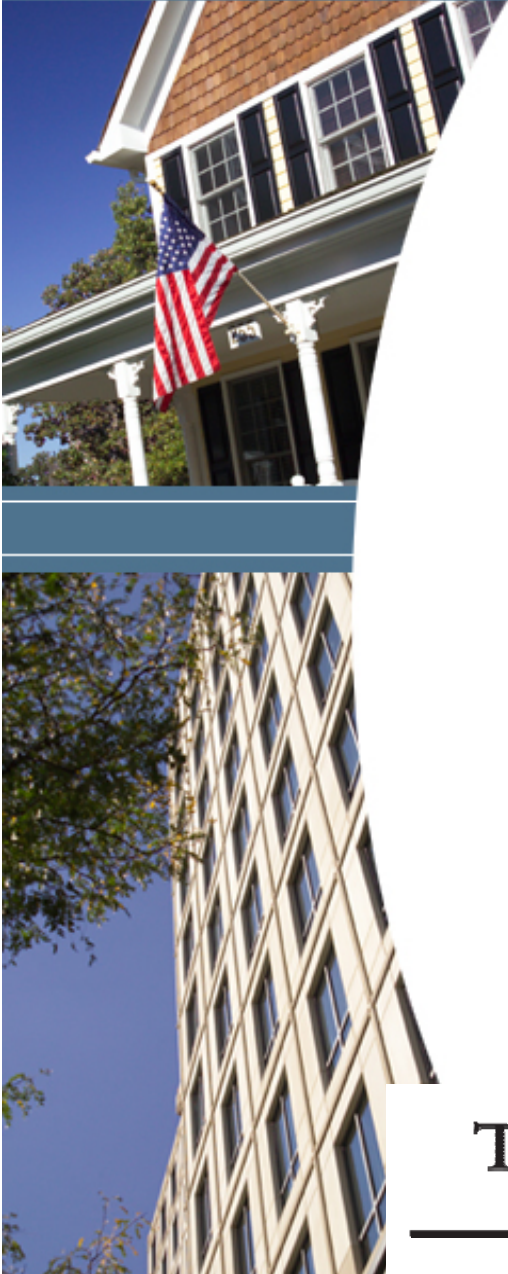


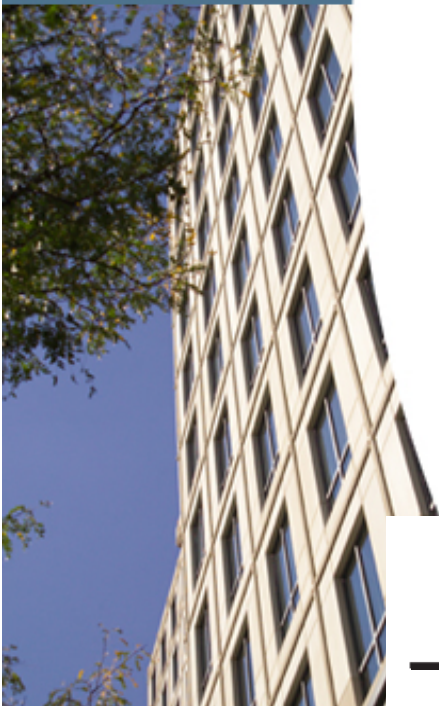
The background of the slide is a dark blue gradient. On the left side, there are two vertical images: the top one shows a white building with a red roof and an American flag, and the bottom one shows a modern glass skyscraper.

