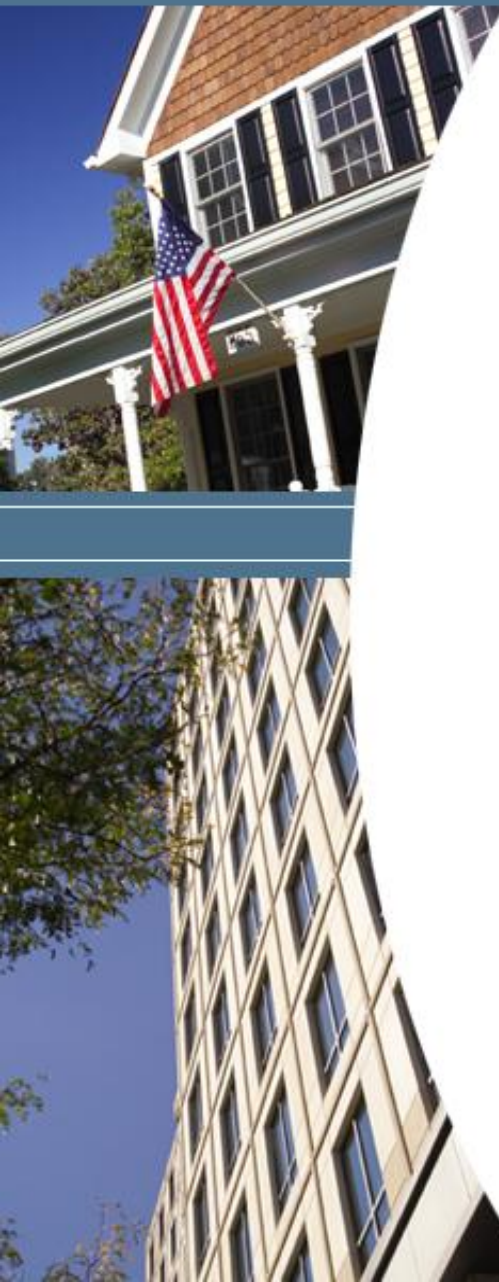




Custodial Case Studies

Tuning Up for Market Conditions

September 22, 2008



A Servicer acquires servicing rights for a loan portfolio consisting of Agency and Private pools. The Servicer notifies you of its intent to transfer loans to your custody.

You determine that some of the private loans are already in your custody, some are not. The private loans in your custody have assignment chains ending to the Trust. Several weeks later, you start receiving recorded assignments—the old Servicer to the new Servicer—for both Agency loans and Private loans.

1. What do you do at the time of transfer notification?
2. What action do you take on the private and GSE loan assignments?
3. Describe the assignment risk to Investors and the Servicer.

1. Notice of Servicing Acquisition

- Open the lines of communication – find out what is “really” happening.
- Obtain a list of pools and loans by Investor; determine scope/impact.
- Compare loan list to your system of record.
 - Identify loans already in custody
 - Determine new servicer’s “actual” role
- Private loans not in custody: Determine if you as custodian accept the responsibilities outlined in the Private agreement(s).
- As needed, execute Custodial and Fee Agreements.
- Prepare vault space and “gear up” for incoming files.
- Determine recertification needs by investor.

2. Assignment Action

Private Loan Assignments

- Notify Servicer, Investors, and Trustee as appropriate.
- Record exceptions in your tracking system.
- Report exceptions to the Servicer and Investors.
- Track receipt of corrective assignments and corresponding chains.

GSE Loan Assignments

- Notify Servicer and Investors.
- Record exceptions in your tracking system, if applicable.
- Report exceptions to the Servicer and Investors, if applicable.
- Track new Servicer to Blank assignments, as applicable.

