

MEMORANDUM

To: File No. DF Title IX - Asset-Backed Securities

From: Katherine Hsu
Senior Special Counsel
Office of Rulemaking
Division of Corporation Finance
U.S. Securities and Exchange Commission

Date: October 14, 2010

Re: Meeting with Morgan Stanley

On October 14, 2010, Paula Dubberly, Rolaine Bancroft, Jay Knight, Steven Hearne, Eduardo Aleman and Katherine Hsu of the Division of Corporation Finance; Eric Emre Carr and Stanislava Nikolova of the Division of Risk, Strategy and Financial Innovation; Wes Bricker of the Office of Chief Accountant; and staff from the Division of Trading and Markets met with the following representatives from Morgan Stanley: Steve D'Antonio, David Moffitt, Valerie Kay, Vishwanath Tirupattur, Candice Koederitz, Su Bai, Jim Lee, and Soo-Mi Lee. Meeting participants discussed Subtitle D, Title IX, of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 621, Title VI of the Dodd-Frank Act. Handouts are attached to this memorandum.

Attachment

**AGENDA FOR SEC
MORGAN STANLEY MEETING RE
DODD-FRANK ACT SECURITIZATION PROVISIONS**

I. Overview

II. Strong Underwriting Standards

III. Disclosure and Reporting for Asset-Backed Securities

IV. Forms of Credit Risk Retention

V. Definition of Asset-Backed Security

VI. Conflicts of Interest in Securitization Transactions

Morgan Stanley

US Securities Exchange Commission

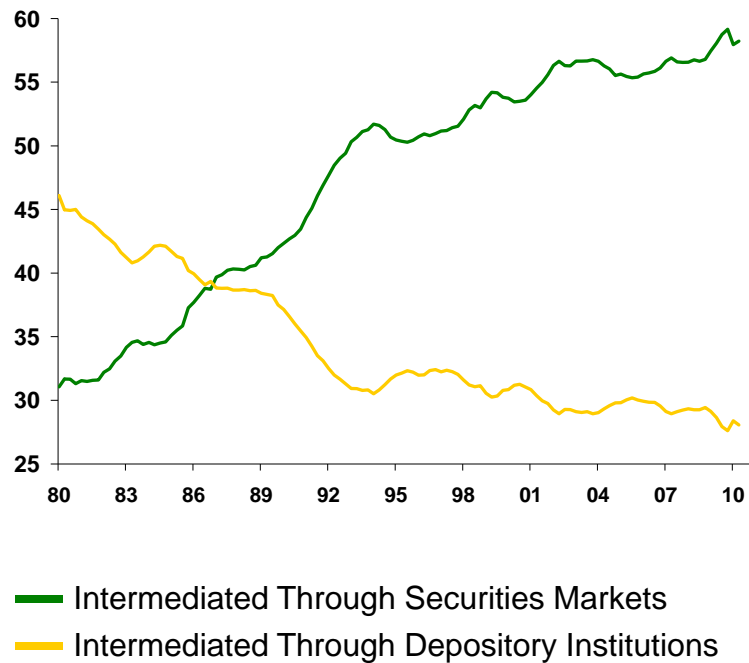
Discussion Materials

October 14, 2010

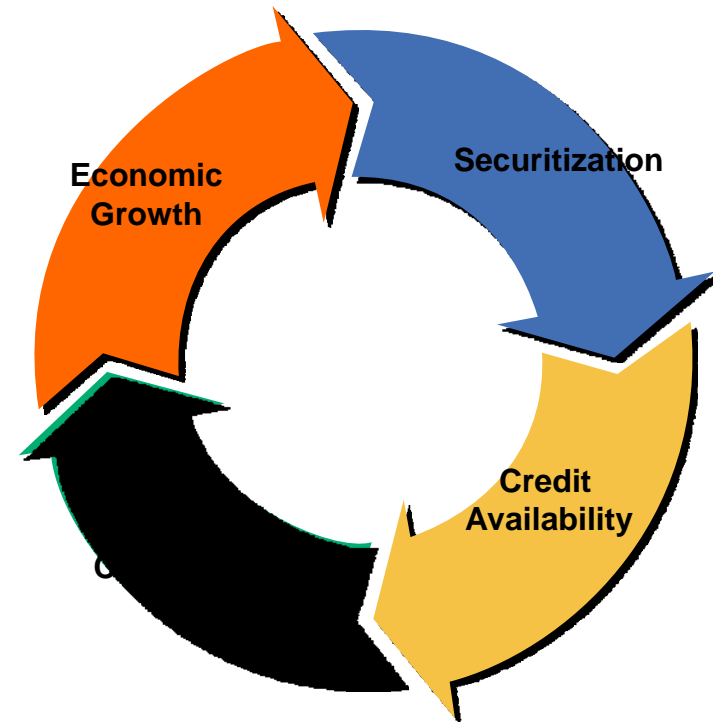
Securitization is an Important Source of Credit Intermediation

