



## ■ ■ Fitch: Regulation AB A Positive, But Not Without Growing Pains for U.S. SF Issuers

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Fitch Ratings-New York-April 19, 2005: While Fitch Ratings does not anticipate any direct credit impact resulting from the Securities and Exchange Commission's (SEC) rollout of Regulation AB (Reg. AB) and views the regulation as a positive for the U.S. structured finance markets in general, some issuers may be in for a tough adjustment period as they are still struggling with the breadth of the regulation's requirements and the exact interpretation of certain sections.

With the deadline rapidly approaching, key issuer considerations include the development of contingency plans for possible noncompliance, the expense of implementation, and possible operational/system disruptions related to new reporting requirements/compliance. 'These issues, if not addressed properly, could cause timing delays in new issuances and restatement of non-compliant servicer reports, and while investors' potential reaction to such issues is difficult to predict, it could lead to a pronounced tiering between compliant and non-compliant issuers,' said Kevin Duignan, Managing Director, Fitch Ratings.

On Dec. 15, 2004, the SEC finalized and adopted Reg. AB, which codifies/formalizes and expands rules and regulations for asset-backed securities that are registered with the SEC and sold to the general public. In Fitch's view, perhaps the most important element of this new regulation is the greatly expanded reporting requirements focused on increasing the transparency of public structured finance securities. Major reporting changes introduced by Reg. AB include additional disclosures about originators, sponsors, issuers, servicers, and trustees. The new regulation also calls for the reporting of changes to underwriting criteria and servicing practices as well as the reporting of standardized credit scores, static pool data, and significant obligor concentrations.

With the full compliance of new disclosures and reporting requirements looming for any registered offering of structured finance securities issued after Dec. 31, 2005, Reg. AB is expected to remain a focal point for the structured finance industry over the immediate-term. Given the near-term deadline and the scope of new reporting requirements introduced by this regulation, Fitch will track issuer compliance progress through its originator, seller/servicer, and servicer review process and communicate to the market if Fitch feels any issuers are underestimating the issues noted above.

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