



REDWOOD TRUST

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Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

RE: File Number 4-661

Dear Ms. Murphy,

On behalf of Redwood Trust, I would like to submit the following comments for the record related to issues to be discussed at the Credit Ratings Roundtable to be held at the Securities and Exchange Commission's (SEC) headquarters in Washington, D.C., on May 14, 2013.

Panel One: Credit Rating Assignment System

I agree that some reform is needed to mitigate the risk of conflict-of-interest associated with the issuer-pay model. However, establishing a board to assign a Nationally Recognized Statistical Rating Organization (NRSRO) to securitizations is not the right solution. A better and simpler approach is to require sponsors to alternate NRSROs so that no single NRSRO rates more than two consecutive deals.

The requirement to frequently alternate among the NRSROs sufficiently reduces the possibility that a sponsor and NRSRO will develop a co-dependent relationship that compromises the integrity of the rating. The key is to prevent exclusive relationships between an issuer and an NRSRO by ensuring that competing NRSROs will be assigned to the issuer's deals on a regular basis. Moreover, this approach is simpler to implement, and very likely will be the least costly to implement and manage and eliminates a potential list of issues such as: (1) the creation of a perception of a 'government sanctioned' rating, (2) the potential for a convergence of ratings methodology (at the expense of independence), (3) the difficulty in developing a "report card" for NRSRO performance, (4) a potential constitutional issue with respect to free speech, and (5) the potential for a NRSRO with no asset sector credibility among the triple-A investor community or issuers to receive a ratings assignment.

Again, our view is that simpler is better. Let the issuer continue to select the NRSROs, but require a frequent alternation.



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Panel Two: Rule 17g-5

We believe the disclosure requirements under Rule 17g-5 are beneficial to the market, but the requirement that rating agencies provide unsolicited ratings if they access the data should be eliminated.

The requirement to issue a target percentage of unsolicited ratings has not been successful and has severely restricted the amount of competitive research. In our roughly 15 securitizations that have been covered by Rule 17g-5 only one NRSRO requested access to the website. We presumed at the time this was for the purpose of issuing an unsolicited rating, but that NRSRO did not issue an unsolicited rating and instead used the information to provide general commentary. We believe the reason that no unsolicited ratings have been issued is because of the cost involved to do so, and there is no incentive for a NRSRO to incur that expense.

Rule 17g-5 has at least one success story. Late in 2011, Kroll Bond Ratings requested access to our 17g-5 website, not to provide an unsolicited rating, but to actually provide a rating as a hired NRSRO. Kroll had developed its ratings capability and devoted the resources necessary for rating RMBS. As a hired NRSRO, they had the same access to information as the other larger and more experienced NRSROs and since have been on each of our deals. While nothing is keeping the other NRSROs from requesting to be hired by us, not all of them are willing to take the risk that we may hire them and then not use their ratings, which is fully disclosed by Redwood. However, by removing the percent requirement other NRSROs may be willing to practice, provide commentary and develop ratings credibility prior to being engaged.

As one of only a few issuers of private label RMBS, Redwood has been a constant and prolific user of the 17g-5 Program, namely the process for providing the same information to each NRSRO at the same time. In our view, the most important benefit has been to ensure the NRSROs all have the same information. Having a data depository website for all loan level information, due diligence information and deal documents has the potential to enhance communications with the NRSROs and facilitate an equal playing field in terms of data.

The downside to the data depository website is that any follow up conversations about the data with any one NRSRO must be disseminated so that all parties have access to the same information at the same time. To ensure this takes place, all communication must be in writing, which is time consuming. As a result, instead of facilitating more discussions, the rule actually



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stifles conversations. Our recommendation is to eliminate the requirement that all subsequent information requests and discussions be documented and placed in the website. This would potentially increase discussion between issuers and NRSROs and provide an incentive for each NRSRO to distinguish its work product based on its knowledge of the market.

Panel 3 — Alternative Compensation Models

We believe that NRSROs can be independent even if the issuers are paying the rating fees, but we acknowledge there appears to be a potential conflict-of-interest. While we cannot offer a single “problem-solved” solution to the issue, we do believe that a series of actions can be taken that, as a whole, may adequately mitigate this concern. As a start, Redwood has adopted two program enhancements in our deals to assure investors that we take the issue seriously. First, we disclose the names and views of all NRSROs that we engage as part of the rating process, whether we ultimately use the ratings or not. Second, we have established a self-imposed rotation of the two largest NRSROs on our securitizations.

We appreciate the opportunity to submit these comments and I look forward to participating in the Roundtable.

Sincerely,

Martin S. Hughes
Chief Executive Officer
Redwood Trust, Inc.