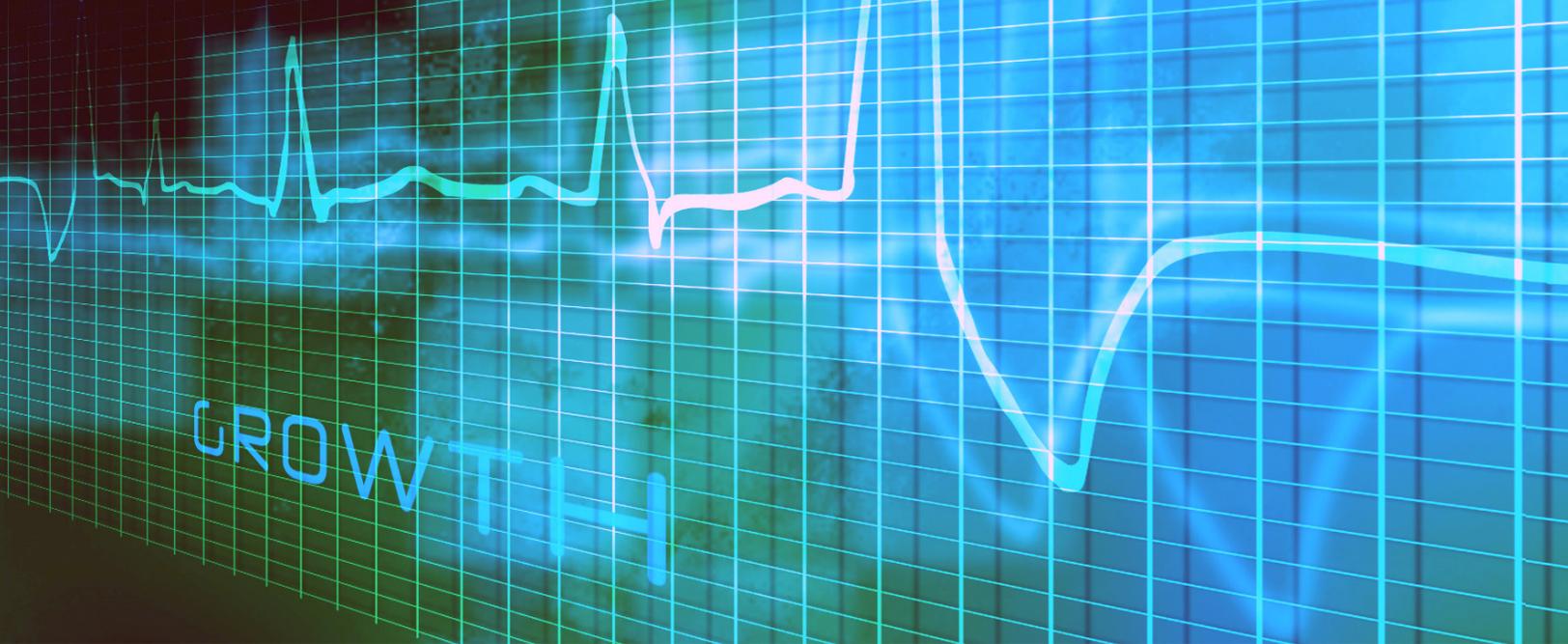


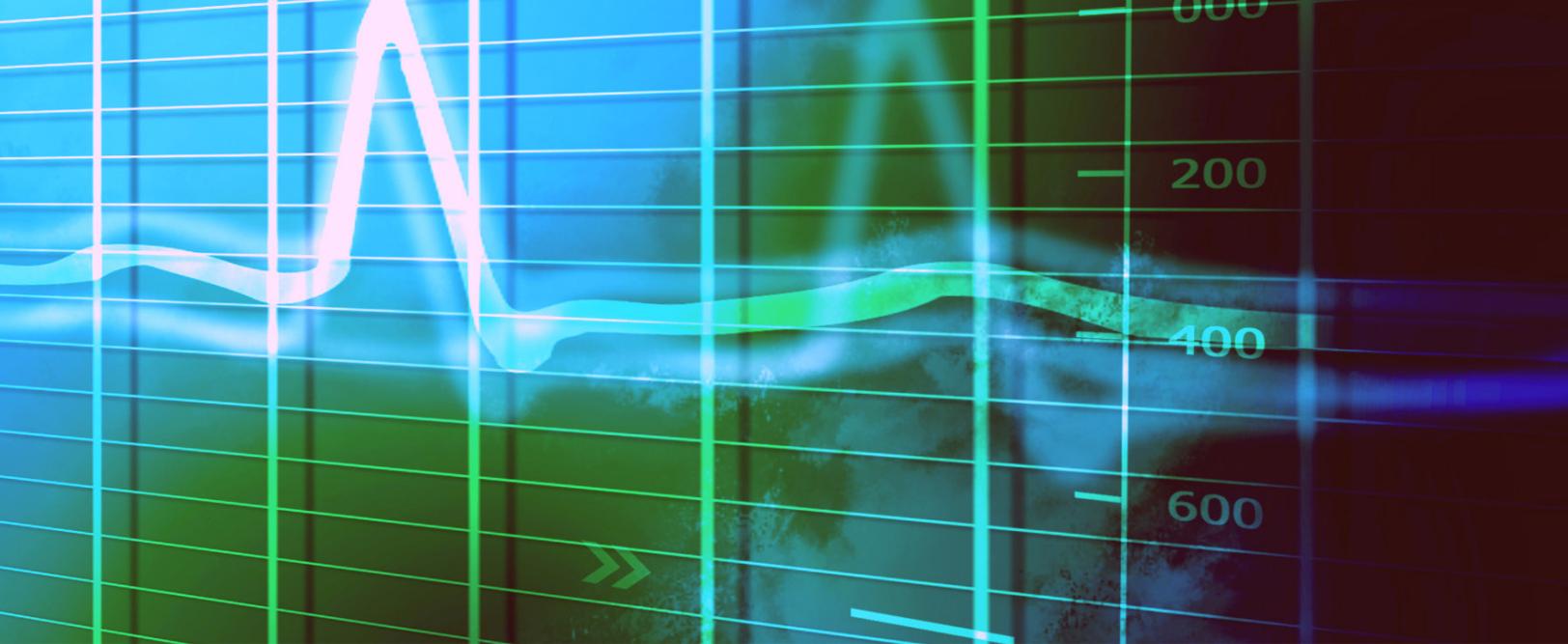
Structured Finance  
and Securitization  
**2016 Year in Review**

HUNTON &  
WILLIAMS



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## Introduction

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In 2016, Hunton & Williams LLP's structured finance and securitization team was engaged in a number of ground-breaking transactions and provided critical advice regarding numerous practical implications of regulatory developments. We appreciate the many opportunities we had last year to serve both our new and our returning clients, and we look forward to continuing those important business relationships in the years ahead. Our practice continues to grow with the addition of new and seasoned lawyers, including Allison Botos Schiltz, a consumer regulatory lawyer with substantial mortgage regulatory and licensing experience. The following is a summary of factors impacting our clients in 2017, as well as an overview of our team's activities in recent months.

## Forecast for 2017

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### **RMBS**

We expect that 2017 will be an exciting year for RMBS. Despite pockets of market volatility and the disappearance of certain jumbo prime RMBS issuers in 2016, we believe that strong housing and market fundamentals, healthy borrower and mortgage performance, property appreciation and an overall improving economy should result in a significant uptick in RMBS activity in 2017. Having already grappled with and solved the implementation of the credit risk retention rules with our clients in 2016, there is one less regulatory hurdle for market participants to overcome in 2017. In addition, while we cannot predict what regulatory and legislative policies or actions the new presidential administration will pursue (particularly with respect to repealing all or portions of the Dodd-Frank Act and other legislation and related regulations from the Obama administration) and how such policies will affect the RMBS market in 2017, we do foresee greater market stability as we exit the uncertainty of an election year and the market absorbs any consequent regulatory changes from the new presidential administration.

In 2016, we continued to actively represent issuers and underwriters in securitizations of re-performing and/or non-performing residential mortgage assets. We believe this market will have another relatively strong year in 2017 as investors continue to look for transactions that offer attractive yield and shorter duration compared to other ABS sectors. However, new creative deal features and structures will likely be introduced in order to adapt to changing market conditions and address investor and issuer concerns. In addition, as the market for non-qualified mortgage loans continues to grow, we anticipate an increase in the number of securitizations in 2017 backed by these assets. Furthermore, increases in interest rates should

lead to higher volumes of newer mortgage products, which should be attractive targets for securitization.

Nevertheless, while we predict a strong year for RMBS, we expect 2017 to be dominated again by GSE-sponsored transactions in the short term.

