

The Depository Trust Company

IMPORTANT

3289-08

DATE: March 28, 2008

All Participants

CATEGORY: Operations

FROM: Robert Hensey

ATTENTION: Managing Partner/Officer, Operations Manager

SUBJECT: SEC Rule Changes on Structured Securities

As part of our ongoing efforts to further efficiencies, The Depository Trust & Clearing Corporation (DTCC) will implement several operational changes to address the unique challenges in processing principal and interest payments for structured securities. These changes have been approved by the Securities Exchange Commission (SEC) and are being implemented by the Depository Trust Corporation (DTC), a DTCC subsidiary. The proposed rule change and the SEC approval order are available on DTCC's website, www.dtcc.com, reference SR-DTC-2007-11 and Important Notice B-2112-07, dated September 10, 2007.

We are taking these steps to reduce the growing number of late or inaccurate payments that occur when processing collateralized mortgage obligations (CMOs), asset backed securities (ABSs) and other such instruments. We urge all our customers and service providers affected by these changes detailed below to review them carefully.

Structured securities have consistently recorded by far the largest number of payment processing problems when compared to other types of securities. The first two changes will improve the processing procedures for structured securities by extending the deadline for the receipt of rate information from the Paying Agent and by creating two categories of DTC- eligible structured securities, thereby identifying those securities that structurally may prevent Paying Agents from meeting that deadline.

The third change introduces an “exception processing” fee to cover the processing costs produced by those securities that structurally are not likely to allow timely reporting of rate information and offers compensation to firms who incur these extra costs.

The fourth change, the sharing of DTC’s “report card” with all DTC customers and others, is intended to raise awareness on payment issues for structured securities and to support greater accuracy and timeliness throughout the industry, including the issuer, servicer and underwriter communities. Currently distributed by DTC only to the Paying Agent community, these report cards detail the performance of the Paying Agents with regard to timeliness of rate information and inaccurate rate information that requires amendment.

These four operational rule changes approved by the SEC reflect the solutions recommended by an industry working group that DTC formed in late 2006. The group consisted of SIFMA representatives, major paying agents, servicers, underwriters and major retail and institutional broker/dealers and custodians.

Further details about each of these rule changes are attached (Attachment 1), along with samples of DTC’s “report card” (Attachment 2) that summarizes paying agent performance in four categories.

As we implement the rule changes, we will continue to work with our customers and the agent community to review processes and improve individual performance. Our collective progress in meeting these payment challenges will benefit our customers in structured securities and, ultimately, contribute to greater efficiencies for the industry at large.

Attachment 1 -- Rule Change Details

1. Change the deadline for receiving rates on structured securities to one business day prior to Payable Date and extend the 7:00 p.m. cut-off time to 2:00 a.m. on the morning of payable date.

The old Operational Arrangements agreement required that Paying Agents submit rate information to DTC in electronic form preferably five, but no fewer than two, business days prior to payable date. Acknowledging the multitude of parties in the processing chain servicing these structured securities and the complex flow of information and time-critical data between the many parties, the amended Operational Arrangements agreement requires that the Paying Agent provide DTC with rate notification preferably five, but no less than one business day prior to payable date. Additionally, DTC has extended its current processing deadline for the receipt of rate files from the current cut-off time of 7:00 p.m. EST, to 2:00 a.m. EST on the morning of payable date.

In addition, DTC will now produce a new rate output file to its participants early on the morning of the payable date that will include all rates received and processed by DTC up to 2:00 a.m. EST the morning of payable date. DTC is also looking to further extend the cut-off time to virtually 24 hours for business days to accommodate the mid-west and west coast agents.

2. Categorize DTC-eligible structured securities into two classes: Conforming and Non-Conforming

“Conforming” securities are defined as those instruments whose structures permit their Paying Agents to meet the new Operational Arrangements deadline (i.e., one business day prior to payable date) for reporting rates. “Non-Conforming” securities are those with structures that are unlikely to allow their Paying Agents to report rate information one business day prior to Payable Date. As of January 31, 2008, all existing DTC-eligible issues had been categorized. For all new issues coming to market, Paying Agents and Managing Underwriters will review each CUSIP to determine if a security is non-conforming.