MBA's Legal Issues and Regulatory Compliance Conference 2008

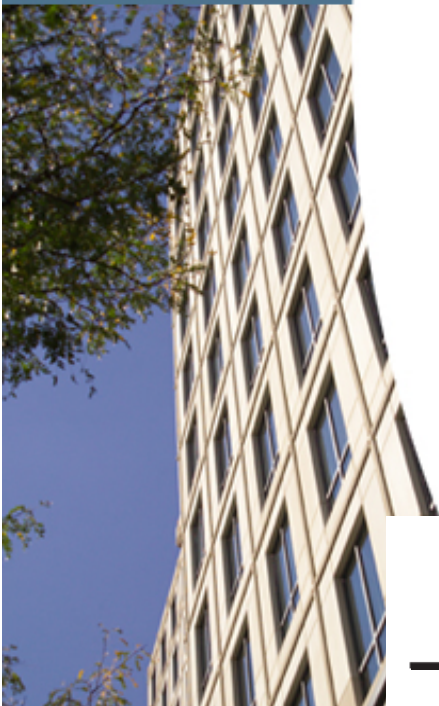
Hot Secondary Market Issues

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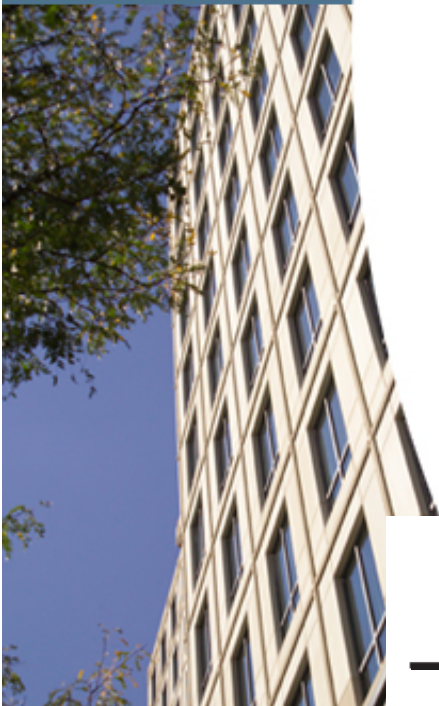
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- ❑ Continued deterioration of residential real estate values in certain regions (i.e., portions of Southern California, South Florida and Las Vegas);
 - ❑ Enormous volume of ARM resets in 2008;
 - ❑ Continued spike in foreclosures of consumers' principal residences prompting various legislative and regulatory responses;
 - ❑ Subprime and ALT-A originators exiting business, declaring bankruptcy, further limiting availability of credit to non-prime borrowers;
 - ❑ Limited discretion available to servicers to modify loans to help distressed borrowers, especially once loans have been securitized;



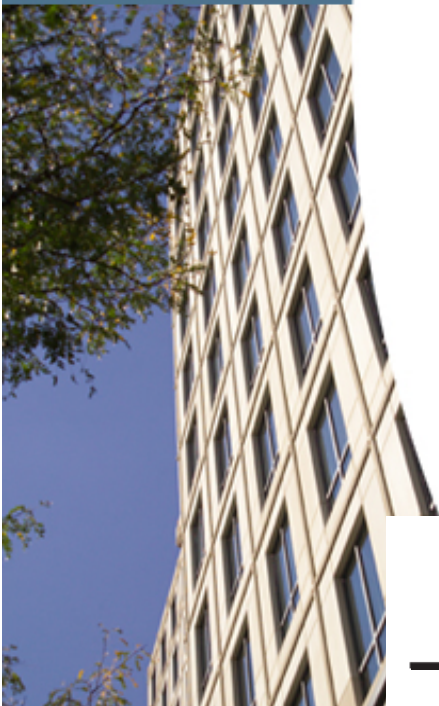
- ❑ Anemic secondary market for residential mortgages;
- ❑ Very limited representations and warranties made by sellers of residential mortgages, placing emphasis on due diligence;
- ❑ Investors suspending additional extensions of credit for existing HELOCs; and
- ❑ Emergence of possible new players/investors in the subprime industry.



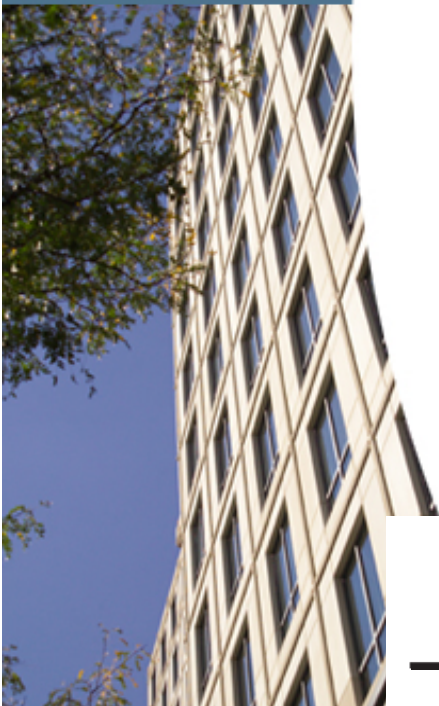
- ❑ Loan modifications *prior* to securitization;
 - Other options: trying to refinance borrowers with third party lenders; and
 - Fair Credit Reporting Act and privacy issues.
- ❑ Loan modifications *after* securitization;
- ❑ In order to permit a modification that would not impair the REMIC status of a securitization trust, a loan must either (i) be in default or reasonably foreseeable default or (ii) not result in a “significant modification;”



