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Researching Subprime Residential Loan Securitizations

by Kevin Byers

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As issues around predatory lending have generated an increasing amount of interest in the practices of subprime lenders, there is a corresponding interest in one of the most popular sources of liquidity, not only for subprime lenders, but for any lender in the market, and that is the practice of asset securitization. Very simply, this is the rather complex process of pooling similar assets and converting a stream of future payments to a present-day cash value, with a corresponding issuance of securities that are sold to investors who provide this cash at the time of securitization.


The key component to the success of a securitization is the legal separation of the loans in a pool from the entity that originated those loans. Without this, the originator – who is often also the servicer – could go into bankruptcy and the loans would be part of the bankruptcy estate, thus collapsing the entire structure of the securitization. Investors would not buy securities collateralized by loans that are not separated from the originator, in terms of ownership, control, and management. Thus the loans are isolated in a trust under the tightly scripted management of a trustee, who acts as a fiduciary for the investors in the trust.

To achieve this separation, loans are always transferred into a trust via a Special Purpose Entity (SPE) established for the sole purpose of “cleansing” the loan pools. After origination, loan pools may pass through a number of separate entities, but a bankruptcy-remote SPE will always be the last entity in the chain of title prior to each loan in the pool being sold into a trust.

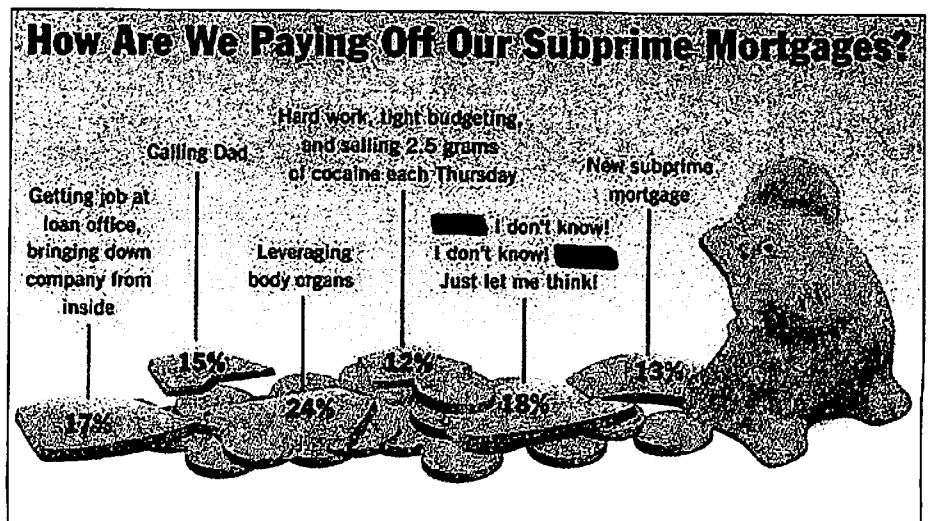
Where to Learn the Basics

A good place to start is the Securities Industry and Financial Markets Association’s website, which offers a detailed primer of securitization

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transactions and the parties involved:

<http://www.investinginbonds.com/learnmore.asp?catid=11&subcatid=57>

For a description of various securities filings and form types with brief explanatory text, the website of the Securities and Exchange Commission (SEC) provides a good a list in the following .pdf document:

<http://www.sec.gov/info/edgar/forms/edgform.pdf>

Transaction Documents

The following two sections briefly review relevant securitization transaction documents and the SEC forms on which they are typically filed. We will then walk through a recent securitization to see the process in action.

SEC Filings (Pre-2006 Deals)

For asset-backed securities collateralized by home-equity loans, the most commonly used SEC filings for tracking public issuances are:

Prospectus and Prospectus Supplement (**Form 424B5**) – typically filed in the name of the Depositor or SPE (see next section), which is often a subsidiary or affiliate of the loan originator. These are the basic documents for investors to evaluate all aspects of a securitization and the parties involved. They contain a great deal of specific information about the loans in the pool, the chain of title of the loans, the underwriting criteria of the lender/purchaser of the loans, the performance of past loans, servicing information, and representations and warranties, among other valuable information.

Pooling and Servicing Agreement (filed on **Form 8-K**, generally a few days after the prospectus supplement) - this document outlines the legal responsibilities of the trustee, the servicer, the Depositor, and the bond insurer if one is utilized in the transaction, and is filed in the name of the trust or by the Depositor. Very few issuers include the Mortgage Loan Schedule (GMAC-RFC is an exception) on pre-2006 deals, but from January 2006 forward this detailed listing of loans is often available with the PSA. The PSA will also contain loss mitigation guidelines for the servicer (Article III of a PSA is generally the section dealing with loan servicing, and loss mitigation guidance is typically provided in Section 3.01, the Servicing Standard, or the section under Article III dealing with collection of mortgage payments.)