3. Charge a new “exception processing fee” at the point of underwriting to cover the processing costs produced by the “non-conforming” issues, and allocate these monies, pro-rata, to DTC customers on an annual basis

At the point of underwriting of a new structured security at DTC, both the Paying Agent and Managing Underwriter will be required to attest to the security’s ability to comply with DTC’s Operational Arrangements regarding rate information. The Paying Agents and Underwriters will review the specific details of each CUSIP in the underwriting to determine if the security is “non-conforming”, preventing the servicers and agents from calculating and submitting timely rate information to DTC.

The determination of the fee was based upon the additional costs associated with processing payments subject to late rate reporting (e.g., additional costs for processing staff, overtime hours, reprocessing of late and inaccurate rates and the resultant late payments to beneficial owners and post-payable adjustments). Based on current estimates, the exception processing fee for 2008 will be \$4,200 per non-conforming CUSIP. Annually, the aggregate structured securities performance “exception” monies will be allocated, pro-rata, to the DTC participants for whom DTC processes structured securities P&I allocations, to help defray the additional “exception”

costs and write-off expenses associated with handling these more problematic instruments. The total number of structured securities P&I allocations will be calculated for each participant as a percentage of total annual number of structured securities P&I allocations by DTC for all participants. That percentage will be applied against the total exception processing fund and allocated to each participant.

The total exception processing fund will be calculated as the sum of all exception processing fees less DTC's cost to administer the program which should be limited to the cost of one full time employee.

4. Distribute a new "Paying Agent report card" to the industry

DTC had previously published report cards to the Paying Agent community only. These report cards detail the performance of the Paying Agents with regard to timeliness of rate information and inaccurate rate information that requires amendment. However, the new report card will not include "non-conforming" issues when detailing the payable date minus 1 timeliness of rate submission, but will include both non-conforming and conforming issues for rate accuracy in addition to the receipt of rate information by 3:00 p.m. on payable date.

The report card summarizes agent performance in the following five categories:

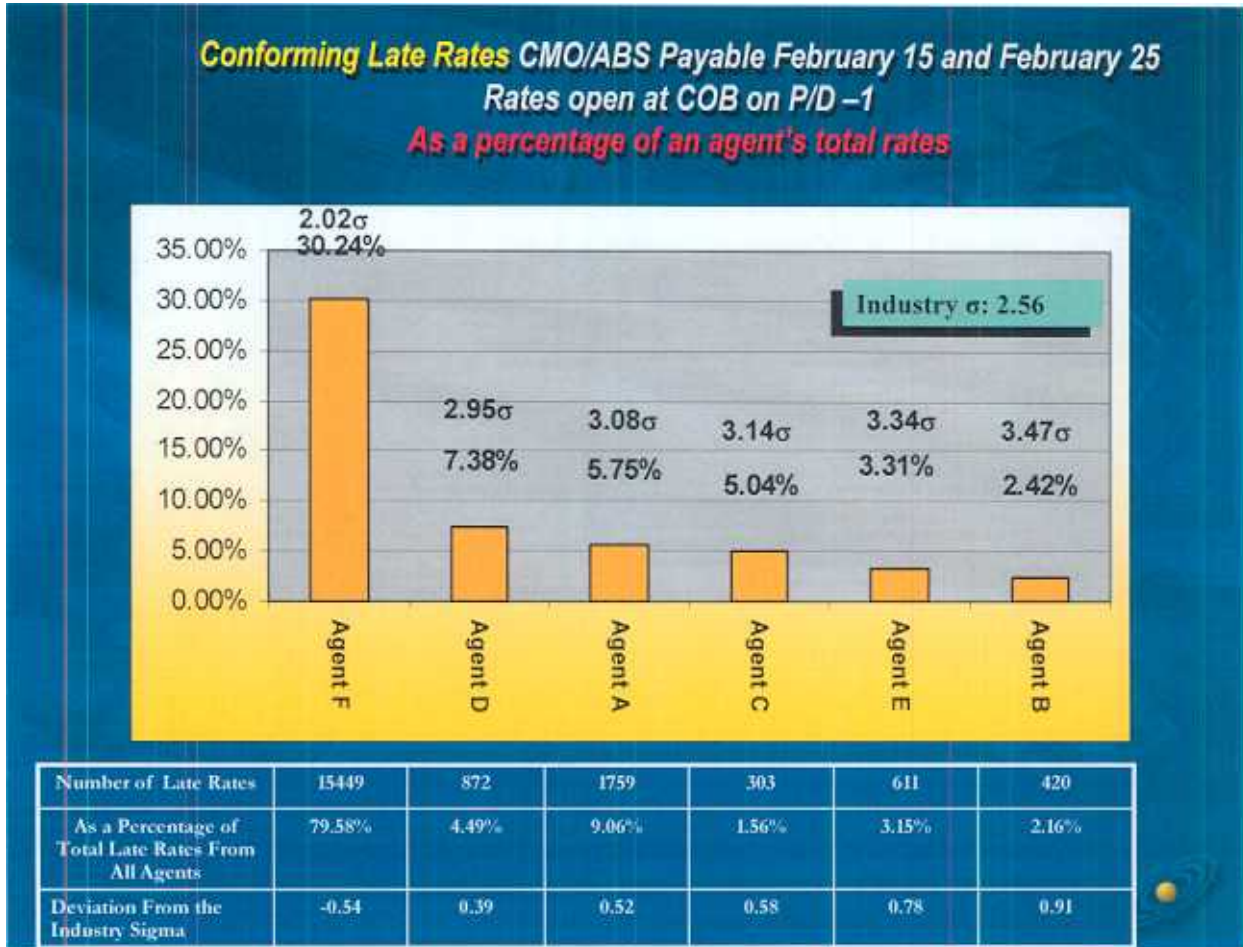
1. Rates not made available to DTC by payable date minus one day (conforming CUSIPs only)
2. Rates not made available to DTC by 3:00 p.m. EST on payable date
3. Rates that were adjusted after payment was made to participants (i.e., post-payable adjustments)
4. Rates that were adjusted more than 30 days after payment was made to participants
5. Agent Rankings

