

Moody's Subprime Mortgage Servicer Survey on Loan Modifications

AUTHORS:

Michael P. Drucker
Assistant Vice President/
Analyst
(212) 553-4709
Michael.Drucker@moodys.com

William Fricke
Vice President/Senior
Credit Officer
(212) 553-4586
William.Fricke@moodys.com

CONTACTS:

Warren Kornfeld
Managing Director
(212) 553-1932
Warren.Kornfeld@moodys.com

Nicolas S. Weill
Managing Director/
Chief Credit Officer
(212) 553-3877
Nicolas.Weill@moodys.com

Joseph Snailer
Senior Vice President
(212) 553-4506
Joseph.Snailer@moodys.com

Brett Hemmerling
Investor Liaison
(212) 553-4796
Brett.Hemmerling@moodys.com

WEBSITE

www.moodys.com

Over the past several weeks, Moody's performed a survey of the modification practices of subprime mortgage servicers regarding borrowers that have or will experience an interest rate reset on their loans in either 2007 or 2008. Sixteen subprime servicers with a total servicing volume of approximately \$950 billion provided data to Moody's concerning modifications performed from January 2007 to July 2007. These servicers constitute roughly 80% of the total subprime servicing market.

SURVEY RESULTS

Despite much industry dialogue and heavy press attention on the topic of loan modifications as a mitigation technique to avoid foreclosure and reduce losses on defaulted loans, the survey results suggest that on average subprime servicers have only recently begun to materially increase the number of modifications as it relates to interest rate resets. Specifically, the survey showed that most servicers had only modified approximately 1% of their serviced loans that experienced a reset in the months of January, April and July 2007.

In addition, although some subprime servicers have recently begun to make outbound calls to borrowers that will experience reset in the near future, the majority of large servicers continue to rely on more passive letter-based contact with borrowers. This is of particular concern given the potential size of the problem - some servicers reported that they could experience in a given quarter interest rate resets on loans which constitute up to 15% of their portfolio during the period from late 2007 to early 2008. In addition, data from a limited subset of servicers indicated that for loans that were current prior to reset and were not modified, the average delinquency rate after reset was in the 5% to 15% range. However, these results are for loans that were made in early 2005. Those loans were of generally higher quality than loans that were issued later in 2005 and in 2006 and had greater refinancing opportunities as they were not as impacted by the negative home price environment. Moody's expects delinquencies will be higher for subprime loans backing securitizations issued in late 2005 and in 2006 and that reset without modification.

EXAMPLES OF PROACTIVE SERVICER PRACTICES

Those servicers that have been proactively addressing the issue of interest rate resets on subprime mortgages have instituted a number of practices, including:

- Frequent outbound calls to borrowers with a pending reset, typically attempted from the 90th to the 30th day prior to reset;
- A proactive review and analysis of the number of loans in their portfolios that are anticipated to reset and their potential to default;



- Increased frequency of letter-based contacts with borrowers;
- Outreach via third-parties such as credit counseling agencies and governmental assistance programs to facilitate contact with borrowers; and,
- Encouraging the use of the servicer's website to give borrowers an opportunity to provide financial information to assess the potential for a modification.

CONCLUSION

Based on the survey results, Moody's is concerned that the number of modifications that will be performed in the future by subprime servicers on loans facing reset may be lower than what will be needed to significantly mitigate losses in subprime pools backing rated securitizations. In light of this risk and the current performance of the collateral, Moody's expects further negative rating activity on subprime residential mortgage backed securities issued in late 2005 and in 2006.

Doc ID# SF110445

© Copyright 2007, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."