Annual Report (**Form 10-K**) – this will include a management letter from the servicer for the trust regarding compliance with minimum servicing standards outlined in the Uniform Single Attestation Program for Mortgage Bankers (pre-2006 deals) as well as a CPA

letter attesting to the accuracy of the management assertion regarding servicing compliance.

SEC Filings (Post-2006 Deals)

For deals closed after January 1, 2006, Regulation AB applies and requires significantly more information about a securitization than prior to implementation. Following are only a few of the useful informational items disclosed:

Prior to publication of the Prospectus Supplement, a **Free Writing Prospectus** may be filed by an issuer with the SEC to communicate with potential investors at an earlier date than was previously allowed. Frequently the Mortgage Loan Schedule for a trust will be included in this document, indexed on EDGAR as "FWP."

The **Prospectus Supplement** will include a detailed flow chart of the transaction showing the parties to the deal.

The **Prospectus Supplement** will include additional descriptive information about all parties to the transaction, potentially including third-party originators and subservicers. It will also include a required link to new disclosures by the originator detailing the performance of similar loans originated and securitized over the previous five years.

The **Pooling and Servicing Agreement** will include a checklist for the parties responsible for each of the minimum servicing criteria required under Section 1122 of Reg AB, as well as extensive loan-level analysis on the electronic copy of the Mortgage Loan Schedule.

Monthly performance reports will now be filed on **Form 10-D** instead of Form 8-K.

The **Annual Report (Form 10-K)** will require the management compliance letter as well as CPA attestation of compliance and disclosure of material noncompliance with minimum servicing standards.

Parties to the Transaction

Typical roles of the participants in a securitization are as follows, all of which are spelled out in each respective Prospectus Supplement:

Seller – Oftentimes the Seller is also the originator of the loans in a given portfolio, but over the past few years there has been a rise in the number of mortgage capital divisions of banks and investment banks that buy loan portfolios from the originator and who are shown as Seller in the respective prospectus filings. This is often the first entity to sell a portfolio of loans to either the Depositor (see next) or the trust.

Depositor – A bankruptcy-remote Special Purpose Entity (SPE) established for the sole purpose of buying

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portfolios and selling them into trusts to establish the "true sale" of the loans. The Depositor sells the securities issued by the Trust to investment banks (the Underwriters), and is the name under which you will most often find the deal documents indexed with the SEC (see accompanying chart for a listing of SPE's and their affiliations).

Trust – The trust is another Special Purpose Entity whose sole purpose is to hold the loan portfolio described in the associated prospectus supplement. The Trust is also considered the Issuer of the bonds or certificates eventually purchased by investors, but frequently the sponsor of the securitization will be referred to as the issuer.

Trustee – As the fiduciary representing the bondholders, the trustee is the holder of the loans in their capacity solely as trustee on behalf of the trust.

Underwriter – Simultaneous with a trust's purchase of a loan pool from the Depositor, the trust issues bonds or certificates to the Depositor representing ownership interests in the trust; the Depositor has an agreement to sell these securities to the Underwriters, who are investment banks that will then re-sell the securities to investors. The dollar allocation of each underwriter's share of securities is spelled out in the Prospectus Supplement.

Master Servicer – used in deals where there are subservicers, the Master Servicer's job is to oversee the sub-servicers and to account for remittance payments to either the Trustee or directly to the investors. This is a typical arrangement where an originator utilizes a "shelf registration" of an investment bank but retains the servicing rights after securitization.

Servicer – Oftentimes the loan servicer is also the originator, but in recent years the use of sub-servicers or specialty servicers has become commonplace. Popular specialty servicers include Ocwen Loan Servicing, Litton Loan Servicing, Select Portfolio Servicing (fka Fairbanks Capital Corporation), and America's Servicing Company (dba for Wells Fargo).