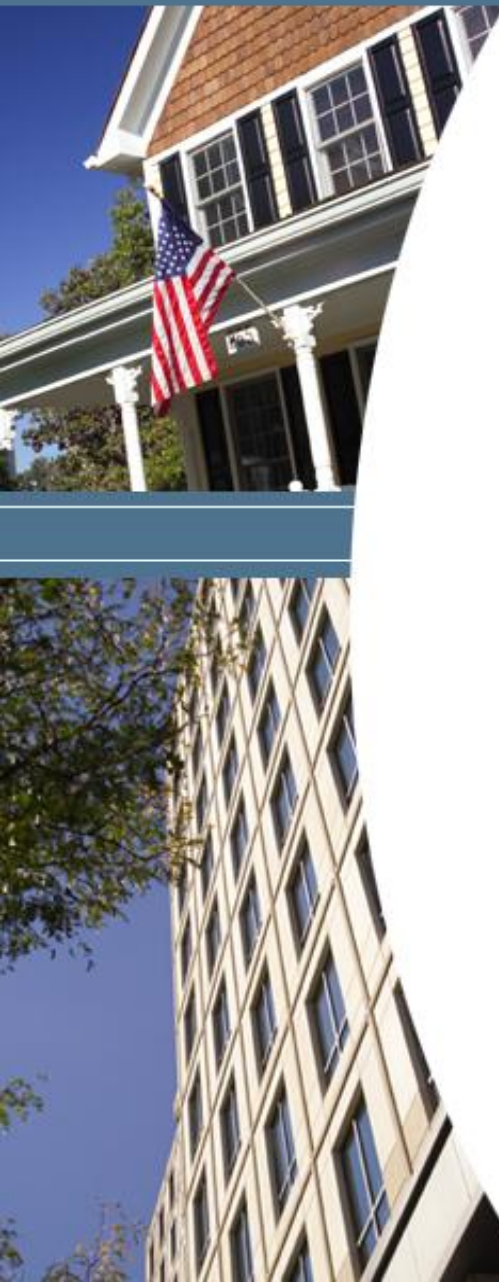
3. Assignment Risks

Investors

- The Trust may not be able to show rightful ownership in the property (incomplete chain of assignments).
- Possible delays in default scenarios.

Servicer

- Correcting the chain of assignments could be costly.



You are custodian for a Lender who is a non-affiliate company. The Lender sends you production and acquired collateral at time of funding; so, you receive collateral from approximately 10 different organizations.

You hold approximately 50,000 files for the non-affiliate customer. Your Custodial Agreement reads that safekeeping and audit fees are to be paid by the Lender. In addition, you hold approximately 1,000,000 files for this Lender, which have been sold to Final Investors.

The Lender sends you written notification that it has filed for bankruptcy and you will cease receiving any collateral files. The Lender indicates that all unpaid invoices are now part of bankruptcy claims.

1. What would you do when you receive the notification?
2. What do you do regarding the on-going relationships?
3. How do you handle the financial consequences?

1. Upon Receipt of Notification

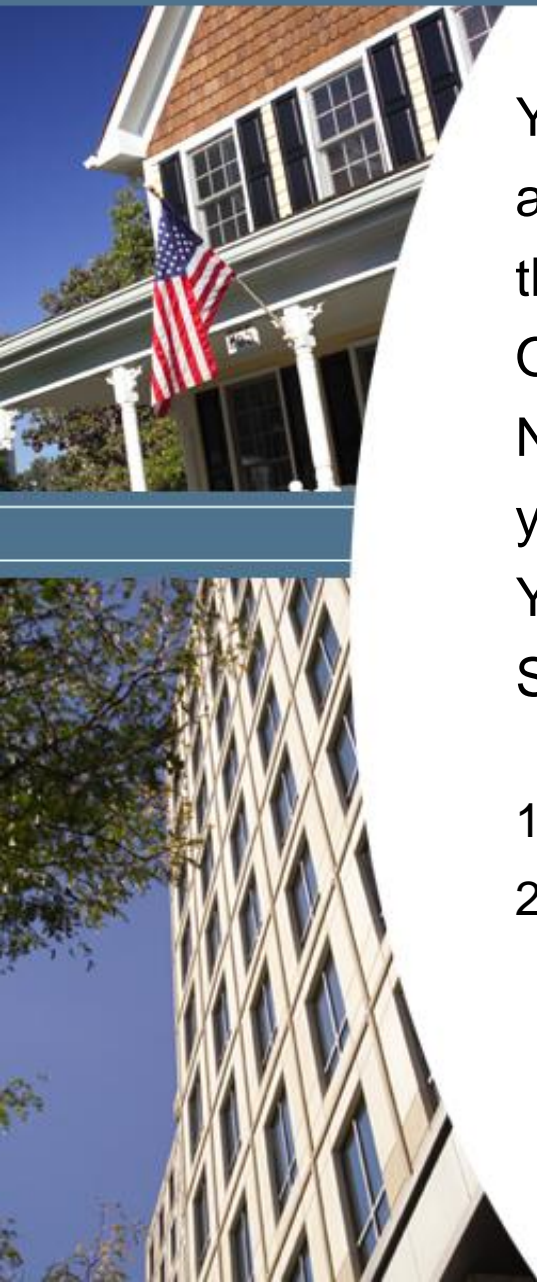
- Administration
 - Forward written notification to Legal Dept., Counter-Party Risk Group, and Default Group.
 - Contact company and speak to operational management contact.
 - Run reports and summarize client relationship: portfolio reports, exception reports, invoices, etc., for client. Inventory the loans – know what is on hand.
 - Review governing documents – know your obligations.
- Serving Ops - Determine if the Lender is the same as the Servicer.
 - Will Lender continue to service the loans?
 - Will servicer contacts change?
 - Will processes change for how services are requested from the custodian?
 - Make notations in systems or records.
- Contact Investors for specific directions or requirements.
 - Notify investors.
 - Determine if there have been any relationship or contract changes between Investor and Lender (e.g., waivers removed, additional requirements added, etc.?) that may impact the custodian's processes.
- Safekeeping of collateral for Final Investors.
 - Review how collateral is tracked. If not physically or systematically segregated, should that be considered?
- Review internal procedures for release or transfer of files.
 - Consider placing an administrative hold on releases and implement new internal controls for management escalation and review.

