

# U.S. Structured Finance Newsletter

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## FAST-TRACK MODIFICATION GUIDANCE

On December 6, 2007, the American Securitization Forum (ASF) published its “fast-track” foreclosure and loss-avoidance guidance for securitized subprime adjustable-rate mortgage (ARM) loans.<sup>1</sup> The announcement was issued in conjunction with the government’s plan calling for large-scale loan modifications. Fast-track modifications are intended to provide relief to certain subprime homeowners facing an upward adjustment in the interest rates on their mortgages by freezing their interest rates for a period of up to five years. The document establishes a common interpretation by which to qualify eligible borrowers and promotes the consistent application of these provisions throughout the industry.

The fast-track program applies only to securitized, first-lien subprime 2/28 and 3/27 ARMs that were originated between January 1, 2005, and July 31, 2007, with reset dates between January 1, 2008, and July 31, 2010. Under the program, borrowers are divided into three segments, those that are (1) current<sup>2</sup> on their mortgage and likely to refinance; (2) current on their mortgage, unlikely to refinance and unable to afford their mortgage payments upon reset; and (3) delinquent on their mortgage. Segments 1 and 3 do not qualify for this program and should be evaluated on a case-by-case basis for alternative modification programs and loss-mitigation options. Segment 2 borrowers may qualify for a streamlined fast-track loan modification if they meet the criteria listed below.

- The property backing the loan must be owner-occupied and the borrower’s primary residence.
- The loan does not meet FHA Secure eligibility<sup>3</sup> (including those with a loan-to-value ratio (LTV) of greater than 97%).
- The mortgage payment increases by more than 10% upon reset.
- The borrower meets the FICO test. A borrower is considered to have passed the FICO test if his or her current FICO score is less than 660 and is not more than 10% higher than the FICO score at origination.

Borrowers meeting the eligibility criteria will automatically be offered a fast-track loan modification under which the interest rate will be frozen at the current rate, generally for a five-year period following the initial reset date. However, during the period when the interest rate is temporarily frozen, the servicer is expected to periodically monitor the modified loans to determine if the borrower’s situation has changed and he/she has become eligible for a refinance.

It should be noted that the ASF guidance is based on the principle that servicers will comply with the provisions of the securitization documents with regard to modifications and will not take any action that is prohibited by the pooling and servicing agreement (PSA) or any other applicable securitization-governing document. Therefore, if a PSA limits or precludes the use of modifications, a servicer is expected to use that as an overarching agreement when considering the use of fast-track modifications.

DBRS believes the “fast-track” guidance issued by the ASF will have a positive effect on the current market and will continue to monitor further developments regarding the loan-modification guidance and its impact on investors, servicers and borrowers.

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<sup>1</sup> See [www.americansecuritization.com/story.aspx?id=2174](http://www.americansecuritization.com/story.aspx?id=2174) for full report “Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans.”

<sup>2</sup> *Current*: For purposes of this framework, “current” means the loan must be not more than 30 days delinquent, and must not have been more than 1 x 60 days delinquent in the last 12 months, under the Office of Thrift Supervision (OTS) method.

<sup>3</sup> See [www.fha.gov/about/fhasfact.cfm](http://www.fha.gov/about/fhasfact.cfm) for details concerning FHA Secure program.