### **Warehouse Lending**

We continue to be a major player in the warehouse lending industry, mainly representing programmatic lenders, but we have also been steadily expanding our representation of major repo sellers. In the past year, we have closed transactions involving a wide variety of asset types, including agency eligible collateral, nonperforming and reperforming mortgage loans, REO properties, non-QM mortgage loans, traditional and small-balance commercial loans, short-term investor mortgage loans, residential tax liens, CMBS and RMBS financings, reverse mortgage loans and early buyout mortgage loans. Our clients indicate that robust warehouse lending activity will continue through 2017.

One area where we have seen significant increased activity is with “fix and flip” short-term mortgage loans. We have closed numerous transactions for this asset class, and are receiving a number of in-bound inquiries regarding these transactions. As more participants enter the “fix and flip” market, we expect to see continued expansion of warehouse lending for this type of loan. Another area of industry focus is warehouse financing of early buyout loans from securitizations, as servicers attempt to manage their delinquency ratios.

### **Servicer Advance Financing**

Issuance of notes secured by servicer advance receivables remained active throughout 2016. Deals backed by servicer advance receivables from private-label securitizations continue to comprise the majority of term note issuances, though there seems to be

## Forecast for 2017 Continued

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increasing investor appetite in transactions secured by agency advance receivables.

For 2017, we expect that non-bank servicers and MSR investors will continue to access the term note markets on a regular basis. Activity will include both refinancing of maturing term notes and new issuances to fund portfolio acquisitions. Given the GSEs' and agencies' continued focus on addressing liquidity concerns of their issuers, 2017 may see an increased volume in transactions secured by agency advance receivables and GSE MSR-related assets.

Compliance with US credit risk retention rules for servicer advance facilities was required effective December 24, 2016. While disclosure and transaction agreements will need to be updated to reference the US rules, we do not anticipate the need for any significant structural changes for traditional master trust facilities to comply with the rules. See our recent [client alert](#) regarding servicer advance financing compliance with the risk retention rules. While there is continued uncertainty regarding the agenda of the Trump administration as it relates to the mortgage servicing industry generally, the potential for scaling back Dodd-Frank legislation and rule making could provide expanded opportunities for mortgage finance, including servicer advance financing in the short-term.

### **Servicing Rights Financing**

2016 saw continued evolution of the financing of, and structuring investments in, servicing rights and servicing cash flows, especially with regard to Fannie Mae, Freddie Mac and Ginnie Mae mortgage servicing.

Servicers and their investment banks have been working for years to develop efficient ways to finance mortgage servicing portfolios. Fannie Mae, Freddie Mac and Ginnie Mae have been sensitive to the needs

of their servicers to access greater liquidity, balanced against the need for the agencies to retain control over the servicing of their mortgage loans and collateral. Investors (largely fund investors and REITs) have become increasingly interested in financing MSRs and investing in excess servicing spread strips.



Hunton & Williams has brought together lawyers from our structured finance, corporate secured lending, private equity, tax and bankruptcy groups to focus our combined experience on assisting our clients in developing innovative transactions for financing and investing in MSRs, and working with the agencies to find realistic balancing of the market's needs for efficient financing and the agencies' needs for control.

In 2016, we represented and advised numerous fund investors and REITs on excess spread investments through private equity and lending structures, and several servicers in connection with joint ventures to facilitate investments in servicing cash flows.

We represented lenders and borrowers on several loans secured by agency servicing rights and agency and private-label pools of excess servicing spreads associated with MSR portfolios. Highlights include:

## Forecast for 2017 Continued

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- Three multi-lender secured loans with delayed draw capacity, coupled with financing of the delayed draw loans for some private fund and REIT investors to produce a desirable return, each with different features tailored to the respective lender groups;
- Four structured financing facilities backed by excess spread and MSR collateral, agency and private label, under which collateralized bonds were issued, both revolving bank-funded notes and term securities, borrowing heavily from structured finance but with corporate credit and risk features; and
- Synthetic transfers of servicing cash flows through joint venture structures to enable private equity investment in servicing cash flows while leaving the servicing performance and the related compensation with the operating servicing company.

We anticipate further evolution of the MSR and excess spread market in 2017. Our multi-disciplinary team is dedicated to remaining at the forefront of these market developments and we expect to facilitate more innovative solutions for our bank, investor and servicer clients in the coming year.