2. On-Going Relationships

- Contract
 - Keep on-going relationship and active communication lines open.
 - Review contract with client and with investors for requirements.
 - Identify owners of loans and review contracts to identify custodial requirements in the event of a lender default/bankruptcy.
 - Identify rightful ownership in portfolio collateral.
- Requirements
 - Upload data file to custodial applications.
 - Write new procedures, as needed.
- Obligations to external organizations and Final Investors.
 - Review Investor guides, contracts with clients, and any internal corporate policies for any specific information on how to handle.
 - Consider contacting Investor(s) and seeking specific direction.
 - Identify Final Investor default definitions and requirements.

3. Financial Consequences

- Compensation for your services
 - Review contract with client for terms about non-payment for services.
 - Document/summarize outstanding or unpaid invoices.
 - Research client and client status, gathering any available public information.
 - Work with Legal to explore options (e.g., communicate with client and/or investor, provide notifications, file claims with bankruptcy court, etc.).
 - Notify accounting/legal of the bankruptcy and any outstanding invoices.
- Finances
 - Evaluate impact to your capacity, budget, and income projections.
 - Perform analysis of financial impact to custody if client does not pay invoices monthly; run monthly for a 12-18 month period.
 - Revise income projections.
 - Re-evaluate staffing.



You are custodian for 50,000 collateral files serviced by a certain Servicer. The Custodial Agreement reads that all custodial fees are to be paid by the Servicer. On Monday, September 22, you receive 1,000 original Notes from the Servicer. You research the Notes and you cannot identify the loans on your tracking system. You attempt to return the unidentified Notes to the Servicer, but learn it is out of business.

1. What do you do with the unidentified Notes?
2. What do you do about the associated loans and custodial fees?

1. Unidentified Notes

Exhaust tracking system search options:

- Try all possible loan ID numbers (e.g., Issuer #, Servicer #, etc.).
- Research by address and loan amount.
- Research by borrower name, if unique.

If a Note is still unidentifiable on tracking system:

