Laurie Goodman / lgoodman@asglp.com / 212.593.6026

5/12/2011 Testimony of Laurie Goodman, Amherst Securities Group

to the

Subcommittee on Housing, Transportation and Community Development

of the

Senate Committee on Banking, Housing and Urban Affairs

Topic—National Mortgage Servicing Standards and Conflicts of Interest

I am honored to testify today. My name is Laurie Goodman and I am a Senior Managing Director at Amherst Securities Group, a leading broker/dealer specializing in the trading of residential mortgage-backed securities. I am in charge of the strategy and business development efforts for the firm. We perform extensive, data-intensive research as part of our efforts to keep ourselves and customers abreast of trends in the residential mortgage-backed securities market. I would like to share some of our thoughts with you today.

A few quick numbers will serve as background. There is $10.6 trillion worth of 1-4 family mortgages outstanding in the United States. Of those, one half, or $5.4 trillion, is in Agency MBS (mortgage-backed securities), $3.0 trillion consists of first lien mortgages in bank, thrift and credit union portfolios plus the unsecuritized loans on Freddie Mac and Fannie Mae's balance sheet, and $1.2 trillion is in private label MBS. Second liens, which are mostly held on bank balance sheets, total just under $1 trillion. It is important to note that while private label securitizations represent only 12.8% of the first lien market, they represent 40% of the loans that are currently 60+ days delinquent.

Servicers play a critical role in the housing finance market. They are the cash flow managers for the mortgage system. If the borrower is making his payments, the servicer collects and processes those payments, forwarding the proceeds to the investor in a securitization. If there is an escrow account, the servicer is charged with making the tax and insurance payments. If the loan goes delinquent, the servicer is responsible for running the loss mitigation efforts, an endeavor that many servicers, especially so-called "prime" mortgage servicers, had little experience at prior to the crisis. It was never contemplated that these servicing platforms would be used to perform default management on the current scale. As a result, they have never built up a loss mitigation infrastructure. A set of national servicing standards, addressing minimum infrastructure requirements to handle the servicing of delinquent borrowers within a servicing platform is the best way to address this issue, and I am pleased to have input on this important topic.

The servicer is generally paid a fixed percentage of the outstanding loan balance for servicing a mortgage. This fee is generally too large for servicing loans that are not delinquent, and too small to cover the costs of servicing loans which have gone bad. There are other sources of income as well. The borrower often makes his payment early in the month, and the monies are not required to be remitted until mid-month,

giving the servicer the right to invest these proceeds in the meantime (float). When the borrower goes delinquent, servicers charge late fees. There are a number of ancillary fees that are charged during the loss mitigation process. Finally, servicing a loan allows a firm to cross-sell other financial products to the borrower, including auto loans, credit cards, and home equity lines of credit. As a result, the servicer often interacts with the borrowers across a number of different products, some of which may be in the investment portfolio of a related entity. There are some costs as well—the servicer will generally advance tax and insurance payments, and in private label securitizations are usually obligated to advance principal and interest to the extent deemed recoverable.

The purpose of my testimony is to discuss conflicts of interest facing mortgage servicers that may stop them from acting in the best interests of mortgage investors and homeowners, and to discuss which of these conflicts can be addressed through national mortgage servicing standards. Let me begin by pointing out that the interests of mortgage investors and homeowners are largely aligned for 2 reasons. *First*, the mortgage market is reliant on investors to continue to extend credit, thereby providing the necessary capacity to encourage competitive rates for borrowers in pursuit of home financing. *Second,* foreclosure is, without question, the worst outcome for both investors and borrowers. It is a long and drawn-out process in which a borrower is forced from his home, and an investor typically suffers a loss on his investment in the mortgage loans of between 50-80% of the balance of the loan amount after the home is sold and the various costs are deducted.

The interests of both the borrowers and investors can be marginalized when the loan is serviced by a conflicted party. Here are the inherent conflicts we see.

CONFLICT #1: Large first lien servicers have significant ownership interests in 2nd liens and often have no ownership interest in the corresponding first lien mortgage loans that are made to the same borrower and secured by the same property.