Trends in Credit Intermediation

(Share of Private Nonfinancial Debt Outstanding, Percent)



Source: Federal Reserve

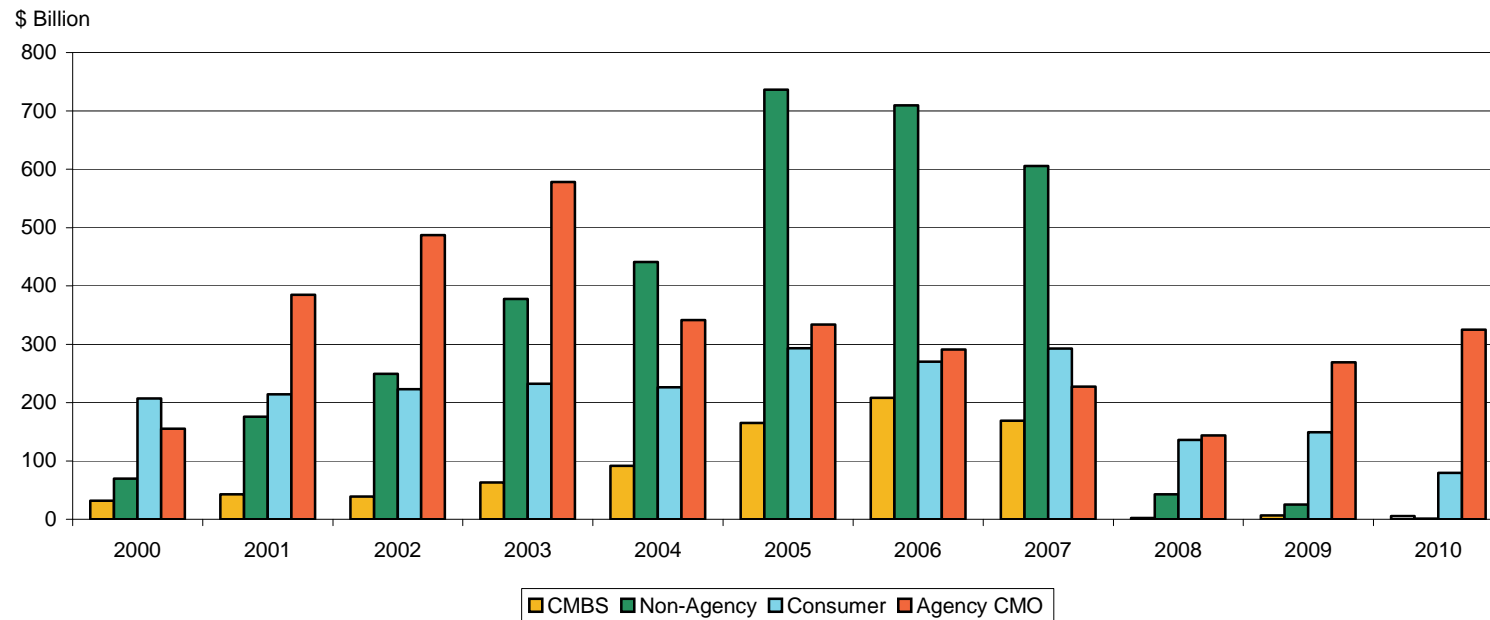


Source: Morgan Stanley Research

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Securitization Issuance by Year and Product Type



Source: SIFMA, TREPP, Bloomberg, Commercial Mortgage Alert, Morgan Stanley

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Performance of Broad Categories of Securitized Products⁽¹⁾