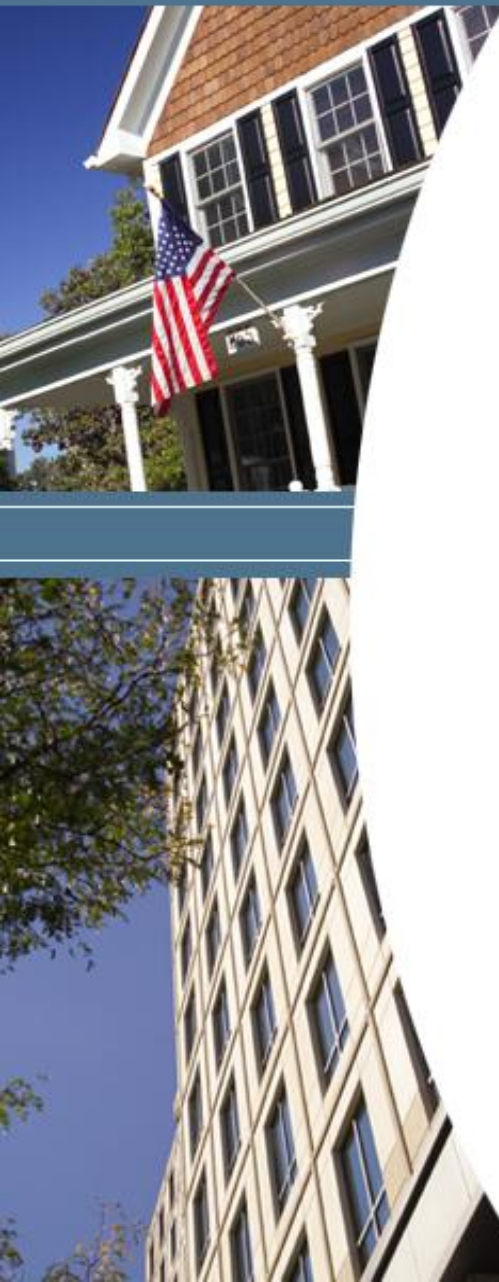
- Attempt to determine Owner or new Servicer of the loans:
 - Review endorsement chain; contact last endorsee.
 - Check for MIN # on Note and verify Servicer at MERS Online; contact the Servicer.
 - Research merger information.
 - Research with the Agencies.
- Forward Note to rightful party (if this can be determined); track shipment information.

If Note remains unidentifiable:

- Hold the Notes in a special location and track for reference.

2. Loans and Custodial Fees

- Receive direction for loan releases and back-up servicing from the Trustee or Investor. Do not release loan files until direction is received.
- Negotiate custody agreement and fees with backup Servicer.



You are a self-custodian, an affiliate custodian, and a third-party custodian. You hold collateral at portfolio status, delivered to GSEs and other Private investors. Your vaults contain 40,000,000 files. Custodial Agreements state all custodial fees are to be paid by the Servicer. You receive notice (a phone call) from one of the GSEs that a Seller/Servicer with 2,000,000 files in your custody has filed for bankruptcy. The GSE indicates its intent to take possession of the collateral and representatives will be onsite tomorrow at 9:00 a.m. to take physical control. The same day, you also receive a call from the Seller/Servicer directing you not to release the loan files to anyone.

1. What do you do immediately upon receiving the GSE phone call?
2. What do you do immediately upon receiving the call from the Seller/Servicer?
3. When the GSE arrives on site, what do you do if the collateral in your vault is not segregated but co-mingled, yet tracked on your independent tracking system? How do you handle this if collateral is segregated?

