

U.S. Structured Finance Newsletter

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HOUSE FINANCIAL SERVICES REQUESTS MODIFICATION PLAN FROM SERVICERS

On October 8, 2008, the chairman of the House Financial Services Committee, Barney Frank, wrote to major mortgage servicers urging them to commit to plans for large-scale loan modifications.¹ The text of the letter follows:

My colleagues and I have repeatedly urged you and other mortgage servicers – in hearings, letters and conversations – to engage in an intense effort to modify troubled mortgages. We have stressed that mass modifications will help borrowers keep their homes, and will also help shore up our financial system by stemming the flood of foreclosures that began over a year ago. Unfortunately, our warnings and urgent appeals have not been sufficiently heeded, thus deepening the effects of the financial crisis on homeowners, communities, and the economy as a whole. HopeNow and other industry initiatives have had too little impact to meet the large and growing need for widespread relief.

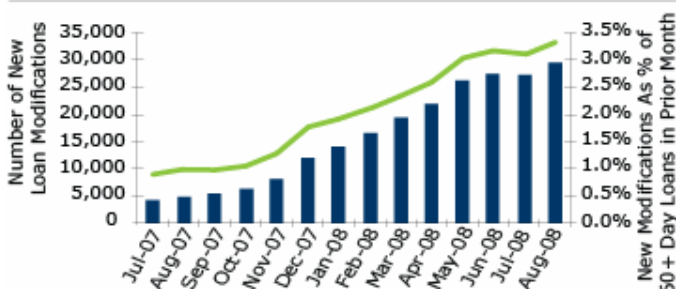
It is time for action adequate to the dimensions of the problem. You undoubtedly are aware of the October 6 announcement that Bank of America will engage in mass modifications of troubled mortgages to settle predatory lending claims brought by state Attorneys General against its recently-acquired Countrywide Financial Corp. subsidiary. BofA/Countrywide has now committed nearly \$8.7 billion to provide direct relief to homeowners through serious modifications on a large scale, including substantial interest rate reductions, reductions in principal, and waivers of late fees and prepayment penalties. BofA/Countrywide has also committed to using the Hope for Homeowners program, recently enacted by Congress, to help eligible borrowers refinance into safe, affordable FHA guaranteed mortgages.

The BofA/Countrywide settlement should be used as a template by your firm and the rest of the industry. It is essential that every mortgage servicer firmly commit to implement plans for immediate mass modifications based on, or stronger than, the measures BofA/Countrywide has undertaken, and I want the Financial Services Committee to be fully informed of your specific plans and commitments no later than October 17.

As we have heard repeatedly in testimony, mortgage modifications are in the interest of both the borrower and the owner of the mortgage. Congress has done its part by providing ample tools for loan modifications and the funds necessary for Treasury to purchase troubled mortgage-backed assets and provide financial assistance to servicers where that is called for. The mortgage industry must now significantly step up its efforts to provide immediate, broad-based relief.

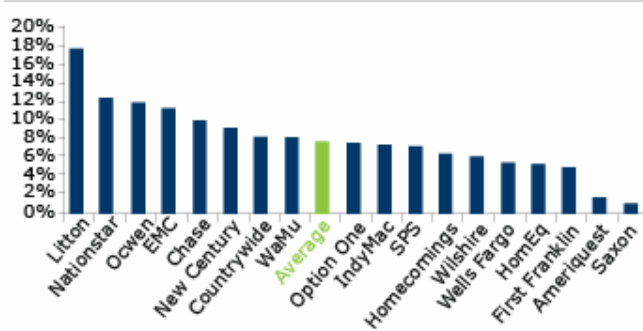
The industry's reaction to the House Financial Services Committee request has been mixed. Most participants agree that loan modifications are generally preferable to foreclosure in instances where the servicer concludes that the net present value of the payments on the loans post-modification is likely to be greater than the anticipated net recovery that would result from foreclosure. Others, however, are concerned that servicers are going to interpret the request for modification plans as pressure to do massive amounts of modifications that could ultimately result in higher losses due to the substantial recidivism rates. The use of modifications for subprime loans has already increased dramatically in 2008 (see Chart 1), with certain servicers using them more frequently as a loss mitigation tool (see Chart 2). As a result, DBRS will continue to monitor further developments regarding the use of loan modifications and its impact on investors, servicers and borrowers.

Chart 1: Suprime Loan Modifications



Legend: Total New Modifications (blue bars), New Modifications As % of 60+ Day Loans in Prior Month (green line).
Source: Credit Suisse and Loan Performance.

Chart 2: Loan Modifications by Servicer



Legend: % of 2005 and later vintage subprime loans that have been modified (outstanding as of August 2008) (blue bars).
Source: Credit Suisse and Loan Performance.

For questions or comments, please contact Kathleen Tillwitz at ktillwitz@dbrs.com.

1. http://www.house.gov/apps/list/press/financialsvcs_dem/10092008.shtml.