In such cases, the first liens are typically held in private label securitizations, the second lien and the servicing rights are owned by the same party, often a large bank. The 4 largest banks (Bank of America, Wells Fargo, JP Morgan Chase, Citigroup) collectively service 54% of all 1-4 family servicing in the United States. They own approximately 40% ($408 billion out of $949 billion) of second liens and home equity lines of credit outstanding. The securitized second lien market is very small. Thus when a first lien in a private label securitization is on a property that also has a second lien, that second lien is very likely to be held in a bank portfolio, and if it is inside a bank portfolio it is often in one of the big 4 banks.

This is a conflict because the servicer has a financial incentive to service the first lien to the benefit of the second lien holder. Many time this incentive conflicts with the financial interest of the investor or borrower. We outline some of the consequences of this conflict.

Consequence: Short Sales and Deeds-in-Lieu Are Less Likely to Be Approved. An example makes this more intuitive. Assume that a borrower has a $200,000 first lien and a $30,000 second lien ($230,000 lien total) on a home that suffered a valuation reduction down to only $160,000. The borrower is paying on his second lien, but not on the first lien. The borrower receives a short sale offer at the market value of the property, and asks the servicer (a large financial institution) to consider it. If the servicer accepts the offer,

the second lien (held on the balance sheet of the financial institution) must be written off immediately. If the servicer is also the second lien holder, he may be more inclined to reject the short sale offer. In this case, accepting the short sale offer was clearly in the best interests of both borrower and first lien investor. Similarly, a servicer will be less likely to accept a deed-in-lieu of foreclosure. We believe that national servicing standards should explicitly address this issue.

Consequence: Loan Modification Efforts Are Sub-optimal. Loan modification programs have two issues: they do not address the borrower's total debt burden, and they do not address a borrower's negative equity position. As a result, the re-default rate has been enormous. We believe that both of these shortcomings share, at their core, one common trait: conflicted servicers. We look at each in turn.

Modifications Fail to Address the Borrower's Total Debt Burden. In a loan modification, only the mortgage debt is affected. That is, most modification programs, including HAMP, the government's Home Affordable Modification Program, look at the payments on a borrower's first mortgage plus taxes and insurance, and compare that to the borrower's income. This is called the front-end debt-to-income ratio, and an attempt is made to reduce the payments to a pre-set percentage of the borrower's income. Consider a bank who services a borrower's first lien, second lien, credit card and auto loan. The first lien is in a private label securitization, all other debts are on a bank's balance sheet. The bank is obligated to modify only the mortgage debt, leaving the credit card and auto debt intact. Moreover, the second lien mortgage debt is generally treated *pari passu* with the first lien. There are situations in which only the first lien is modified, and the second lien is kept intact, making even less impact on the borrower's total debt burden.

Since there is no sense of an overall debt restructuring, the borrower is often left with a mortgage payment that is affordable, but a total debt burden that is not. For example, the Treasury HAMP report shows that the borrowers who received permanent modifications under the Home Affordable Modification Program had their front-end debt-to-income ratio reduced from 45.3% to an affordable 31.0%, while the median back-end debt-to-income ratio (or total debt burden as a percent of income) was reduced from 79.3% before the modification to a still unsustainable 62.5% afterwards. The result: a high re-default rate on modifications. For a successful modification, a borrower's total debt burden needs to be completely restructured.

Modifications Fail Because They Do Not Address a Borrower's Negative Equity Situation. Consider the 2MP program, the HAMP program which applies to second liens. Essentially this program treats the first and second lien holders pari passu when the borrower's first lien is modified. If there is a rate reduction on the first lien, there is also a rate reduction on the second lien; if there is a principal write-down on the first lien, the second lien also receives a principal write-down. This makes no sense, as the junior lien is by definition subordinate to the first lien, and as such should be written off before the first lien suffers any loss. And if a modification is done outside of HAMP (and there are more non-HAMP or proprietary modifications than there are HAMP modifications) the servicer is not compelled to address second liens at all.

The negative equity position of many borrowers would be dramatically improved if the second lien was eliminated or reduced more in line with the seniority of the lien. Indeed, loan modification programs

would be markedly more successful if principal reduction were used on the first mortgage and the second lien were eliminated completely. Our research has shown that a principal reduction modification has the highest likelihood of successfully rehabilitating a borrower, and will ultimately result in the lowest re-default rate.