- “Significant modification” would occur if modification of the mortgage exceeds more than the greater of 25 basis points and 5% of annual yield, and if extending maturity, the lesser of (i) 5 years and (ii) 50% of the original term of the instrument; and
- American Securitization Forum Streamlined Foreclosure and Loss Avoidance Framework provides loan modification and tax relief to certain qualifying borrowers.



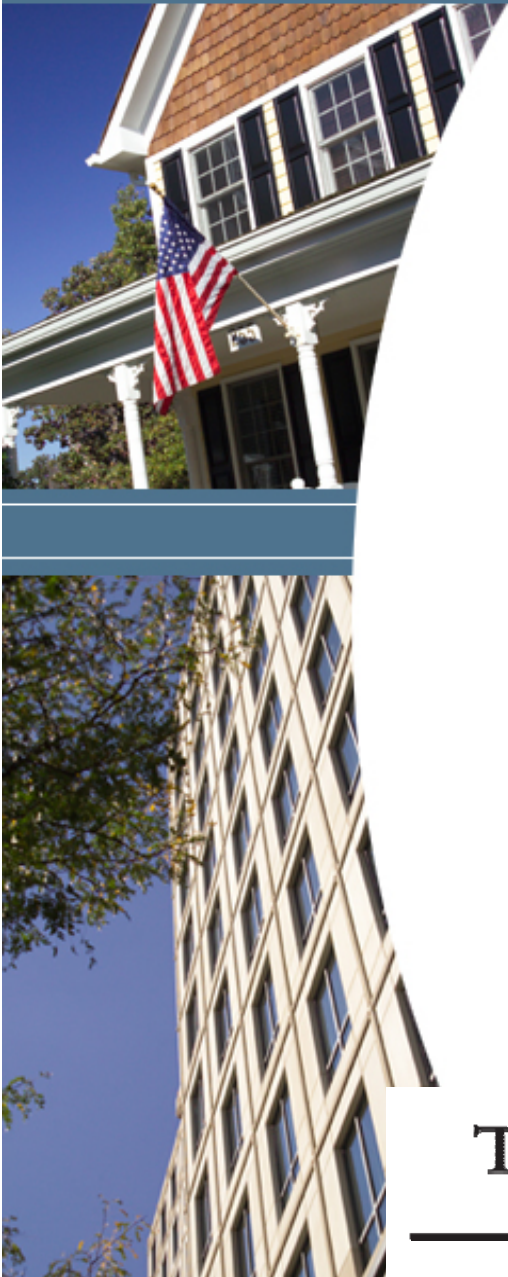
- Announced in December 2007;
- Targeted to hybrid subprime ARMs with rate shock potential at first reset;
- Streamlined loan mod (freezing start rate for 5 years) for “Phase 2” loans:
 - Loan must be current;
 - Borrower not eligible for refi including under FHA Secure;



- Must be owner occupied;
- Current FICO must be both:
 - Under 660;
 - Less than 10% more than at origination; and
- Payment at reset must go up more than 10%.
- Key innovation – eligibility determined without current income/asset verification; and
- Servicers still must adhere to contractual provisions in Pooling and Servicing Agreements.