### **Marketplace Lending**

The participants in this area continue to innovate and there are several developments that we are looking at for 2017. Although the area experienced some setbacks during 2016, market participants continue to show great interest in marketplace lending and the extensive reach of those lending platforms. Although we expect substantial growth in loan volume in 2017, uncertainty on the demand side due to market uncertainties, including interest rates, regulatory developments (including Dodd-Frank) and overall market performance could result in slowed growth. On the regulatory side, the OCC's proposal to grant

limited national banking charters to FinTech companies together with the FDIC's examination guidance relating to third-party lending arrangements for insured institutions indicate a willingness by regulators to both innovate in the area and extend their regulatory reach. As a result, we expect that 2017 will see market participants continue their focus on regulatory matters and expect this area to expand as the regulatory landscape becomes better defined.

### **Credit Risk Transfer**

We expect that credit risk transfer activity by the GSEs will continue to be robust in 2017, especially with respect to back-end risk transfer structures, and similar to 2016, primarily in the synthetic space. We predict that the GSEs will continue to evolve these types of offerings with variations on the structure and reference pools or collateral to meet investor demand while accomplishing the GSE mandate from the FHFA to transfer credit risk. Additionally, we expect there to be an increased focus on expanding the investor base for certain types of the GSE credit risk transfer securities, especially with respect to REITs. And while we anticipate that the GSEs will continue to account for the majority of the volume of credit risk transfer activity in 2017, we expect to see an increase in private mortgage insurer activity in transferring exposure on MI policies of various vintages.

### **Single-Family Rental**

We expect that consolidation and growth of the larger single-family rental operators will continue during 2017. As this market has matured, some mergers of operators and sales of both small and large pools of properties have resulted in several operators becoming substantially larger. We expect that securitizations will continue to be an important financing source for single-family rental operators. This year we will also see the risk retention rules being applied to SFR securitizations for the first time.

## Highlights from 2016

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We are privileged to represent many leading structured finance and securitization market participants and look forward to expanding those relationships in 2017. Some of our representative transactions for the past year are detailed below:

- We advised an investment fund client in a \$650 million acquisition of more than 4,000 **single-family rental homes** from another investment fund family and the closing of seller financing for the acquisition.
- We advised an investment firm on the successful completion of a \$100 million **primary bond financing**. The transaction established a mortgage-backed securitization financing structure, which is the first of its type of offering in the US residential buy, refurbish and sell sector.
- We have represented the dealers on all the **Freddie Mac Structured Agency Credit Risk (STACR®)** debt notes transactions since the commencement of the program in 2013, including all eight of the STACR transactions that closed in 2016 with an aggregate amount issued during 2016 totaling approximately \$5.5 billion. STACR debt notes are unsecured notes issued by Freddie Mac in which principal payments and losses on the notes are based upon the performance of mortgage loans in a particular reference pool.
- We have represented the underwriters and initial purchasers on each **Freddie Mac Whole Loan Securities (WLS) Trust** transaction since the commencement of this program in 2015, including both transactions that closed in 2016. We also represented the underwriters and initial purchasers on the **Freddie Mac Seasoned Credit Risk Transfer Trust, Series 2016-1 (SCRT)** transaction, which is the first re-performing residential mortgage loan securitization sponsored by Freddie Mac. Both the WLS and SCRT transactions represent a hybrid between private-label securitizations and Freddie Mac's traditional guaranteed products and provide Freddie Mac with an additional credit risk transfer tool to shift credit risk from Freddie Mac to the investors in the related subordinate securities.
- We represented the placement agent on **Freddie Mac's inaugural Multifamily Structured Credit Risk (SCR) Debt Notes 2016-MDN1** transaction as well as the follow-up MDN2 transaction. Modeled after Freddie Mac's Structured Agency Credit Risk® transactions, the SCR Notes are linked to the credit and principal payment risk of a reference pool of multifamily mortgage loans backing state and local housing finance agency tax-exempt bonds for which Freddie Mac provides credit enhancement. The amount of principal paid by Freddie Mac on the related notes is determined by the performance of the applicable reference pool. Through these transactions, Freddie Mac was able to shift the credit risk with respect to the applicable SCR notes to private capital markets credit investors.
- We acted as issuer's, underwriter's or deal counsel for more than **35 mortgage-backed securitizations** during 2016. We represented the underwriters on a number of jumbo prime securitizations and have acted as issuer's counsel for the three rated securitizations of "non-QM" mortgage loans.
- We represented lenders and borrowers in connection with the **warehouse financing** of residential and commercial mortgage loans, RMBS, CMBS and tax liens. We closed 88 deals in an aggregate amount of \$14.9 billion in 2016.
- We acted as program counsel to **Ginnie Mae** in connection with 105 multiclass securities transactions, representing the issuance of more than \$44 billion of government-guaranteed REMIC securities backed by government-insured mortgage loans, including participations in government-insured reverse mortgage loans.