Principal Reductions are Used in Loan Modifications Less Frequently Than They Should Be, Due to Conflicted Servicers. Even with the current *pari passu* treatment on first and second liens, we believe there are fewer principal reduction modifications on loans owned by private investors than there would be if a related entity of the servicer did not own the second lien. That is, we believe banks are reluctant to take a write-down on a second lien that is paying and current; as a result, they do a first lien modification which is less effective, to the detriment of the borrower/homeowner as well as to the private investors who own the first lien loan. In addition we believe conflicted servicers are counseling borrowers to remain current on their second liens, thereby allowing them to postpone the write down on the second lien, and increasing the likelihood of a *pari passu* modification.

Principal Reductions Are Also Used Less Frequently Due to Distortions In The Compensation Structure. Servicing fees are based on the outstanding principal balance. Thus, when a principal reduction is done, the servicing fee is reduced, as it is based on a lower principal amount. Since it costs more to service delinquent loans than the servicer is receiving in fees, and this is exacerbated by the write down, it adds to the reluctance to do the principal write down.

With servicers trying to minimize the write off of second lien holdings and maintain servicing fees, it is no surprise that we see distorted outcomes for borrowers and investors in loans that banks service for private investors.

Here is some evidence of the distortion. We can see a marked difference in servicing behavior for first liens owned by banks and those where the first lien is NOT owned by a bank portfolio. According to the OCC/OTS Mortgage Metrics report of Q4 2010, banks did a principal reduction on 17.8% of their first lien portfolio loans. These were loans in which they own the first lien, generally own the second lien (if there is one), and modified the first lien to achieve the highest net present value. By contrast, those same financial institutions did a principal reduction on only 1.8% of loans owned by private investors and 0% of Fannie Mae, Freddie Mac and government-guaranteed loans. While there are major obstacles to principal reduction in the case of GSE (Government Sponsored Enterprise) loans or government-guaranteed loans, there are few obstacles to doing principal reduction on private investor loans. Only a few PSAs (Pooling and Servicing Agreements) prohibit such behavior. And the OCC/OTS Mortgage Metric Report numbers for Q4 2010 were not a fluke; in the immediately preceding calendar quarter Q3 2010, banks did principal reductions on 25.1% of their own loans, but on only 0.2% of loans owner by private investors.

Solution: To Increase the Use of Principal Reductions as a Loan Modification Tool. National servicing standards should require that servicers perform the modification with the highest net present value, which will usually be a principal reduction. Under HAMP, the servicer is required to test the borrower for a modification using both the original HAMP waterfall, as well as the Principal Reduction Alternative, which moves principal reduction to the top of the waterfall. If the Principal Reduction Alternative has the highest net present value, servicers are not obligated to use it. Use of the Principal Reduction Alternative is

voluntary, at the discretion of the servicer. HAMP should be amended to require the use of the Principal Reduction Alternative, if it has the highest net present value of the alternatives tested.

Consequence of Pari Passu Treatment of First and Second Liens: Higher First Lien Borrowing Costs. We believe a large error was made in opting to treat the first and second liens *pari passu* for modification purposes. The consequence of this is that first mortgages will become more expensive, as investors realize they are less well protected than their lien priority would indicate. It is very important to realize that under present law and practices, a second mortgage can be added after the fact, without the first lien investor even knowing it. But addition of a second lien significantly increases the probability of default on the first mortgage. However, as presently constructed, if a borrower gets into trouble, the first and second mortgages are treated similarly for modification purposes. Since that raises the risk for the first lien investor, it should also increase the cost of debt for the first lien borrower. (We haven't seen this reflected in pricing yet, as few mortgages have been originated for securitization; most mortgages issued since the *pari passu* decision were insured either by the GSEs or the U.S. government.)

Solutions to Maintain Lien Priority

What can be done about conflicts of interest inherent in an entity servicing a pool of loans and owning the second lien (while the first lien is owned by an outside investor)? There are at least 3 alternative solutions for newly originated mortgages. The first two require congressional consent, while the third would require actions by the bank regulatory authorities. These solutions to the re-ordering of lien priorities are beyond the scope of national servicing standards.