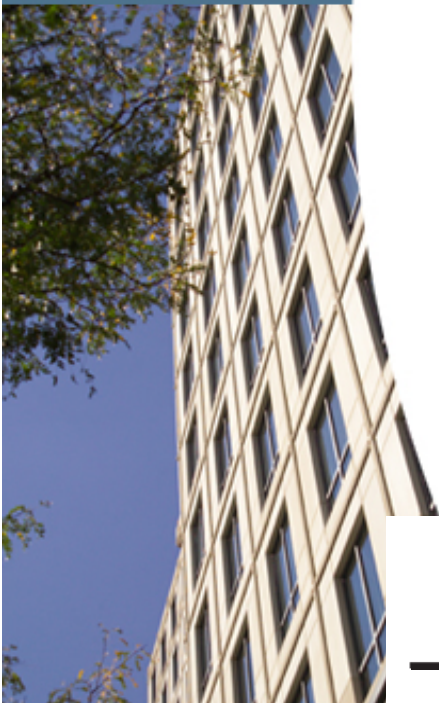


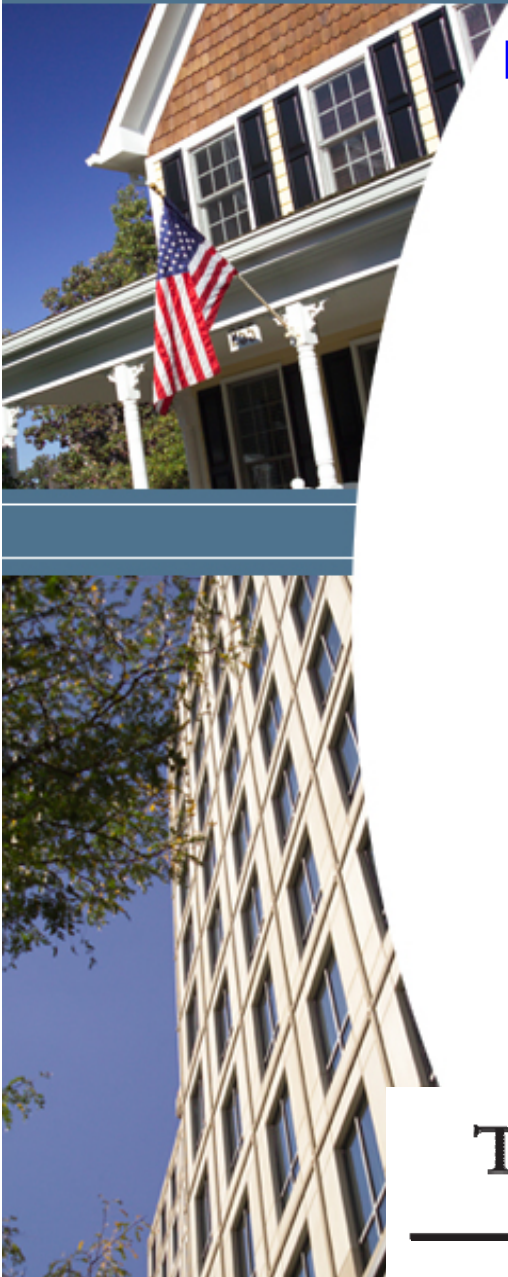
- Requirement to service in accordance with customary standards;
- Requirement to act in the best interests of investors;
 - ASF interpretation – best interests of investors in the aggregate
- Implicit or explicit authority for loss mitigation such as forbearance, capitalizing arrearages, short sales;
- No clear authority to sell as distressed asset out of trust at discount; and
- Some deals have 5% of pool limit on mods.

