February 4, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Regarding: Credit Rating Standardization Study, File No. 4–622

Dear Ms. Murphy:

The Mortgage Bankers Association[1] (MBA) welcomes the opportunity to comment on the Securities and Exchange Commission's (Commission) study regarding feasibility and desirability of standardization rating terms and certain rating parameters (Study).[2] Section 939(h) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010[3] (Dodd-Frank Act) mandates that the Commission perform the Study no longer than one-year after the passage of the Dodd-Frank Act. In considering the feasibility and desirability of standardization for rating terms, MBA would like to bring to the Commission's attention that recently implemented rules for nationally recognized statistical rating organizations (NRSROs) brings into question whether terminology standardization would materially improve the level of NRSRO transparency and if the introduction of standardized terminology would go beyond the statutory authority of the Dodd-Frank Act by prescribing elements of ratings methodology. In addition, standardizing ratings terminology and economic and market stress conditions would have a homogenization effect on the proprietary ratings methodologies that NRSRO's use to compete and distinguish themselves against each other. The potential ratings "clustering" brought on by this requirement, would ill serve investors by reducing the diversity of rating opinions. In fact, this is at odds with Rule 17g's objective increasing NRSRO competition. MBA believes that a robust and diverse group of NRSRO's best serve the securitization market.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

[2] Vol.75, Fed Reg, No.246, pp. 80886-80868.

[3] Pub. L. No. 111-203 (July 21, 2010).

Background

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. Under Section 939(h) of the Dodd-Frank Act, the Commission is required to study the feasibility and desirability of:

(A) Standardizing credit ratings terminology, so that all credit rating agencies issue credit ratings using identical terms;
(B) Standardizing the market stress conditions under which ratings are evaluated;
(C) Requiring a quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress; and
(D) Standardizing credit rating terminology across asset classes, so that named ratings correspond to a standard range of default probabilities and expected losses independent of asset class and issuing entity.

Not later than one year after the date of enactment of the Dodd-Frank Act, the Commission must submit to Congress a report containing the findings of the study and the recommendations, if any, of the Commission with respect to the study.

New NRSRO Rule 17g Regulatory Requirements

On December 4, 2009 the Commission adopted new disclosure rules for NRSROs that were implemented on June 2, 2010.[4] The Commission indicated that "the rule amendments being adopted today are designed to improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating agency industry". The regulatory program established by the Credit Rating Agency Reform Act of 2007 allows the Commission to promulgate rules regarding public disclosure; recordkeeping and financial reporting; and substantive requirements. The rules supplement previous rules implemented by the Commission under the Credit Rating Agency Reform Act in June 2007. The new rules apply to Rule 17g of the Securities Exchange Act of 1934 and include:

- **Making Available to NRSRO Underlying Data for Ratings** – Amended Rule17g-5 prohibits an NRSRO from issuing a rating for a structured finance product paid for by the product's issuer, sponsor, or underwriter unless the information about the product provided to the NRSRO to determine the rating and, thereafter, monitor the rating is made available to other NRSROs. Specifically, the amendments would require NRSROs that are hired by arrangers to perform credit ratings for structured finance products to disclose to other NRSROs (and only other NRSROs) the deals for which they were in the process of determining such credit ratings. The arrangers would need to provide the NRSROs they hire to rate structured finance products with a representation that they will provide information given to the hired NRSRO to other NRSROs. In addition, NRSROs seeking to access information maintained by the NRSROs and the arrangers would need to furnish the Commission an annual certification that they are accessing the information solely to determine credit ratings and will determine a minimum number of credit ratings using the information. Specifically, the Commission amended Rule 100 of Regulation FD to permit the disclosure of material non-public information to NRSROs regardless of whether they make their ratings publicly available.

[4] Vol. 74 Fed Reg, No. 232, pp.63832-63865

- **Disclosure of 100 Percent of Recent Ratings** - The amendments to Rule 17g-2 require NRSROs to disclose ratings history information for 100 percent of their current issuer-paid credit ratings in an XBRL format. Further, they only would apply to issuer-paid credit ratings determined after June 25, 2007 (the effective date of the Rating Agency Act). A credit rating action would not need to be disclosed until 12 months after the action is taken.

- **Records of Rating Actions -** This rule requires an NRSRO to make publicly available a random sample of 10 percent of their issuer-paid credit ratings and their histories documented for each class of issuer-paid credit rating for which the NRSRO is registered and has issued 500 or more ratings. This information would be required to be made public on the NRSRO's corporate Internet Web site in XBRL format no later than six months after the rating is made. The proposal amends the instructions to Exhibit 1 of Form NRSRO to require an NRSRO to disclose where in its Web site these ratings histories would be made available.

- **Enhanced NRSRO Reporting Requirements** - The rule amends the instructions to Form NRSRO to require enhanced disclosures by NRSROs and applicants for registration as NRSROs. The amendments to the instructions to Exhibit 1 require an NRSRO or NRSRO applicant to provide transition statistics for each asset class of credit ratings for which it is registered or is seeking registration, broken out over one-, three-, and ten-year periods. The amended instructions clarify that all ratings transitions (i.e., upgrades as well as downgrades) must be included in these statistics as well as that default statistics must show defaults relative to the initial rating and incorporate defaults that occur after a credit rating is withdrawn. The amendments to the instructions to Exhibit 2 require NRSROs to provide enhanced disclosure in three areas: (1) whether and, if so, how much verification performed on assets underlying or referenced by the structured finance transaction is relied on in determining credit ratings; (2) whether and, if so, how assessments of the quality of originators of structured finance transactions play a part in the determination of the credit ratings; and (3) more detailed information on the surveillance process, including whether different models or criteria are used for ratings surveillance than for determining initial ratings.