Alternative 1. This solution would contractually require first lien investors to approve any second lien (or alternatively, approve any second lien with a CLTV [(combined loan-to-value, the ratio of the sum of all the liens on the property to the mortgage amount) exceeding a pre-set level, such as 80%]. If the first lien holder does not approve it, yet the borrower still takes out a second lien, the first lien must be paid off immediately (the "due on sale" clause is invoked). This may sound harsh, but it really is not. Currently, if a borrower wants to refinance his first lien, the second lien must explicitly agree to resubordinate his lien. The infrastructure to arrange these transactions exists and works smoothly. Prohibition of excessive indebtedness is common in corporate finance. This is done through loan covenants that limit the amount of junior debt that can be issued without the consent of the senior note holders. This alternative may be required to re-start the private mortgage markets and would require an amendment to the Garn-St. Germain Depository Institutions Act of 1982. That act prohibits the senior lien holder from invoking the due-on-sale clause if the borrower opts to place a second lien on the property.

Alternative 2. Place an outright prohibition on second mortgages where the combined CTLV exceeds a designated level, such as 80%, at the time of origination of the second lien.

Alternative 3. Establish a rule that a lender cannot service both the first and second liens while owning only the second lien.

CONFLICT #2: Affiliate Relationships with Providers of Foreclosure Services

The servicer often owns a share in companies that provides ancillary services during the foreclosure process, and charges above-market rates on such. Entities that provide services during the foreclosure process that are possibly owned by servicers include force-placed insurance providers and property preservation companies. (These companies provide maintenance services as well as property inspection services.) Even when a servicer is not affiliated with the company providing the service, they often mark up the fees considerably.

What is the consequence of affiliates of the servicer charging above market fees? Such fees are added to the delinquent amount of the loan, making it much harder for a borrower to become current. Moreover, when a loan is liquidated, the severity on the loan (the percentage of the current loan amount lost in the foreclosure/liquidation process) will be much higher, to the detriment of the investor(s) in that mortgage. It also tends to make servicers less inclined to resolve the loan through a short sale, as fee income that will be earned in the interim (as the loan winds its way through a lengthy foreclosure process) is quite attractive.

Problem: Distortion in the servicing fee schedules: We have heard assertions that, since servicers are inadequately paid for servicing delinquent loans, the related fees are a way to make up the difference. It is absolutely the case that servicers are definitely *under*paid for servicing *delinquent* loans. However, they are *over*paid for servicing *performing* loans. Moreover, *ex-ante* (at the inception of the loan), the servicer had agreed to service the loans at the agreed-upon price. It's just that *ex-post* (at the present time), given the amount of delinquent loans that accumulated versus original expectations, their original agreement has turned out to be a bad deal. But in the real world, a deal is a deal! For instance, my own firm Amherst Securities Group can't agree to a consulting contract at a fixed price, then come back and re-negotiate because it is more work than we thought it would be.

Problem: No Disclosure of Fees. Servicers will tell you that the services they provide are essential, and they would be provided at similar prices by any third party. By owning or having an interest in a wider array of services, the servicers also have more control over the timing and can more closely monitor the quality of the servicers provided. However, neither borrowers nor investors have any way to confirm this. The ancillary fees are not broken out in a form that is transparent to anyone outside.

Partial Solution: Make Better Fee Disclosure a Part of National Servicing Standards. The New York State Banking Department, in their Regulations for Servicing Loans (part 419), requires that servicers must maintain a schedule of common fees on its website, and must include a "plain English" explanation of the fee, and any calculation details. In addition, the servicer should only collect a fee if the amount of that fee is reasonable, and fees should be charged only for services actually rendered and permitted by the loan instruments and applicable law. Attorneys fees charged in connection with a foreclosure action shall not exceed "reasonable and customary" fees for that work. At the minimum, this type of language should be adopted for national servicing standards.

Force-Placed Insurance Highlights the Conflicts of Interest. The servicer, or an affiliate of the servicer often own a share of a force-placed insurer. This insurance is used to protect the home when the

borrower is no longer maintaining his existing policies. Given the conflicts, it is unrealistic to expect a servicer to make an unbiased decision on when to buy this insurance (there is a tendency to buy it without trying to retain the homeowner's policy that was already in place) as well as how to price it (there is a tendency to price too high).