	<u>Estimated Losses to Investment Grade Tranches</u> ⁽²⁾				<u>Outstanding Market Size</u> ⁽³⁾ <u>(Billion \$)</u>
	<u>To Date</u>		<u>Life time</u>		
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	
ABS CDO ⁽⁴⁾					
- Mezzanine ABS CDO (2005-07 vintages)	60%	70%	75%	90%	80
- High Grade ABS CDO (2005-07 vintages)	30%	35%	60%	70%	170
Non-Agency RMBS					
- Sub prime (2005-07 vintages) ⁽⁵⁾	5%	15%	15%	45%	467
- Alt-A (2005-07 vintages) ⁽⁶⁾	5%	15%	15%	35%	626
- Jumbo prime (2005-08 vintages) ⁽⁷⁾	0%	2%	3%	10%	341
Agency RMBS ⁽⁸⁾	0%	0%	0%	0%	6,739
CMBS (2005-2007 vintages)	0%	0%	2%	15%	769
CLO (2004-08 vintages) ⁽⁹⁾	0%	0%	0%	1%	319
Credit Card ABS	0%	5%	0%	5%	222
Auto loan ABS	0%	0%	0%	0%	129
Student loan ABS (FFELP)	0%	0%	0%	2%	249
Student loan ABS (Private Credit)	0%	0%	5%	35%	(included above)

Notes:

⁽¹⁾ Losses to investment grade tranches have been calculated using estimates of pool losses and applying a generic capital structure for each category of securitized products.

⁽²⁾ Investment grade tranches defined as tranches originally rated BBB/Baa and higher.

⁽³⁾ Outstanding market size for Agency RMBS includes \$5,468 billion of pass-throughs and \$1,270 billion of agency CMOs as of Q2, 2010. Market size estimates are based on data from SIFMA and S&P for all categories except CLO and ABS CDOs which are Morgan Stanley estimates. 2005-2007 vintage issuance of ABS CDOs were \$140 billion and \$260 billion for mezzanine and high grade ABS CDOs respectively.

⁽⁴⁾ ABS CDO losses are based on Morgan Stanley estimates.

⁽⁵⁾ For subprime, pool losses to date are based on ABX 2006-1 for low and ABX 2007-2 for high. Expected life time losses are based on "Subprime RMBS Loss Projection Update: February 2010", Moody's Investors Service, Feb 24, 2010.

⁽⁶⁾ For Alt-A, pool losses to date are based on Morgan Stanley proprietary indices - 2006-2 Fixed for low and 2007-2 Hybrid for high. Expected life time losses are based on "Alt-A RMBS Loss Projection Update: February 2010", Moody's Investors Service, Feb 24, 2010.

⁽⁷⁾ For Jumbo Prime, pool losses to date are based on PrimeX indices - FRM1 for low and ARM2 for high. Expected life time losses are based on "Prime Jumbo RMBS Loss Projection Update: January 2010", Moody's Investors Service, Jan 20, 2010).

⁽⁸⁾ No credit losses assumed due to government guarantees for Agency RMBS. There may be losses in premium bonds due to prepayments.

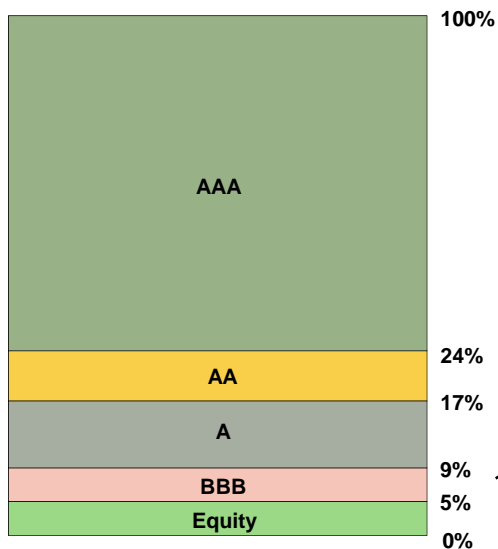
⁽⁹⁾ CLO, credit card, auto and student loan ABS losses are based on Morgan Stanley estimates.

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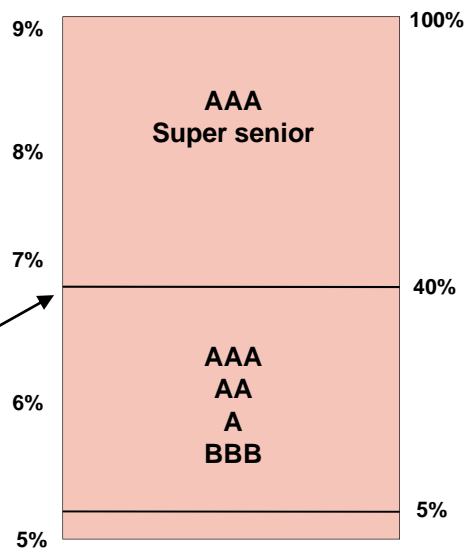
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An Illustration of ABS CDO Securitization

Subprime ABS Capital Structure



Mezzanine ABS CDO Capital Structure



Home Equity Attachment/
Detachment

Source: Morgan Stanley

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