DTCC will include Six Sigma levels on the report card which will be benchmarked against industry sigma levels.

A sigma rating measures the number of defects that are observed to occur in the measured process for a given volume level over a defined period of time. The higher the defect rate in a process, the lower the sigma number. These sigma measurements, which are benchmarked against industry sigma levels, reflect how the overall process performance is influenced internally by DTC as well as externally by the agents and their service providers.

Attachment 2 – Report Card Details

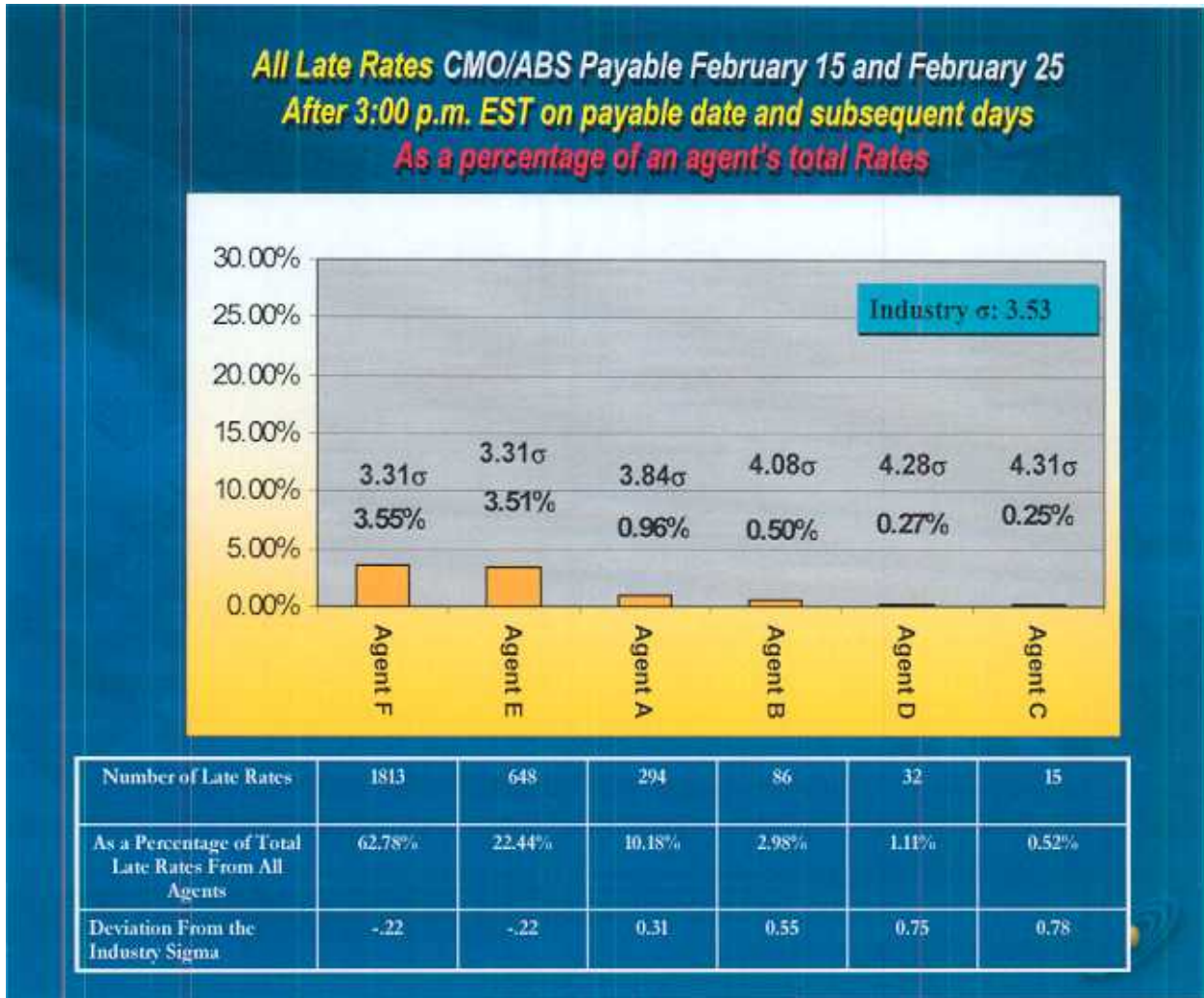
1. Rates not made available to DTC by payable date minus one ---Conforming CUSIPs only



This graph summarizes by agent the percentage and number of “conforming” late rates (i.e., not made available one day prior to payable date) for the 15th and 25th payable dates for a particular month. The percentages on the graphical representation indicate an agent’s performance calculated against its total rates while the summary data (below the graph) shows the actual number of each agent’s conforming late rates along with the percentage of conforming late rates when compared to all agents.

The graph also shows the actual sigma level for each agent as well as the deviation from the industry sigma.

