DealVector Touts SFIG Push

DealVector is angling to capitalize on a push by the **Structured Finance Industry Group** to foster better communications between issuers and investors.

In a Dec. 7 report on the future of the mortgage-bond market, SFIG recommended the development of an electronic network that would allow issuers to share information with bondholders and investors, and allow them to talk among themselves. **Moody's** quickly endorsed the idea, saying it would view such a development as "credit positive." **Kroll** plans to follow suit.

Although DealVector wasn't mentioned by name, the Sausalito, Calif., company has spent the past three years developing a social-media site for the securitization industry that closely matches the system envisioned by SFIG and Moody's.

Richard Johns, executive director of SFIG, said the industry group wasn't prepared to recommend any one technology vendor over another. But he acknowledged DealVector appears to check most of the boxes. He also said the trade group supports improved investor communications across all asset classes.

DealVector founder **Mike Manning** co-chaired an SFIG committee that authored the section of the Dec. 7 report dealing with bondholder communications. Manning said he offered expertise while refraining from promoting DealVector's service. He noted that **Bloomberg,** which has a similar product, was represented on the committee.

"This could finally be the year that people stop talking about bondholder communications and start doing something about it," Manning said, adding that he expects to highlight SFIG's recommendation and Moody's endorsement in a new marketing campaign.

DealVector launched in 2013 as a free service, but now charges issuers about $6,000 per deal for a portal where they can share information with investors. Bondholders, meanwhile, can share information among themselves, free of charge.

DealVector already hosts most issuers of mortgage bonds and collateralized loan obligations, and last year it signed up **Navient** and **Nelnet** — the most active issuers of student-loan bonds. Through DealVector, Navient and Nelnet negotiated with bondholders to extend the maturities for more than a dozen transactions after Moody's and **Fitch** put the securities on watch for downgrades. ❖

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sign off on less-formal "agreed-upon-procedure" letters. However, some lawyers are skeptical that those documents would allay the dealers' concerns. "It's not a big story in the market yet, but it's going to become one," one lawyer predicted. "The underwriters want to get their own comfort level with [compliance structures and retention levels]. The managers say they stand behind it, but will that be enough for the banks?"

The certifications the banks are seeking would be in addition to statements of compliance that already appear in deal documents. So why the hesitancy to offer the added assurances?

Lawyers said ambiguities in Dodd-Frank make it difficult for them to pledge that deals pass muster. Accountants also are reluctant to determine whether issuers are keeping enough control over retention vehicles used exclusively in the CLO market, including majority owned affiliates. The initial expectation was that issuers could get away with supplying as little as 10% of the funding for those entities while raising the rest from outsiders, but the view now is that a 25% threshold might be more suitable.

Also consider that the Dodd-Frank rule requires any issuer retaining a "horizontal" equity interest in a deal to provide ongoing calculations of the fair market values of the securities. Accounting firms are wary of determining those figures, especially during times of volatility, and instead have offered to confirm the manager's own math.

There additionally are concerns about certifying that deals will remain compliant years in the future, especially when it comes to reviewing their regulatory adherence upon refinancing. "If there is a lot of uncertainty in the law, you are not going to get a definitive opinion in the legal opinion," one lawyer said.

The banks are seeking the certifications largely for their own protection, as they aim to avoid both investor lawsuits and the reputational risk that could come with marketing a deal that eventually is deemed non-compliant. The issuers, meanwhile, argue that certainty never is a given when it comes to regulatory compliance. "The government will never give a stamp of approval or endorse one structure," one manager said. "That's why no lawyer or accountant will ever give you that assurance. You will get we-believes and negative assurances but not 100%."

To that end, many issuers are working on deal structures that would allow for swift revisions if they encounter pushback from regulators. "The real question is who needs comfort and for what purpose," the lawyer added. "Investors need assurances that their manager is a skilled credit picker, that they have integrity. Do they really need to know whether the manager is meeting the dictates of risk retention?"

The Dodd-Frank Rule, enforced by the **Comptroller of the Currency, Federal Reserve, HUD, FDIC, Federal Housing Finance Agency** and **SEC,** mandates that issuers keep 5% exposures to their deals until maturity. ❖

Correction

A Dec. 16 article, "Costs Weigh on Deal-Agent Proposal," failed to note that **Fitch** has assigned an "acceptable" rating to **PentAlpha** as a deal agent for mortgage securitizations. ❖