There have already been several attempts to address this issue. The New York State requirements explicitly address force-placed insurance (hazard, homeowner's, or flood insurance), and details situations in which it should not be used. A servicer is prohibited from *(1)* placing insurance on the mortgaged property when the insurer knows or has reason to know the borrower has an effective policy for the insurance; *(2)* failing to provide written notice to a borrower when taking action to place insurance; and *(3)* requiring a borrower to maintain insurance exceeding the replacement cost of improvements on the mortgage property.

The State Attorneys' General proposed settlement (circulated in March of this year but not yet approved) contains similar provisions governing the placement of force-placed insurance. The servicer must make reasonable efforts to continue or re-establish the existing homeowner's policy if there is a lapse in payment. The servicer must advance the premium if there is no escrow or insufficient escrow. If the servicer cannot maintain the borrower's existing policy, it shall purchase force-placed insurance for a commercially reasonable price.

However, the Attorneys' General proposed settlement went one step further than the New York State requirements—it suggested the elimination of the conflict of interest by prohibiting these servicers from placing insurance with a subsidiary or affiliated company or any other company in which the servicer has an ownership interest.

Solution: Force-Placed Insurance Conflicts. National Servicing Standards can be used to require servicers to keep existing homeowner's policies in place as long as possible, as both the New York State requirements and the proposed Attorneys' General settlement do. If it is not possible to re-establish the existing homeowner's policy, measures must be included to make sure the pricing of the purchase is reasonable. Moreover, following the lead of the Attorneys' General settlement, national servicing standards should prohibit the placement of force-placed insurance with a subsidiary, affiliated company, or any other company in which the servicer has an ownership interest.

Solution: Dealing with Other Ancillary Fees. Under the Attorneys' General proposed settlement, the servicer cannot impose its own mark-ups on any third party fees. Subsidiaries of the servicer (or other entities where the servicer or related entity has an interest in such a third party) are prohibited from collecting third party fees. Moreover, servicers are prohibited from splitting fees, giving or accepting kickbacks or referral fees, or accepting anything of value in relation to third party default or foreclosure-related services. We at Amherst Securities Group agree with these recommendations. These ideas should become a part of a meaningful set of national servicing standards.

CONFLICT #3: Conflicts of Interest in the Governance of a Securitization, Including Enforcement of "Representations and Warranties"

While the enforcement of "rep and warrants" (representations and warranties) does not directly affect borrowers, we believe it is a very important topic for investor, and serves to highlight the conflicts between servicers and investors.

Violations involving reps and warrants are becoming increasingly common as seen in recent litigation. That is, loans in a securitization often do not conform to the representations made about the characteristics of these loans. For example, a loan may have been represented as an owner-occupied property when in fact it is not; or a borrower lied about income to a degree that should have been picked up in the origination process; *etc*. Once a rep and warrant violation is discovered, at present the trustee is charged with enforcement [the remedy is generally that the sponsor or originator repurchases that particular loan out of the pool at par (an amount equal to the original balance on the loan less any paid down principal)]. However, the trustee does not have the information to detect the violations, they do not have direct access to the loan files. Moreover, as they have little incentive to detect rep and warrant violations, since the trustee is not compensated for detecting violations and the benefits of doing so actually accrue elsewhere (to the investors).

Servicers (who do have the information to identify rep and warrant violations) often have a financial *dis*incentive to do so, as they would be putting the loan back to an affiliated entity. For example, the largest banks often serve as originators, deal sponsors (underwriters) and servicers on securitizations. There is nothing wrong with this, as long as there is a mechanism to allow for enforcement of the reps and warrants.

Solution: Properly Enforcing Reps and Warrants. It is critical to have a party that is incented to enforce them, and has both access to the information and enforcement authority. This can best be achieved through an independent third party charged with protecting investor rights, who is paid on an incentive basis. Some current deals nominally have a third party charged with protecting investor rights, but that party is not empowered, does not have access to necessary information (the loan files), and is not paid on an incentive basis. This set of conflicts should be addressed the PSAs (purchase and sale agreements) for new securitizations. National Servicing Standards should direct servicers to make sure that there is an adequate enforcement mechanism for reps and warrants.