## Highlights from 2016 Continued

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- We represented the initial purchasers of three rated **Nationstar HECM Loan Trust** transactions, with an aggregate amount of approximately \$728 million issued. These transactions were backed by **FHA-insured HECMs** (reverse mortgage loans) that were either in default or otherwise not eligible for the GNMA HECM securitization program and by REO properties obtained in foreclosures and other settlements of defaulted HECMs.
- We served as initial purchasers' counsel on the **NRZ Excess Spread-Collateralized Notes, Series 2016-PLS2**. The note issuance is backed by excess spread on private-label mortgage servicing rights, which is the first MSR-backed deal using a securitization structure to be rated (Morningstar BBB).
- We represented the initial purchasers in Rule 144A private placements on 25 transactions representing total issuance of approximately \$12.7 billion in variable funding notes and term notes backed by **servicer advance receivables**.
- We represented buyers and sellers of **mortgage servicing rights** involving agency and private-label mortgage loans with an aggregate unpaid principal balance of more than \$20 billion.
- We represented buyers and sellers in more than one hundred **whole loan purchase transactions** involving performing, nonperforming and reperforming mortgage loans, rehab mortgage loans, government-insured mortgage loans, reverse mortgage loans and commercial mortgage loans.
- We acted as tax counsel in all seven of the **Fannie Mae Connecticut Avenue Securities credit risk-sharing transactions** in 2016, in which nearly \$7.4 billion worth of securities were sold.

## Thought Leadership

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Our lawyers continue to actively participate on panels regarding a range of topics affecting the structured finance and securitization industry:

- Brent Lewis and Eric Burner have been invited to speak on panels at SFIG Vegas 2017, the world's largest capital markets conference. The conference will be held on February 26 - March 1, 2017 in Las Vegas. Brent Lewis will participate on the "RMBS 101" panel and Eric Burner will participate on the "Assessing the Scope of the Non-Performing Loan Market and the Role of Securitization" panel.
- On December 1, 2016, we hosted a seminar for more than 100 mortgage-industry clients in New York. The seminar, "[Navigating Uncharted Waters: The Mortgage Industry Under a Trump Administration](#)," featured an engaging discussion about the new political environment and how the mortgage industry can help craft a new way forward. Michael Dryden (global head of Asset Finance, Credit Suisse), Bill Meeks (CFO, Truman Capital Advisors), Ian Sterling (executive director & assistant general counsel, J.P. Morgan), Greg Walker (general counsel, Towne Mortgage Company) and a group of firm attorneys participated in the robust discussion. As a follow-up to the seminar, we are establishing a working group that will meet regularly to discuss developments surrounding the new administration and how they impact the mortgage industry. If you are interested in joining our working group, please contact [Anna Carpenter](#).
- On October 6, 2016, Cecelia Horner participated in a panel discussion at IMN's 1st Annual Credit Risk Transfer Symposium in New York. The panel, "Expanding the Investor Base" focused on attracting cross-border investors and key considerations for non-US investors.
- On September 18, 2016, Allison Botos Schilz participated in a panel discussion at the 22nd Annual ABS East Conference in Miami, FL. The panel, "Digesting the Regulatory Alphabet Soup" provided a summary of recently implemented and pending regulatory developments and how they will affect issuers and investors.
- On May 19, 2016, we hosted a client seminar, "[The Evolving World of Marketplace Lending](#)," which addressed opportunities and challenges facing marketplace lending platforms and investors. Chris Howley (managing director, Sandler O'Neill + Partners), Rosemary Kelly (managing director, Kroll Bond Rating Agency), Richard Schafrann (head of Capital Markets, Kabbage Inc.) and a group of firm attorneys participated.
- On April 5, 2016, Mike Nedzbala moderated a panel, "Servicing Transferor/ee Risks, Risk Management and Best Practices," at IMN's 3rd Annual Residential Mortgage Servicing Rights Forum in New York.