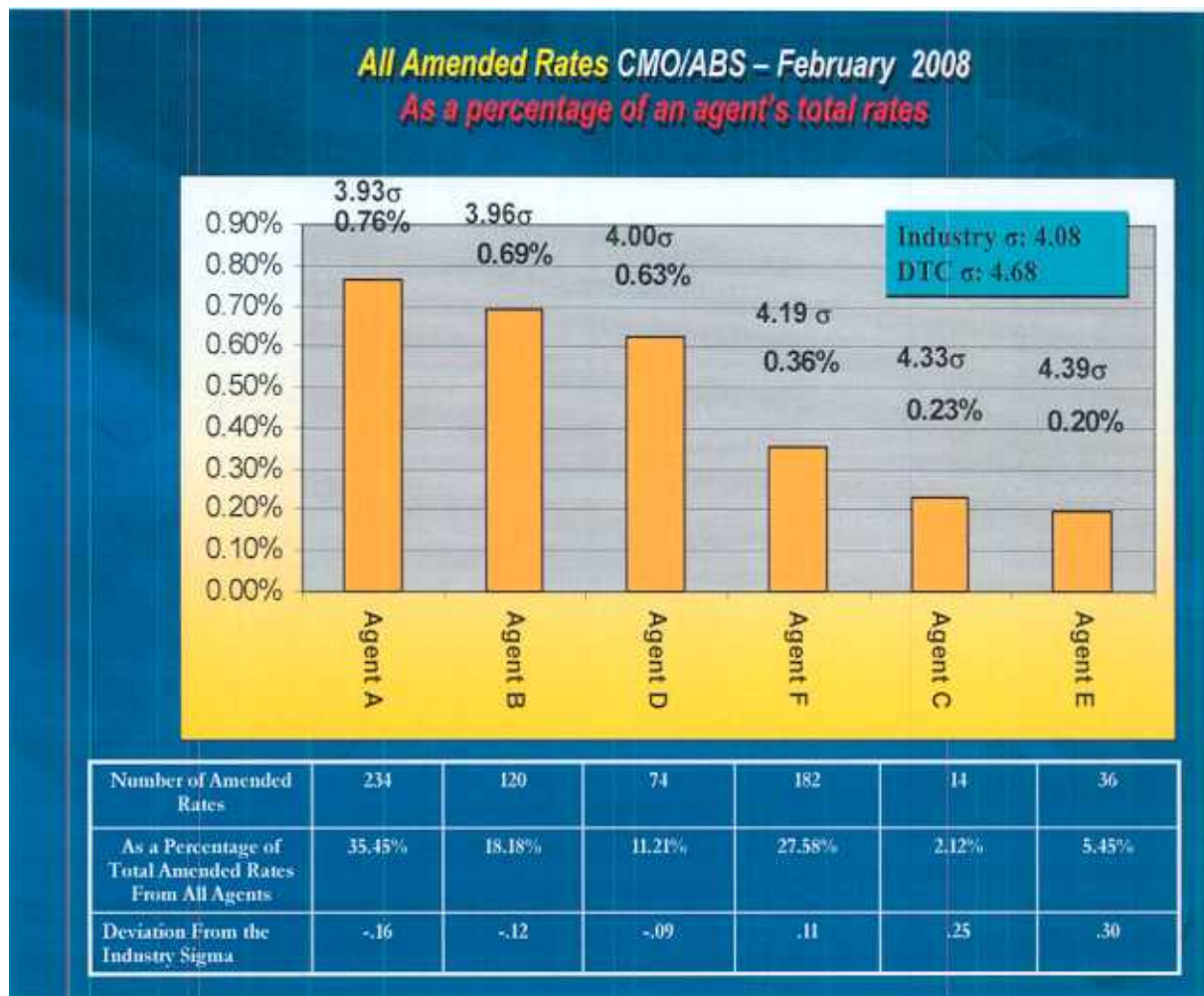
2. Rates not made available to DTC by 3:00 p.m. EST on payable date



This graph summarizes by agent the percentage and number of late rates (i.e., not made available by 3:00 p.m. on payable date and consequently, related payments were not allocated on payable date) for the 15th and 25th payable dates for a particular month. The percentages on the graphical representation indicate an agent's performance calculated against its total rates while the summary data (below the graph) shows the actual number of each agent's late rates along with the percentage of late rates when compared to all agents.

The graph also shows the actual sigma level for each agent as well as the deviation from the industry sigma.

