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CLARIFYING INVESTOR REPORTING: NEW ASF GUIDANCE ON RMBS LOAN MODIFICATIONS

In December 2007, the American Securitization Forum (ASF) published *Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans*, its “fast-track” foreclosure and loss-avoidance guidance for securitized subprime adjustable-rate mortgages (ARMs). Exhibit C of the report, “Recommended Definitions and Investor Reporting Standards for Modifications of Securitized Residential Mortgage Loans,” is intended to establish a minimum framework for investor reporting of loan modifications in securitizations and apply to servicers, trust administrators and other entities having responsibility for investor reporting. The statement includes procedures that establish how interest rate reductions or forgiveness of principal resulting from a loan modification should be reflected for purposes of investor reporting and for allocating payments for the cash flow waterfall. In addition, the guidance provides definitions to identify loan modifications and recommended loan-modification data fields.

The modified-loan definition distinguishes a loan modification from other, less formal revisions to the payment terms of the loan, such as a trial period or a forbearance plan. As such, by definition, a modified loan has had a revision to the contractual payment terms of the mortgage that could include the following:

- Capitalization of any amounts owing by adding the amount to the outstanding principal balance.
- Change in the amortization schedule and/or extension of the maturity.
- Reduction or other revision to the note interest rate.
- Extension of the fixed-rate payment period of any ARM.
- Reduction or other revision to the note interest rate index, gross margin, initial or periodic interest rate cap or maximum or minimum mortgage rate of any ARM.
- Forgiveness of any amount of interest and/or principal owed by the related borrower.
- Forgiveness of any principal and/or interest advances that are reimbursed to the servicer from the securitization trust.
- Forgiveness of any escrow advances of taxes and insurance and/or any other servicing advances that are reimbursed to the servicer from the securitization trust.

The procedures also identify and provide descriptions of specific, individual loan-level data fields for investor reports and are intended to facilitate flexibility in aggregating data to produce pool-level reports. The data fields are specifically designed to identify pre- and post-adjustment ARM data, while other fields are applicable only if they relate to particular loan types such as interest-only loans or balloon loans. The full report, including Exhibit C, can be found on the ASF website at www.americansecuritization.com.

The ASF has stated that further work may be necessary to establish file formats and standardized reporting templates; therefore, DBRS will continue to monitor additional developments regarding loan modification guidance.

For questions comments, contact Karen Eissner at keissner@dbrs.com or Kathleen Tillwitz at ktillwitz@dbrs.com.