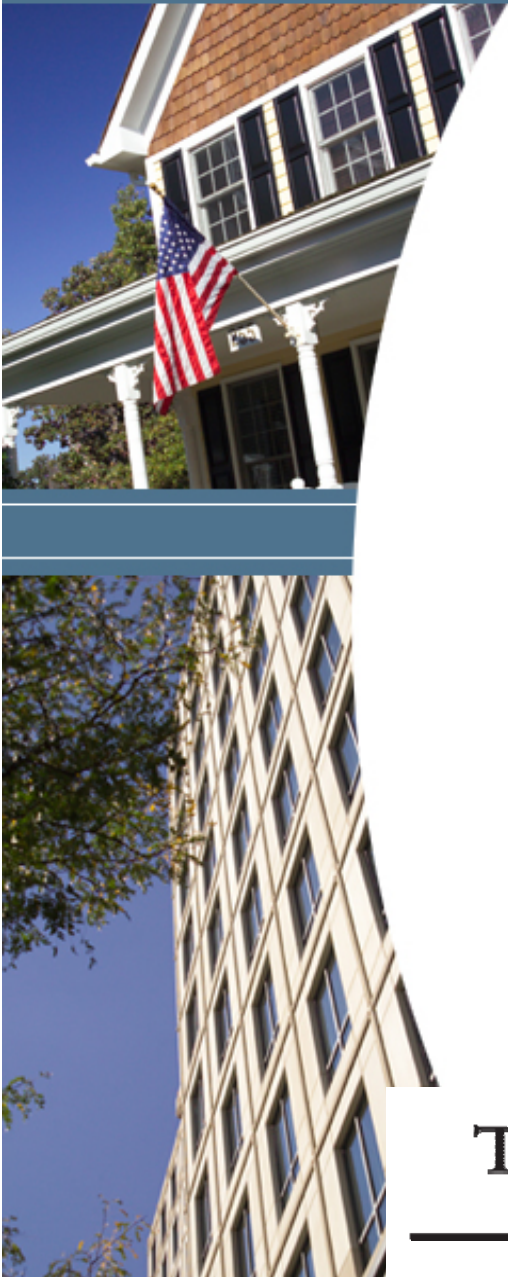
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- ❑ Mortgage Reform and Anti-Predatory Lending Act of 2007 (HR 3915) (Frank bill);
 - ❑ Dodd legislation (Senate counterpart to Frank bill);
 - ❑ Centerpieces of federal proposals: ability to repay, tangible net benefit, suitability, enhanced assignee liability with due diligence “safe harbors” ability to modify mortgages in bankruptcy;
 - ❑ Uniform federal anti-predatory lending standard with preemption of state/local laws unlikely;
 - ❑ Sanchez, Miller, Watt Bankruptcy bill;



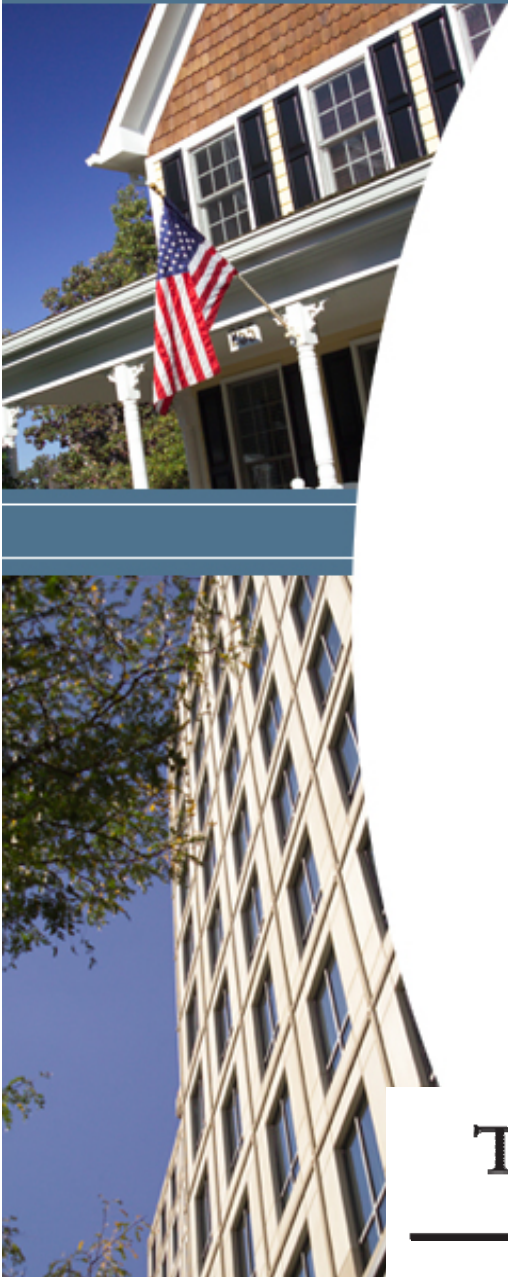
- ❑ **FHA “Rescue” Legislative Proposals by Frank and Dodd;**
- ❑ **Mortgage Forgiveness Debt Relief Act of 2007 (already enacted);**
- ❑ **Legal, regulatory and enforcement efforts by the states (Fremont – Massachusetts; efforts in Ohio and Minnesota).**