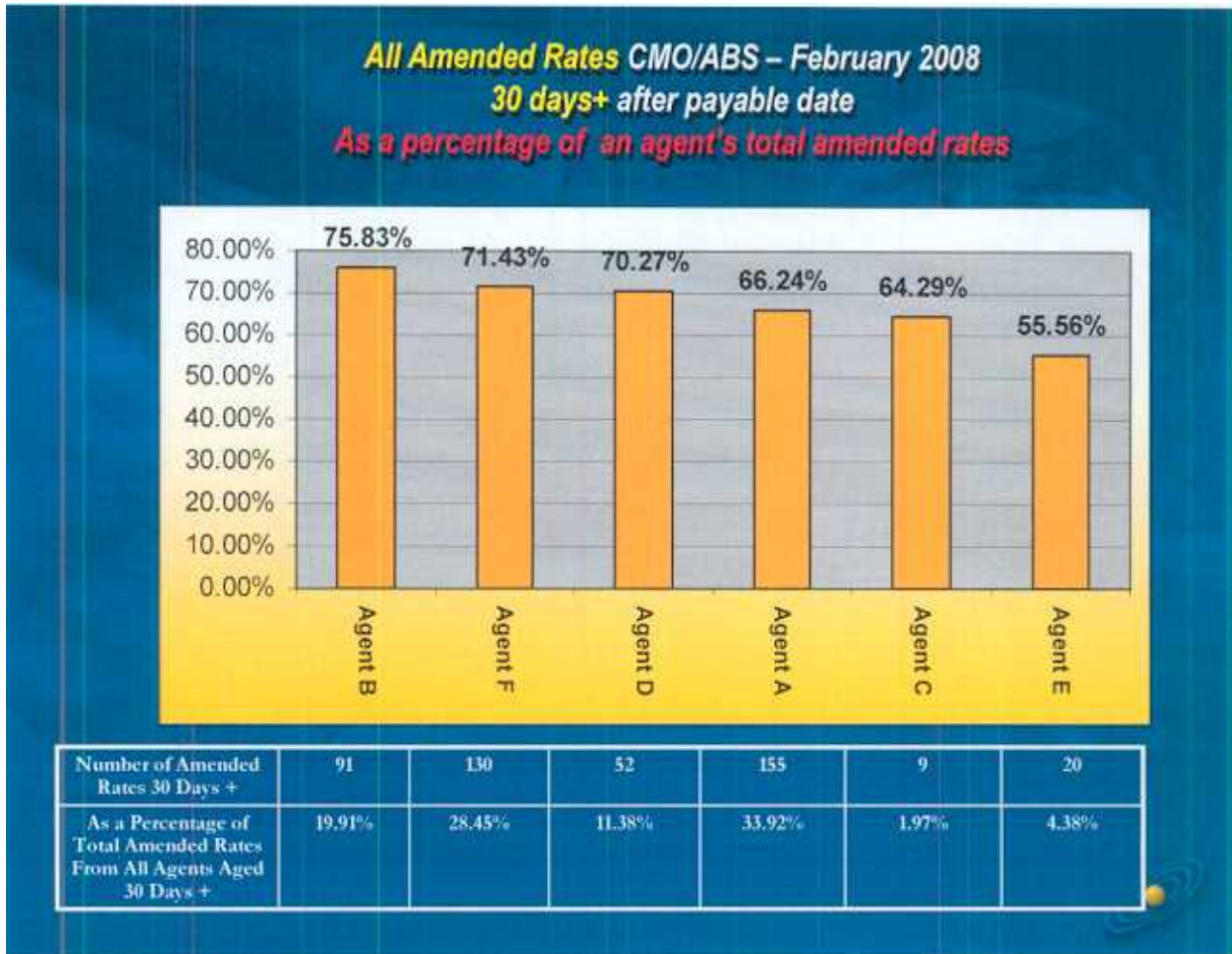
3. Rates that were adjusted after payment was made to participants



This graph summarizes by agent the percentage and number of amended rates (for both conforming and non-conforming CUSIPs) for a particular month. The percentages on the graphical representation indicate an agent's performance calculated against its total rates while the summary data (below the graph) shows the actual number of each agent's amended CUSIPs along with the percentage of amended rates when compared to all agents.

The graph also shows the actual sigma level for each agent as well as the deviation from the industry sigma.

4. Rates that were adjusted 30 days after payment was made to participants



This graph summarizes by agent the percentage and number of amended rates 30 or more days after payable date (for both conforming and non-conforming CUSIPs) for a particular month. The percentages on the graphical representation indicate an agent's performance calculated against its total amended rates while the summary data (below the graph) shows the actual number of each agent's amended rates 30 days old or more along with the percentage of amended rates 30 days or more when compared to all agents.

5 Agent Rankings

Agent Report Card				
Rankings based on a percentage of an agent's total rates (Best three in each category highlighted in green)				
	Conforming Rates Open at COB P/D - 1	All Late Rates after 3:00 pm Cut-off on P/D	All Amended Announcements	All Amended Announcements 30 Days + after P/D
Agent A	4	4	6	3
Agent B	1	3	5	6
Agent C	3	1	2	2
Agent D	5	2	4	4
Agent E	2	5	1	1
Agent F	6	6	3	5

This chart summarizes performance for a particular month in all four report card categories for the major Paying Agents when ranked against each other.

Accessing the Report Card

Effective March 2008, the new Paying Agent report card will be made available on DTC's website at <http://www.dtcc.com>.

Questions regarding this notice should be directed to Robert Hensey, Director, Asset Services at (212) 855-5133.