## Publications

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- Peter Weinstock and John Delionado published [Prospects for Change at the CFPB](#) in January 2017.
- Heather Eastep and Carleton Goss published [The OCC Moves Forward with a FinTech Charter](#) in December 2016.
- Andrew Blanchard, Rudene Haynes, Tom Hiner and Janet McCrae published [Risk Retention Rules Effective for All Asset-Backed Securities December 24, 2016](#) in September 2016.
- George Howell, Kendal Sibley and Allison Stelter published [IRS Issues Final Regulations that Clarify Definition of “Real Property” for REITs](#) in September 2016.
- Joe Buonanno, J.R. Smith, Jason Harbour, Nathan Kramer and Peter Partee published [Federal Reserve Proposed Rule Imposes New Restrictions on Exercise of Default Rights Under Qualified Financial Contracts](#) in June 2016.
- George Howell, Kendal Sibley and Allison Stelter published [Proposed Treasury Regulations May Recharacterize TRS Debt](#) in April 2016.

## Rankings and Awards

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

- Ranked #4 for top underwriter counsel and #12 for top issuer counsel for US ABS/MBS in **Asset-Backed Alert**'s 2016 year-end league tables.
- Ranked nationally by **Chambers USA** for Capital Markets: Securitization, with Kevin Buckley, Tom Hiner, Mike Nedzbala and Amy McDaniel Williams all receiving individual rankings
- Ranked nationally by **Legal 500** for Structured Finance, with Steven Becker, Kevin Buckley, Eric Burner, Tom Hiner, Brent Lewis, Mike Nedzbala and Amy Williams receiving individual client accolades
- Recognized as a "Leading Law Firm in US Securitization Industry" by **Asset-Backed Alert**
- [Hunton & Williams Plays Key Role in RMBS Deal of the Year](#). We congratulate Freddie Mac on winning GlobalCapital's RMBS Deal of the Year award in May 2016 for its **Structured Agency Credit Risk (STACR) 2015-HQA1** debt notes offering. Hunton's team, led by partners Tom Hiner, Brent Lewis and Janet McCrae, with Cecelia Horner for tax matters, represented the underwriters on the offering.
- Vicki Tucker is currently serving as Vice Chair of the American Bar Association's Business Law Section, which is the second step of a four-year leadership succession plan that will result in Vicki's assumption of the role of section Chair in 2018. With more than 45,000 members, the Business Law Section is one of the ABA's largest sections and is recognized as the voice of the business lawyer community worldwide.
- George Howell completed a one-year term as chair of the American Bar Association's Section of Taxation. With a membership of 19,000 lawyers, the Section of Taxation is the nation's largest professional association of tax lawyers. George, head of Hunton & Williams' tax and employee benefits practice, led the section until August 2016.

## Promotions and New Hires

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**We are pleased to announce that Janet Sadler McCrae has been promoted to partner and Katrina Llanes has been promoted to counsel. We are also pleased to announce that Allison Botos Schilz has joined as counsel in our Washington, DC office.**



### **Janet Sadler McCrae**

*New York*

[jmccrae@hunton.com](mailto:jmccrae@hunton.com)

212.309.1234

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Janet's practice focuses on the representation of underwriters, lenders, servicers, borrowers and other market participants with respect to the securitization and financing of servicing rights and servicing advance receivables through structured facilities and traditional credit facilities. She also represents initial purchasers and lenders with respect to the securitization and financing of residential mortgage loans, including nonperforming HECMs, as well as dealers and initial purchasers in credit risk transfer transactions such as the Freddie Mac Structured Agency Credit Risk program.

### **Katrina Llanes**

*New York*

[kllanes@hunton.com](mailto:kllanes@hunton.com)

212.309.1333

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Katrina's practice focuses on the representation of lenders, underwriters, issuers and borrowers in securitizations, structured facilities and traditional credit facilities involving MSRs, excess servicing spread associated with MSR portfolios and servicing advance receivables. Katrina also represents lenders on warehouse financings involving residential and commercial mortgage loans.



### **Allison Botos Schilz**

*Washington*

[aschilz@hunton.com](mailto:aschilz@hunton.com)

202.955.1612

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Allison Botos Schilz joined Hunton & Williams' Washington, DC office as counsel in October 2016. Allison advises mortgage companies, banks, mortgage servicers, secondary market investors and other financial institutions on federal and state regulatory compliance issues related to mortgage loan origination and servicing. She also assists clients with identifying and securing state licenses and approvals on a nationwide basis in connection with originating, servicing and purchasing mortgage loans and mortgage servicing rights, and acts as regulatory counsel in transactions involving the acquisition of state-licensed entities.