CONFLICT #4: The Servicing Fee Structure is Unsuitable to This Environment

There are many situations in which transferring the servicing of a loan on which the borrower is delinquent to a servicer that specializes in loss mitigation would be the best outcome for both borrowers and investors. A number of special servicers have had considerable experience tailoring modifications to the needs of individual borrowers and tend to provide more hand holding to the borrower post-modification than what a major servicer is staffed to provide. Consequently, the re-default rates on modified loans are much lower with specialized servicers who focus on loss mitigation.

Servicing transfer issues are made very difficult, as many deals do not provide for adequate servicing fees to encourage such a transfer. We made the point earlier that servicers are compensated too highly for servicing current loans, not highly enough for servicing delinquent loans. If compensation is inadequate, it will be very difficult to convince a special servicer to service the loan.

Solution: Revamp the Servicing Fee Structure. There has been a considerable amount of discussion about revamping the structure of servicing fees, to allow for lower fees for performing loans and higher fees for non-performing loans. The FHFA has organized a number of meetings to discuss these issues, and has outlined the alternatives. If fees were to be altered such that fees for servicing current loans were lowered while fees for servicing delinquent loans were raised, it would allow the special servicer to be adequately compensated for his high-touch efforts. This, in turn, would make it much easier to transfer delinquent loans to servicers who would do a better job at loss mitigation.

There has been some concern about the incentive issues that would arise. Given higher servicing fees for servicing non-performing loans, will servicers be dis-incented to make a proactive phone call when a borrower misses one payment? Will the originator/affiliate be less concerned about the quality of loans they originate? We think there is a very simple solution to this—give the GSEs or private label investors the ability to move the servicing when the higher fees are scheduled to take effect.

CONFLICT #5: Transparency for Investors Is Woefully Inadequate.

Many of the conflicts are obscured by servicers as a result of the poor reporting they provide on a monthly basis. We believe that with more transparency, many of these conflicts would be more visible and servicers will be less inclined to act against the interests of first lien borrowers and investors. In a private label securitization there is often a large difference between the monthly cash payment the investor expected to receive and what is actually received. Moreover, an investor is unable to delve into the cash flow information further, as he lacks the information on the actions of the servicer that would be necessary to reconcile the cash flows. When I receive the statement from my bank each month, I balance my checkbook, reconciling the differences. Investors want to be able to do exactly this with the cash flows from the securitizations in which they have an interest. There are several culprits:

- *Insufficient transparency on liquidations*. When a loan is liquidated, investors often receive only one number—the recovered amount. Servicers provide no transparency on what the home has been sold for, what advances were made on the loan, what taxes and insurance were, what property maintenance fees were, nor what the costs of getting the borrower out of the house were. A breakdown of these costs/fees would help investors understand severity numbers that were different (often much higher!) than anticipated. It would also allow investors to better compare behavior across servicers, allowing for identification of the most efficient servicers, and exposing the underperformers.

- *Insufficient transparency on servicer advances.* A servicer usually advances principal and interest payments on delinquent loans, allowing for a payment to the investor even if the borrower is not paying. These advances are required to be made as long as the servicer deems them to be recoverable. There is often little information on which loans are being advanced on, which makes it very difficult for investors to figure out how much cash they should expect.

- *Insufficient transparency on modifications.* Similarly, when a loan is modified, investors often can't tell how that loan has been modified. Has there been an interest rate reduction, a term extension, a principal forbearance, or principal forgiveness? How long will any reduced interest rate be in effect, and how will it reset? Were any delinquent payments forgiven? While some servicers are better than others at reporting this information, investors are often forced to infer (guess!) it from the payments.

- *Insufficient transparency on principal and interest recaptures*. When a servicer modifies a loan, the servicer is entitled to recapture the outstanding principal and interest advances. Those amounts, payable to the servicer, have the first claim rights on cash flows of the securitization. Investors often receive less money than anticipated due to these recaptures. There is certainly nothing wrong with servicers recapturing funds they advanced, but investors want to know how much has been recaptured and from which loans.

[*NOTE*: As an aside, we have often heard assertions that servicers have an incentive to speedily move a borrower along in the foreclosure process, as they can recover their advances. That charge has never made any sense to us. By modifying a loan, servicers can recover advances. Moreover, by modifying, the servicer receives bonuses from the U.S. government from using the Home Affordable Modification Program (HAMP). Finally, the longer the process, the more ancillary fee income is generated for the servicer.]

