

MEMORANDUM

TO: File No. S7-14-11

FROM: Arthur Sandel
Special Counsel
Office of Structured Finance
Division of Corporation Finance
U.S. Securities and Exchange Commission

RE: Meeting with representatives of Morgan Stanley and Ballard Spahr
LLP

DATE: October 28, 2013

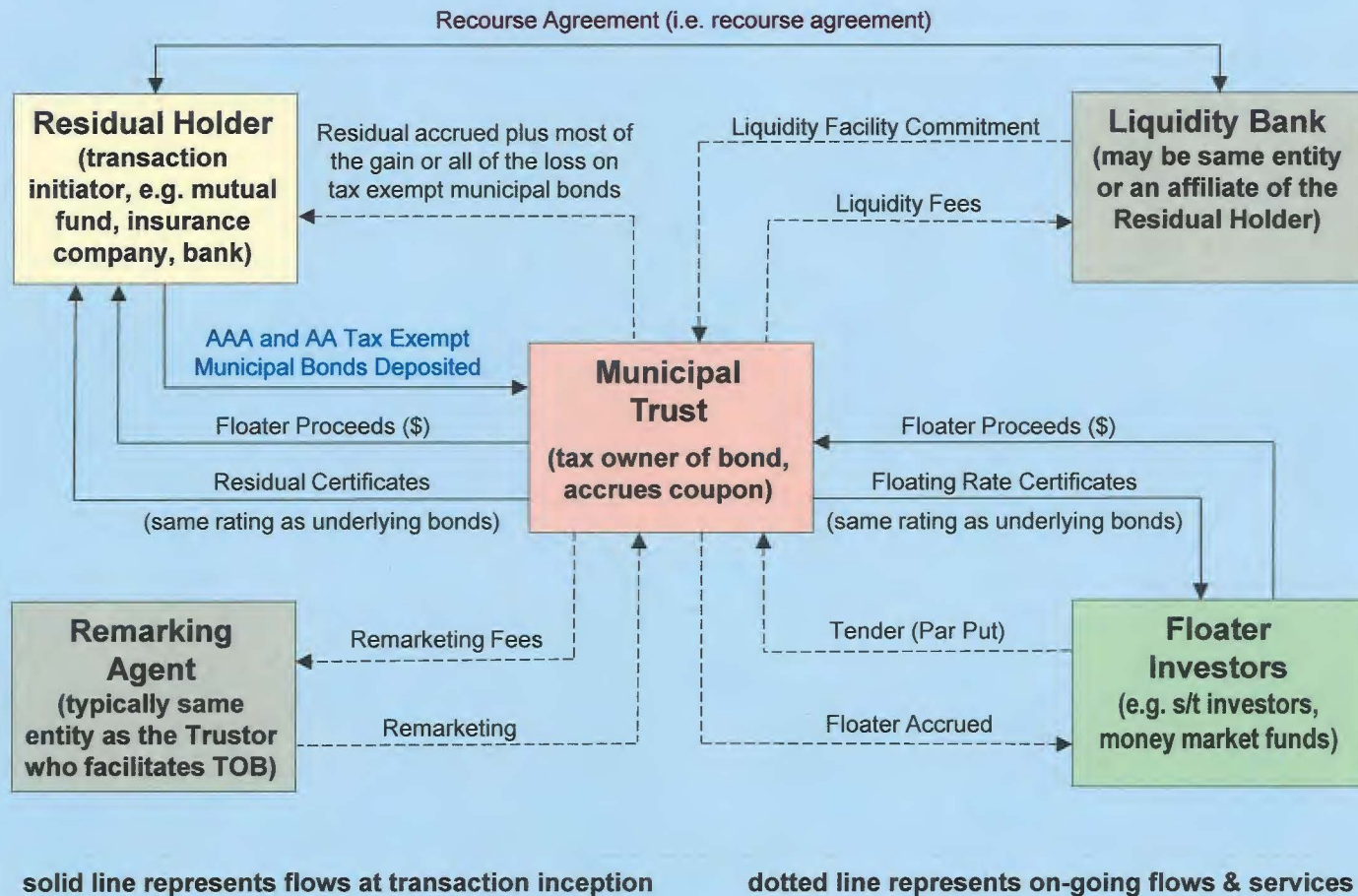
On October 24, 2013, Katherine Hsu (by telephone), Arthur Sandel, David Beaning (by telephone) and Lulu Cheng of the Division of Corporation Finance and Sean Wilkoff (by telephone) of the Division of Economic and Risk Analysis participated in a meeting at the offices of the FDIC with the following representatives: Eric Vandercar, James Panella and Jim Perry of Morgan Stanley; and Joyce Gorman and Keith Fisher of Ballard Spahr LLP.

The following staff of the FDIC also participated: Kathleen Russo, Robert Hendricks, Jacob Doyle, Rae-Ann Miller, Phil Sloan, Roberta McInerney, Gene Pocase, John Popeo and William Haston.

The participants discussed topics related to the Commission's August 28, 2013 joint proposed rules regarding credit risk retention. Handouts are attached to this memo.

Attachment

Tender Option Bond Transaction Diagram



TOB Residual Interest Bond Hypothetical Performance

Assumptions		Bond Notional	10,000,000			
		Deposit Price	100.00%			
Trust Proportionality			<u>50%</u>	<u>80%</u>	<u>95%</u>	<u>99.95%</u>
Inception	Bond Value		10,000,000	10,000,000	10,000,000	10,000,000
	Floater Value (@100) *		5,000,000	8,000,000	9,500,000	9,995,000
	Residual Value		5,000,000	2,000,000	500,000	5,000
Liquidity Provider Protection			Recourse Agreement or Min Floater Cert Ratio		Collateralized Shortfall or Recourse Agreement	
Withdrawal +10%	Bond Value		11,000,000	11,000,000	11,000,000	11,000,000
	Change in Bond Value		1,000,000	1,000,000	1,000,000	1,000,000
	Floater Value *#		5,025,000	8,040,000	9,547,500	10,044,975
	Residual Value		5,975,000	2,960,000	1,452,500	955,025
	Change in Residual Value		975,000	960,000	952,500	950,025
	% Change in Residual Value		19.5%	48%	191%	19001%
Withdrawal -10%	Bond Value		9,000,000	9,000,000	9,000,000	9,000,000
	Change in Bond Value		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	Floater Value *		5,000,000	8,000,000	9,500,000	9,995,000
	Residual Value		4,000,000	1,000,000	(500,000)	(995,000)
	Change in Residual Value		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	% Change in Residual Value		-20%	-50%	-200%	-20000%

Footnotes

* Assumes no Tender Option Termination Event. Upon a TOTE, bonds are distributed in kind and all Holders share pro rata in any loss.

5%proportional gain share provision