



## **American Securitization Forum (ASF)**

### **Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans**

#### **Questions and Answers**

**December 17, 2007**

**Q.** What is the ASF Streamlined Foreclosure and Loss Avoidance Framework (the “ASF Framework”), and what is its purpose?

**A.** The ASF Framework is an industry-developed, recommended framework that servicers of securitized subprime adjustable rate mortgages (ARMs) can use to fulfill, faster and more efficiently, their existing obligations to service subprime adjustable rate mortgage (ARMs) loans, and maximize recoveries on those loans for the benefit of securitization investors.

**Q.** Who developed the Framework?

**A.** The ASF Framework was developed by the American Securitization Forum (ASF), a not-for-profit industry organization whose members include a broad range of professional firms involved in the securitization market – investors, servicers, financial intermediaries, legal and accounting firms, rating agencies, financial guarantors, and others. The ASF Framework was announced and endorsed on December 6, 2007 by President Bush and Treasury Secretary Paulson as part of broader Administration initiatives to address U.S. housing market issues. More information about ASF, its members and activities is available at [www.americansecuritization.com](http://www.americansecuritization.com).

**Q.** What was the government's role in developing the ASF Framework?

**A.** The Bush Administration, the U.S. Treasury Department, and various federal bank regulatory agencies (Federal Reserve Board, Federal Deposit Insurance Corporation, Comptroller of the Currency and Office of Thrift Supervision) encouraged the industry, acting through ASF, to develop a recommended framework of this type to facilitate the industry's capacity to deal with the possibility that many subprime ARM borrowers may not be able to afford the first interest rate resets on their loans, and for whom refinancing into another loan product or a loan modification to extend the introductory interest rate on the loan may assist those borrowers in avoiding foreclosure.

**Q.** To what types of loans does the ASF Framework apply?

**A.** Subprime adjustable rate mortgage loans with an initial fixed rate period of 36 months or less originated between January 1, 2005 and July 31, 2007 with an initial interest rate reset between January 1, 2008 and July 31, 2010.

**Q.** Does the framework provide a specific definition of a "subprime" loan?

**A.** No. There are various definitions of "subprime" loans in practice, and specific criteria vary among them. The determination of which loans are "subprime" is left to interpretation by individual market participants.

**Q.** How many borrowers are likely to fall within each of the segments, and how many will receive refinancing or loan modifications?

**A.** Approximately 1.8 million subprime ARMs are expected to have an initial interest rate reset in 2008 and 2009. Of these, 1.2 million borrowers are expected to be eligible under the ASF Framework for either a fast track to refinancing or a fast track loan modification. The actual numbers of completed refinancings and loan modifications will depend on economic conditions, home price appreciation or depreciation and individual decisions made by borrowers and loan servicers.

**Q.** Who decides which borrowers will receive assistance?

**A.** Individual loan servicers, pursuant to their obligations under existing contracts. No federal government agency is involved in making these decisions, and no federal funding is involved.

**Q.** Does the ASF Framework allow servicers to disregard their existing contractual obligations to securitization investors?

**A.** Absolutely not. The application of the ASF Framework is qualified in its entirety by a requirement that a servicer's actions be consistent with its existing contractual obligations. The ASF Framework specifically indicates that "In implementing this statement, each servicer will not take any action that is prohibited by the pooling and servicing agreement or other applicable securitization governing document." However, while individual circumstances may differ, ASF believes that the ASF Framework as proposed is generally consistent with most securitization governing documents presently in use throughout the industry.

**Q.** Doesn't the application of this ASF Framework have a new effect of picking "winners" and "losers" e.g. borrowers who will receive refinancing or loan modification relief, or investors whose interests will be helped or harmed?

- A.** No. Servicers already have the obligation under securitization governing documents to maximize recoveries/minimize losses on individual loans that are in default, or where default is reasonably foreseeable. The ASF Framework simply provides servicers with a more efficient mechanism for fulfilling these existing obligations, rather than favoring one class of borrower or investor over another.
- Q.** Are all servicers required to implement the guidance in the ASF Framework?
- A.** No. Servicers are encouraged to apply the ASF Framework to securitized subprime ARM loans that they service, but are not obligated to. It is likely many servicers will adopt the ASF Framework because these procedures should make their operations more efficient and effective at meeting their obligations to investors and borrowers. However, servicers retain the ability to apply different methods and procedures, to the extent that those are also consistent with their existing contractual obligations and applicable legal, regulatory and accounting rules.
- Q.** If an individual borrower does not meet the specific criteria set forth in the ASF Framework for refinancing or loan modification, does that mean that they are ineligible to receive a loan modification?
- A.** No. The criteria set forth in the ASF Framework (e.g., LTV, FICO, size of payment increase, etc.) are designed to serve as initial filters that can expedite a servicer's decision-making process, not as determinative indicators of possible foreclosure avoidance and loss mitigation outcomes. All of these outcomes are still available to all individual borrowers on a case-by-case basis with more comprehensive analysis of the debts and income.
- Q.** Since this ASF Framework is directed to a limited universe of subprime loans and borrowers, does this mean that no other types of loans or borrowers will receive any help?
- A.** No. While the ASF Framework does focus on subprime ARMs approaching their first reset dates between January 1, 2008 and July 31, 2020, other types of borrowers and loans may be refinanced or may be eligible for loan modifications, under the terms of those agreements. Servicers may be able to apply some of the criteria and procedures set forth in the ASF Framework to other types of loans.
- Q.** Does the fact that a particular loan has a loan-to-value ratio (LTV) of less than 97% mean that it cannot be eligible for a "fast-track" loan modification under the ASF Framework?

**A.** No. Loans that have an LTV of less than 97%, but that are nevertheless ineligible for refinancing due to other reasons (e.g., they do not meet required debt-to-income ratios or other underwriting criteria) may be eligible for a fast track loan modification, assuming they meet the other criteria for this outcome.

**Q.** Does the ASF Framework address/avoid the imposition of prepayment penalties?

**A.** Yes. The ASF Framework recommends that servicers work with borrowers to avoid the imposition of prepayment penalties by structuring a refinancing to occur after the reset date, at which time nearly all prepayment penalties have expired. Similarly, no prepayment penalty is triggered by a loan modification with all prepayment penalties expiring by the end of the term of a fast track loan modification.

**Q.** Will this plan result in modifying loans that don't need to be modified?

**A.** The ASF Framework was specifically designed to identify borrowers for whom refinancings and loan modifications are in the borrowers and investors' best interest. Without this ASF Framework, the risk for investors could be too few modifications and more foreclosures than is in their economic interest.

**Q.** What kind of data or reporting is available that will indicate how servicers are employing foreclosure and loss avoidance procedures?

**A.** Simultaneously with the issuance of the ASF Framework, the ASF also issued recommended investor reporting standards that will detail loan modification activities taking place for securitization trust loans.

**Q.** Whom should borrowers contact if they have questions about the ASF Framework, or if they are concerned that they may not be able to afford an upcoming interest rate reset payment?

**A.** Borrowers should contact their loan servicer as soon as possible. Borrowers may also wish to call the national credit counselor hotline at 1.888.995.HOPE.

Above are some most commonly asked questions regarding the ASF Framework. For additional questions regarding the ASF Framework, please contact:

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