- **New Enhanced Record Keeping Rules** - This rule adds three new record keeping requirements to Rule 17g-2 and make one non-substantive change to an existing requirement. The first new recordkeeping requirement requires an NRSRO to make and retain records of all rating actions related to a current rating from the initial rating to the current rating. The second new recordkeeping requirement requires that if a quantitative model is a substantial component of the credit rating process for a structured finance product, an NRSRO must keep a record of the rationale for any material difference between the credit rating implied by the model and the final credit rating issued. The third new recordkeeping requirement would require that an NRSRO retain records of any complaints regarding the performance of a credit analyst in determining, maintaining, monitoring, changing, or withdrawing a credit rating.

- **NRSRO Annual Credit Ratings Report** - This amendment to Rule 17g-3 requires an NRSRO to provide the Commission with an annual report of the number of credit rating actions that occurred during the fiscal year for each class of security for which the NRSRO is registered.

- **Prohibited NRSRO Conflicts** - These amendments would add three new prohibited conflicts to Rule 17g-5(c). The first amendment prohibits an NRSRO from issuing a credit rating with respect to an obligor or security where the NRSRO or an affiliate of the NRSRO made recommendations to the obligor or the issuer, underwriter, or sponsor of the security about the corporate or legal structure, assets, liabilities, or activities of the obligor or issuer of the security. The second amendment prohibits a person within an NRSRO who has responsibility for participating in determining credit ratings or for developing or approving procedures or methodologies used for determining credit ratings from participating in any fee discussions, negotiations, or arrangements. The third amendment prohibits an NRSRO from allowing a credit analyst who participated in determining or monitoring the credit rating to receive gifts, including entertainment, from the obligor being rated or from the issuer, underwriter, or sponsor of the securities being rated, other than items provided in the context of normal business activities, such as meetings, that have an aggregate value of no more than $25.

MBA Position

MBA supports efforts to increase transparency and reliability in credit ratings of securities backed by real estate. MBA is mindful that the financial services system has witnessed a tremendous increase in the level of complexity and sophistication in financing options, investment products and liquidity channels. Consequently, MBA has strongly supported the Commission efforts to increase the transparency of the ratings process and ratings data.

In terms of increased ratings transparency, collectively, the new Rule 17g dramatically increase the amount of public information and information made available to NRSROs in the following ways:

(1) Because underlying data used to issue a rating must be disclosed to other NRSROS, multiple ratings opinions can develop for each CMBS issue;
(2) 100 percent of ratings history will have to be disclosed within 12 months after its release for issuer-paid ratings for securities issued after June 25, 2007, and a random sample of 10 percent of all issuer-paid ratings;
(3) Enhanced rating transitions reporting;
(4) Enhanced record keeping of ratings performance;
(5) Reduced rating agency staff conflicts; and,
(6) Annual NRSRO reporting on rating activity.

MBA notes that NRSRO ratings methodologies and terminology are both publicly available on NRSROs' websites and or in publicly available published materials. In the case of commercial mortgage-backed securities (CMBS), NRSROs publish a detailed explanation of their evaluation criteria. The publicly available data on NRSRO ratings methodology, coupled with increase NRSRO reporting requirements will materially improve the transparency of the ratings process and facilitate analytic assessment of ratings.

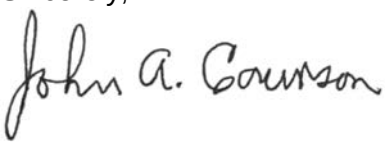
MBA believes the proposed standardization efforts for ratings terminology, and market and economic stress conditions would not materially improve an investor's understanding of a securitization and may have important and unintended negative impacts on the quality of the rating.

The definition of an AAA rating can differ from one rating agency to another based upon their ratings approach and philosophy. For example[5], one rating agency may classify an AAA security as having 10 percent probability of default over a 50-year time period, while another NRSRO would classify an AAA security as having a 10 percent probability of default over a 75-year time period. Standardizing ratings terminology would force NRSROs into a one size fits all approach on key ratings doctrine such as the AAA definition. The same is true for economic and market stress conditions. Such harmonization for market and economic stress conditions would prevent NRSROs from controlling key data inputs for their ratings model.

Before moving forward with any recommendations for standardizing ratings terminology and economic and market stress conditions, the Commission should carefully evaluate Rule 17g to determine if the transparency intended from the Study has not already been accomplished through the increased ratings transparency and competition that was fostered by Rule 17g. As an alternative, the Commission could compile and place in a publicly available website, a document that contains a side by side listing of NRSRO rating definitions and economic and market stress conditions in their ratings models. This would provide investors with ability to identify the NRSRO whose methodology and approach was most appropriate for their securitization evaluation requirements.

MBA appreciates the opportunity to comment and request that you consider our concerns. Any questions about MBA's comments should be directed to George Green, Associate Vice President, Commercial Real Estate, at (202) 557-2840 or ggreen@mortgagebankers.org.

Sincerely,



John A. Courson
President and Chief Executive Officer

[5] For illustrative purposes only and is not intended to be reflective of actual NRSRO practice.