including governmental and private issuers of mortgage- and asset-backed securities and several niche areas such as the acquisition and financing of mortgage servicing rights and advances and warehouse lending. We also were involved in financings involving more esoteric asset classes, such as single family rental properties, tax liens and renewable energy assets.

Highlights

We are privileged to represent many leading structured finance and securitization market participants and look forward to expanding those relationships in 2015. Some of our representative transactions for the past year are detailed below:

- We have represented the dealers on all of the **Freddie Mac Structured Agency Credit Risk (STACR)** debt notes transactions since the commencement of the program in 2013, including all seven of the STACR transactions that closed in 2014. We also served as special tax counsel to **Fannie Mae** in connection with the issuance of all of its **Connecticut Avenue Securities** offerings.
- We proudly celebrated 20 years of service as legal advisor to Government National Mortgage Association (**Ginnie Mae**), and closed 118 transactions in 2014 alone, representing the issuance of more than $58 billion of **government guaranteed REMIC mortgage-backed securities**, including securities backed by participations in government-insured reverse mortgage loans.
- We served either as issuer's or as initial purchaser's counsel for approximately forty-five (45) Rule 144A/Regulation S offerings of **mortgage-backed securities** secured by pools of **non-performing, re-performing and newly-originated mortgage loans** worth more than $21 billion.
- We represented both lenders and borrowers in connection with more than $11 billion of **warehouse financing(s)** of residential and commercial mortgage loans, RMBS, CMBS and tax liens.
- We served as agent's counsel for a $350 million revolving credit facility secured by **single family rental homes**.
- We advised the sponsor of a $300 million securitization of a mortgage loan secured by **single family rental homes**.
- We represented buyers and sellers in multiple transactions involving the acquisition of **agency and non-agency mortgage servicing rights** and **performing and non-performing residential mortgage loans**.

- We represented an issuer of **corporate interest-only debt securities** entitling the investors to a basis point strip of interest on a notional principal balance of approximately $11 billion with terms and balance determined by reference to a pool of Freddie Mac mortgage loans serviced by the issuer.
- We represented the initial purchasers in Rule 144A private placements of more than $5 billion issuance of variable funding notes and term note securities backed by **servicer advance receivables**.
- We were issuer's counsel to a residential solar panel installer on a Rule 144A private placement of **solar receivables-backed notes**, which allowed the company to obtain financing against a future income stream provided by customer power purchase agreements or leases, while maintaining its traditional tax equity financing structure.
- We served as counsel to NYSE-listed companies in connection with $2 billion of **accelerated share repurchase (ASR) programs**, including transactions in which the proceeds of business dispositions were used to buy back stock.
- We advised purchasers of **peer-to-peer loans** (consumer and commercial) in flow purchase facilities and servicing agreements.
- We advised local and regional banks on establishment of **swap programs** for themselves and their customers.

- We advised initial purchasers and sponsors regarding various **renewable energy** asset related structures and counseled clients on the establishment of **solar warehouse facilities**.
- We advised large financial institutions on strategic re-implementation of **correspondent banking services** and numerous hedge funds on **non-qualified mortgage investment and securitization programs**.
- We advised financial institutions regarding implementation of the regulations implementing the **Volcker Rule**.
- We advised MSR investors on **alternative purchase and financing strategies**, and counseled financial institutions, fund investors and other entities on developments in the **swap and commodity pool rules** for securitization, including the applicability of CFTC interpretations to GSE credit-risk transfers, housing-price indexed ABS and other synthetic securitizations.

Thought Leadership

Hunton & Williams continues to be a thought leader in the structured finance and securitization industry. In 2014, our lawyers spoke on panels and were quoted in industry publications regarding a range of topics, including the following:

- Current state of servicer advance securitizations
- The future of mortgage insurers
- The single family rental market as an asset class
- Use of eminent domain to force bondholders to sell underwater loans
- The final Regulation AB II rules
- The final credit rating agency reform rules
- Consumer Financial Protection Bureau's updated guidance for mortgage servicing transfers
- Interpretative issues relating to no-action clauses in indentures and similar contracts
- The final Risk Retention and Volcker Rules

In addition and as in years past, individual lawyers on our team received a number of awards during 2014:

- Melinda Beres was named by clients as a BTI Client Service All Star;

- Rudene Haynes was selected as one of Style Weekly's "40 Under 40";
- George Howell was selected as chair-elect of the American Bar Association's Section of Taxation, the nation's largest professional association of tax lawyers;
- Vicki Tucker was honored with the Section Chair's Award in recognition of her outstanding service to the American Bar Association (ABA) Business Law Section; and
- Amy Williams was selected as one of Virginia Lawyers Media's "Influential Women of Virginia" for 2014.