The result of the lack of transparency is that investors can't reconcile the cash flows on the securitization they have invested in. They don't know how much is being advanced, what are the terms of the modifications on the modified loans, and how much of the principal and interest advances the servicer is recapturing when doing the modification.

Solution: Transparency. We believe the remittance reports for future securitizations should contain loan-by-loan information, and that loan-by-loan information should be rolled up into a plain English reconciliation. National servicing standards should encourage this transparency.

CONCLUSION

In summary, we have discussed 5 conflicts of interest between servicers and borrowers/investors. They involve the following:

(1) servicers often own junior interests in deals they service, but in which they do not own the first liens

(2) the servicer often owns a share in companies which can be billed for ancillary services during the foreclosure process, and charges above market rates on these services

(3) there are conflicts of interest in the governance of the securitization, including the enforcement of rep and warrant issues

(4) servicing transfers can be problematic due to a mis-aligned servicer compensation structure

(5) transparency for investors is missing

Contact Us

Austin
Corporate Office
7801 N. Capital of Texas Hwy
Suite 300
Austin, TX 78731

(512) 342-3000
(800) 396-3311 toll free
(512) 342-3097 fax

Boca Raton
925 South Federal Highway
Suite 210
Boca Raton, FL 33432

(561) 620-5855
(888) 235-0009 toll free
(561) 620-8995 fax

Chicago
500 West Madison
Suite 3140
Chicago, IL 60661

(312) 224-9977
(877) 499-9977 toll free
(312) 224-9980 fax

Greenwich
Two Greenwich Office Park
First Floor
Greenwich, CT 06831

(203) 618-1133
(800) 556-1133 toll free
(203) 618-1475 fax

Greenwood Village
8400 East Prentice Avenue
Suite 1500
Greenwood Village, CO 80111

(303) 409-7665
(303) 409-7666 fax

Houston
1300 Post Oak Boulevard
Suite 850
Houston, TX 77056

(713) 888-9100
(800) 856-1111 toll free
(713) 888-9180 fax

McLean
1750 Tysons Blvd
Suite 1160
McLean, VA 22102

(703) 848-8300
(800) 848-5420 toll free
(703) 848-8838 fax

New York City
444 Madison Ave.
19th Floor
New York, NY 10022

(212) 593-6030
(212) 593-6099 fax

Princeton
186 Princeton Hightstown Rd.
Building 3B, Suite 13
Princeton Junction, NJ 08550

(609) 419-0850
(609) 419-0830 fax

Red Bank
65 Monmouth St.
Suite 307
Red Bank, NJ 07701

(732) 212-1661
(866) 933-9901 toll free
(732) 212-1766 fax

Westport
55 Saugatuck Avenue
Westport, CT 06880

(203) 221-8112
(877) 221-8115 toll free
(203) 221-8114 fax

Disclaimer

The material contained herein is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of securities. Any investment decision as to any purchase or sale of securities referred to herein must be made solely on the basis of existing public information on such security and/or any registered prospectus, and that no reliance may be placed on the completeness or accuracy of the information and/or comments contained in this document. The decision of whether to adopt any strategy or to engage in any transaction and the decision of whether any strategy or transaction fits into an appropriate portfolio structure remains the responsibility of the customer and/or its advisors. Past performance on the underlying securities is no guarantee of future results. This material is intended for use by institutional clients only and not for use by the general public. Amherst® Securities Group LP has prepared portions of this material incorporating information provided by third party market data sources. Although this information has been obtained from and based upon sources believed to be reliable, Amherst® Securities Group LP does not guarantee the accuracy or completeness of the information contained herein. Amherst® Securities Group LP cannot be held responsible for inaccuracies in such third party data or the data supplied to the third party by issuers or guarantors. This report constitutes Amherst® Securities Group LP's opinion as of the date of the report and is subject to change without notice. This information does not purport to be a complete analysis of any security, company or industry. Amherst® Securities Group LP cannot and does not make any claim as to the prepayment consistency and/or the future performance of any securities or structures. Change in prepayment rates and/or payments may significantly affect yield, price, total return and average life. Amherst® Securities Group LP may have a position in securities discussed in this material.

This material has been prepared by individual sales and/or trading personnel and does not constitute investment research.