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SEC BOND-REVIEW EDICT PANNED

By Jody Shenn *Bloomberg News*

The U.S. Securities and Exchange Commission failed investors by allowing issuers of asset-backed bonds to conduct their own checks of data on the underlying debt, said Sue Allon, founder of Denver-based mortgage-review company Allonhill.

The agency on Thursday approved rules that will force issuers to conduct reviews of loans and leases packaged into securities and disclose information about the results. The SEC, creating regulation required by the Dodd-Frank financial-overhaul law, said bond sellers could hire third parties to handle the audits, without mandating the use of outside companies, even as it created increased liability for such firms if they are hired.

"An issuer conducting their own review is worthless; they shouldn't even require that," said Allon, whose Allonhill provided audits on the only set of new U.S. home loans securitized in almost three years. "To me, that's the same as a company like Ford Motor saying their own financials are legitimate, rather than an accountant."

The securitization industry contributed to the U.S. housing bubble that peaked in 2006, helping spark almost $2 trillion of losses at the world's largest financial companies, many of which survived only as a result of government bailouts, according to data compiled by Bloomberg.

Allon also called the minimum standards on the nature of asset reviews created by the SEC "milquetoast-y and vague." The agency should have required standard definitions for items such as a borrower's "income" and that certain methods be used in choosing the sample of loans to be reviewed, she said Monday.

◂ **Sue Allon** calls standards weak. *Hyoung Chang, The Denver Post*