Furthermore, our structured finance lawyers are consistently ranked among the top legal advisors for mortgage-backed securities (MBS) and asset-backed securities (ABS) in industry rankings and league tables, including most recently:

- The firm was ranked nationally by *Chambers USA* for Capital Markets: Securitization with Kevin Buckley, Tom Hiner and Mike Nedzbala all receiving individual rankings and Vicki Tucker being listed as a "recognized practitioner."
- The firm was ranked nationally by *The Legal 500* for Structured Finance and Eric Burner, Steven Becker and Tom Hiner were singled out with client accolades.
- The firm was ranked in the top 10 as underwriters' counsel for US ABS/MBS by *Asset-Backed Alert*.
- The firm was ranked in the top 5 as issuer's counsel for Mortgage-Backed Securities by *The American Lawyer*.

Forecast for 2015

Regulatory Developments

In 2014, regulators adopted a number of final regulations affecting the structured finance industry. Years of commenting by the industry culminated in the adoption of the regulations implementing the Volcker Rule, Regulation AB II, credit rating agency rules and risk retention rules, among others. In many cases, however, the new regulations provided less than adequate certainty about the new regulatory landscape in which market participants now must function. As a result, we expect the coming year to be filled with detailed interpretation and analysis of the practical application of these rules. Furthermore, some of the final rules, most notably Regulation AB II, did not address provisions on which the regulators had previously requested comment and in the final rules specifically reserved the possibility of adopting in future amendments. Therefore industry groups and individual market participants alike remain focused on these outstanding provisions and their likely impact on the market should the regulators choose to address them. Finally, in 2015 we expect the National Credit Union Administration to adopt final rules to permit federally-insured credit unions to securitize assets and that financial-end users will be faced with the imposition of final margin requirements for OTC swaps.

Servicer Advance Transactions

In 2014, the industry experienced a marked slowdown in servicer advance issuances attributable to uncertainty generated by S&P's review of its ratings criteria for those transactions. S&P released their updated ratings methodology in October, 2014, providing clarity around its credit metrics with respect to advance recovery timelines, credit enhancement and reserve requirements, and we are seeing the return of term note issuances backed by servicer advance receivables. S&P's updated ratings methodology also opens the door for the rating of deals backed by advance receivables from servicing agreements with non-FIFO reimbursement provisions and deferred servicing fees. In addition, S&P announced that it will be reviewing

the credit ratings of existing servicer advance facility transactions in the first six months following the release of the updated methodology; therefore, we believe it is possible that amendments could be required by the rating agencies with respect to outstanding, rated servicer advance facilities (*i.e.*, advance rate adjustments or adjustments of liquidity reserves).

We believe that servicer advance facilities will continue to be the primary funding source for non-bank institutions to acquire servicing rights portfolios in 2015, although we expect that deal volume could be negatively impacted because of the intensified regulatory scrutiny of servicing transfers and the slowdown in servicer consolidation activity. However, we also would expect to see increased activity in transactions involving agency-related receivables, as the GSEs continue to explore ways to alleviate the liquidity constraints faced by the mortgage servicing industry generally.

Risk Sharing Transactions

In 2014, Fannie Mae and Freddie Mac increased the issuance of their debt securities in connection with their credit risk-sharing transactions (commonly known as the STACR and Connecticut Avenue Securities transactions) by nearly quadrupling the prior year's issuances. The agencies sold portions of the credit risk associated with more than $369.7 billion of mortgage loans in 2014, and we believe they will likely exceed that number in 2015. The GSEs will continue to look for ways to expand and diversify their investor base, including by broadening the characteristics of the mortgages as to which they have chosen to transfer risk and tailoring the offerings to meet the demands and risk appetites of various investors. We believe that other market participants may attempt to capitalize on the GSEs' successful risk-sharing programs by launching private-label risk-sharing transactions in the form of structured medium-term notes and other debt, CDS-based synthetic securitizations, retained recourse funding obligations, reinsurance-based catastrophe bonds or stand-alone derivatives and insurance, subject to resolution of related regulatory concerns.

Renewable Energy Financing

We expect to see continued investor interest in this asset class, which was previously thought of as "esoteric." As companies in the residential and commercial solar industry experience increasing growth, the pools of leases and loans are becoming more scalable for structured finance transactions. In conjunction with this growth, the solar industry remains focused on standardization of documentation and information reporting, as well as on working with credit rating agencies regarding a broad range of topics, including, but not limited to, the structure of underlying collateral and security interest considerations. We have counseled many clients on solar warehouse facilities and we expect this to continue.

For more information, visit
www.hunton.com/Structured-Finance-and-Securitization/

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