1. Upon Receipt of the GSE Phone Call

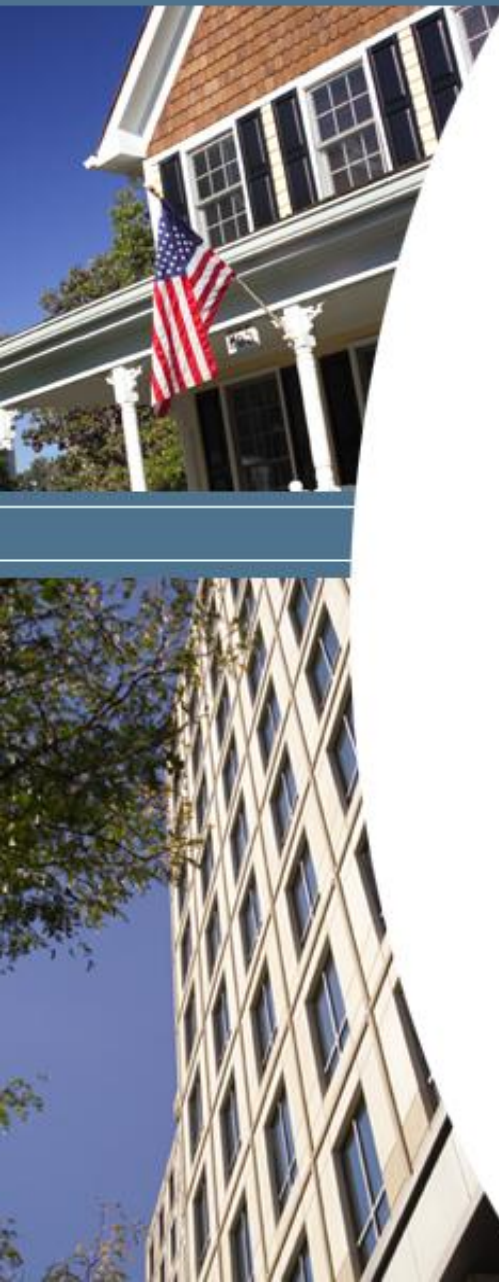
- Convene senior management and legal counsel to discuss/verify bankruptcy. Get something in writing.
- Convene discussions with GSE:
 - Request a list of loans; compare list to your tracking system.
 - If files are held in various vault locations, verify whether the files should be consolidated at one site; develop a shipping plan.
 - Verify the loans are not to be released; “lock” the loans on your system as “Do Not Release.” Confirm this information may be shared with the Servicer.
 - Request back-up Servicer information.
- Check for outstanding final document filing and file documents.
- Segregated files: Indicate on shelves which files are held for the GSE.
- Non-Segregated files: Start to segregate the files.
- Negotiate with backup servicer if it will use you as its custodian.
- Check tracking system for any other GSE or Private loans in your custody for the Servicer; notify other impacted parties for direction.

2. Upon Receipt of the Seller/Service Phone Call

- After confirming with the GSE the right to share information with the Seller/Service, notify the Seller/Service that:
 - The GSE has taken possession of the files, and
 - The Seller/Service must work through the GSE for any information pertaining to the files.

3. GSE Onsite

- Set up a large workspace for GSE representatives.
- Have reports ready for the GSE.
- Inventory the files prior to handing them over to the GSE.
- Receive official notice of the release of the files and obtain an Authorized Signers list.



You are custodian for 1,000,000 custodial files. The files consist of portfolio loans for your affiliate, loans certified to FNMA, FHLMC, GNMA, FHLB, and Private Investors. Your Business Continuity team contacts you at 1 a.m. on Sunday, September 21, 2008, notifying you that the facility where the collateral is held had a fire. The fire has been extinguished and there is damage in the vault, but you will not be allowed access to the building and vault for at least eight days pending an investigation.

1. What are your first steps? When would you take these steps?
2. Discuss the approach to handling existing collateral and plans for handling collateral deliveries.

1. What are your first steps? When would you take these steps?

- Immediately invoke the BCP Plan.
- Immediately convene BCP team.
 - Determine an action plan, including which critical team members report to the backup processing location, and redirecting shipments to the new location.
 - Create “prepared statements” for team members, investors, and clients.
 - Start your calling tree using the “prepared statements.”
- Notify insurance company.


2. Collateral Handling

Existing Collateral

- Secure the building (security system is most likely inoperable).
- Work with Investors for pooling loans previously reviewed and filed at the affected site.
- Once access to the building is restored:
 - Based on tracking system data, audit loan files for missing or damaged documents.
 - Determine what is salvageable. Secure vendor to assist in document restoration.
 - Determine what must be recreated, and work with the Servicer to recreate (may require LNAs and LIBs).

Collateral Deliveries

- Redirect mail/shipments to new processing center.



You have been assigned a project which must be done in two weeks. The project is to list a number of efficiency measures to increase productivity and potentially reduce costs. You also must develop a list of action steps to improve client service.

Your job is to come up with these two lists:

1. Productivity Improvements
2. Ideas to Improve Client Service

1. Productivity

- Increase training opportunities.
- Set productivity goals and then measure the goals.
- Cut the “Fat”.
- Do it right the first time.
- Upgrade the tools.
- Determine a better process – identify and eliminate duplicative work – start with three high-impact, easily implemented tasks.
- Reduce handoffs.
- Implement resource sharing.

2. Client Service

- Establish key performance agreements (SLAs).
- Visit clients regularly.
- Have the most efficient tools.
- Provide clients easy access to their information.
- Recognize team members for good customer service.
- Educate team members.
- Improve quality.