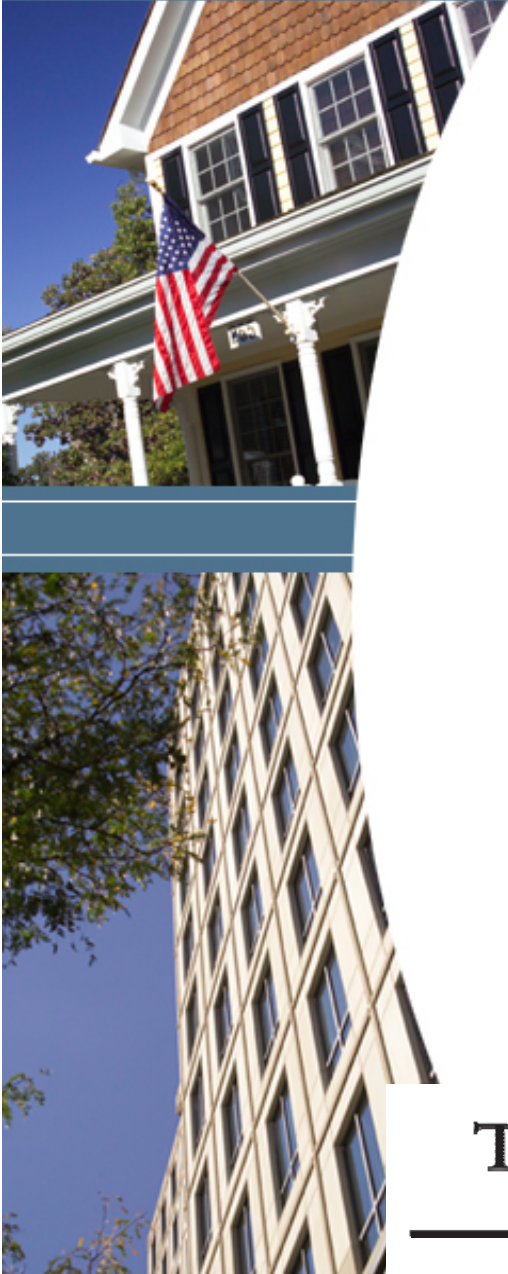
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- Under the original FHA Secure Refinancing Program announced in August 2007, eligible homeowners had to meet the following criteria:
 - in a non-FHA adjustable (IO included), no fixed rate;
 - Loan had to be 6 months current prior to reset, could be delinquent as long as delinquency is due only to reset payment shock or the onset of full amortization on an option ARM;
 - Single family;
 - Owner occupied, principal residence;
 - a history of on-time mortgage payments before the borrower's teaser rates expired and loans reset;
 - three percent cash or equity in the home;
 - a sustained history of employment;
 - sufficient income to make the mortgage payment;



- meet FHA underwriting criteria; and
- subject to FHA maximum limits for FHA insured first mortgage.
- Under the Bush Administration expansion announced on April 9, 2008, standards expanded to included:
 - Borrowers with adjustable rate mortgages who were late on two consecutive monthly mortgage payments or at two different times over the previous twelve months, regardless of reset. FHA will require a 97% loan-to-value (LTV) ratio for these borrowers to refinance, the same LTV as FHA's current standard; and
 - Borrowers with adjustable rate mortgages who were late on three consecutive monthly mortgage payments or at three different times over the past 12 months. FHA will require a 90% LTV ratio for these borrowers to refinance.



- Under H.R. 5830 (the FHA Housing Stabilization and Homeownership Retention Act of 2008), existing mortgage holders/investors must accept substantial write-downs that meet the following standards to qualify:
 - establish a three percent loan loss reserve for the FHA;
 - pay the origination and closing costs for the new loan of up to two percent; and
 - bring the loan-to-value ratio on the new FHA-guaranteed loan down to no greater than 90% of the property’s current appraised value.
- Mortgage holders would need to accept a payment in full of no more than 85% of the property’s current appraised value to qualify for the program.

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- Once the new FHA-insured loan is originated, the government – not the previous mortgage holder -- will retain a share of the borrower’s future profits. When the borrower sells the home or refinances the loan, the borrower will pay from any profits the higher of (1) an *ongoing* exit fee equal to 3% of the original FHA loan balance; or (2) a declining percentage of any profits (e.g., from 100% in year one to 20% in year five and 0 thereafter). After year five, only the 3% exit fee will apply.