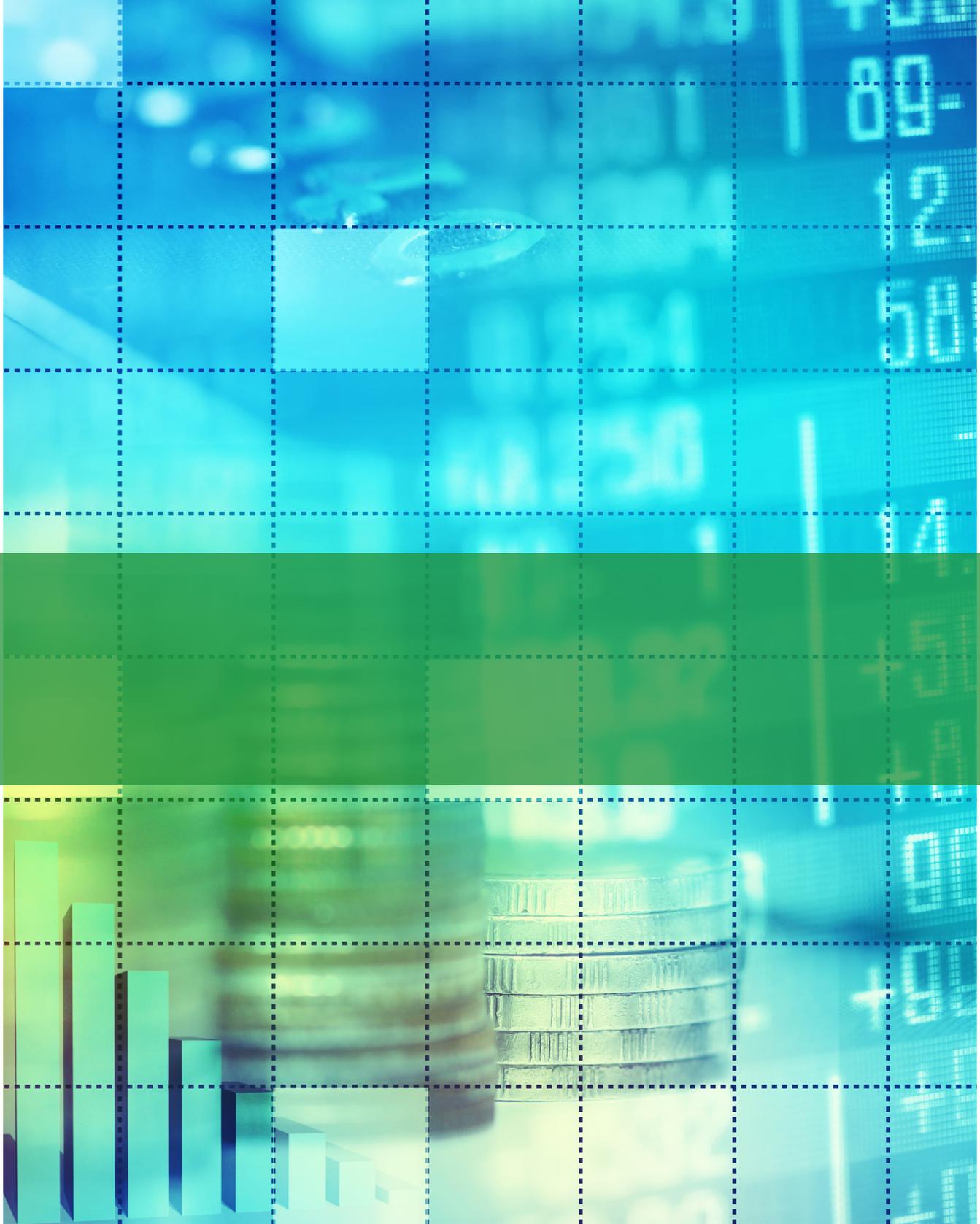


## About Us

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Hunton & Williams LLP is a global law firm with more than 750 lawyers practicing from offices across the United States, Europe and Asia. The firm's global experience extends to myriad legal disciplines, including corporate transactions and securities law, energy and infrastructure, international and government relations, regulatory law, privacy and cybersecurity, labor and employment and commercial litigation.

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