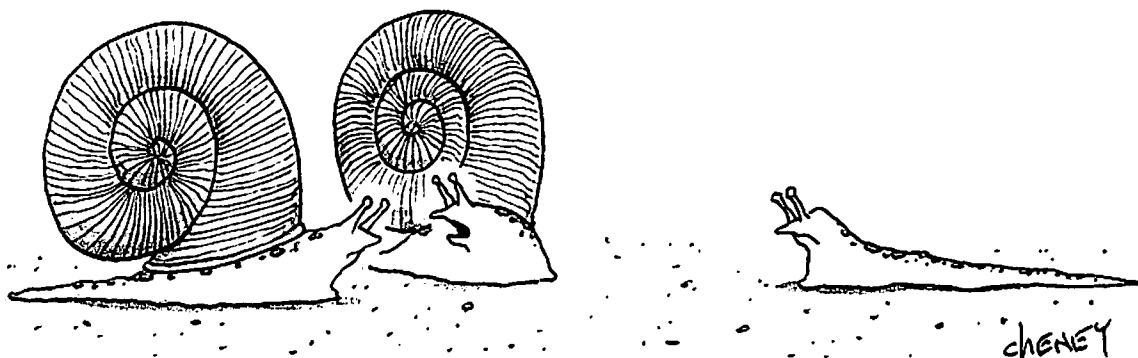
Certificate or Bond Insurer – Many loan originators do not have the credit rating or financial capacity that would automatically garner a high credit rating, and therefore their pools of loans need credit enhancement. This often comes in the form of a surety bond provided by bond insurers such as MBIA, Ambac Assurance, Financial Security Assurance, or Financial Guaranty Insurance Corporation, and lowers the cost of the securitization and the return demanded by investors in the bonds or certificates being offered.

Rating Agencies – Before an asset-backed issuance is priced, the structure of the deal and the participants are reviewed by credit rating agencies Standard and Poor's, Moody's, Fitch or Dominion Bond Rating Service to assess the relative level of risk posed for investors. This assessment is carried out according to each rating agency's guidelines for the specific type of transaction under consideration. As an example, see Standard and Poor's rating criteria for subprime mortgage transactions available at their website (see "Resources").

Practical Applications

How do you put this knowledge into practice? Assume someone asks you to find out what entities sponsored deals involving loans originated by New Century Mortgage Corporation in the past twelve months. Following would be a basic analysis to answer this question:

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"Remember, not one word about his foreclosure."

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I. What entities securitized New Century loans in the past 12 months?:

Go to <http://pro.edgar-online.com/expandedsearch.aspx> and do a keyword search on the phrase "New Century Mortgage" in the 'Full Text Search' section, then under the 'Form Type' section specify Form 424B5. You can tailor the date range of your search for more specificity.

From April 2007 through mid-July 2007, the results indicate at least ten separate entities securitizing loans originated by New Century. Use this information to obtain the full-text document for free on the SEC EDGAR database:

<http://www.sec.gov/edgar/searchedgar/companysearch.html>.

At the EDGAR search site, enter the exact name as it appears in the "A" above in the 'Company Name' box. Look for the 424B5 filed on the date listed in step "A" in this list of filings. Note that the Pooling and Servicing Agreement will typically be filed shortly after the Prospectus Supplement for any given deal, and will be filed on Form 8-K.

II. What is the profile of the loans included in the securitization and which entities are involved?

A Prospectus Supplement and Prospectus are meant to give investors all the information they need to make an informed decision about whether to buy the securities in question. Thus the index to the prospectus supplement is your roadmap to every securitization transaction (the prospectus is a more generic form and the supplement applies to specific pools).

In every Prospectus Supplement there is a section describing in tabular form the loan pool being securitized, including a breakdown of loans by fixed vs. adjustable, by state, by interest rate, by loan balance, first vs. second lien, prepayment penalty periods (if any), and FICO score distribution, among others descriptive categories.

Resources

1) To obtain corporate filings with the Securities and Exchange Commission (SEC):

<http://www.sec.gov/edgar/searchedgar/companysearch.html>

<http://www.edgaronline.com>

<http://www.10kwizard.com>

2) For specific information regarding asset-backed securities, or general topics involving securitization, see the following sites:

<http://www.absnet.net> – great site for staying abreast of asset-backed securitization information. Must register and the premium service is fee-based, but the free information gives a good map of what's happening in all

sectors of the ABS industry.

<http://www.securitization.net> – general informational site with a great deal of free and easily accessible information.

<http://www.vinodkothari.com/index.htm> – another general informational site by an industry expert.

<http://www.sifma.org> – home page of The Securities Industry and Financial Markets Association (the entity resulting from the merger of The Bond Market Association and The Securities Industry Association). See their site <http://www.investinginbonds.com> for educational information on all aspects of bonds.

<http://www.standardandpoors.com> – for asset-backed securitization information, go to the "Structured Finance" sections. Included are reviews of servicers as well as quarterly updates on new securitizations that give summaries of average FICO scores, LTVs, and type of loan, i.e. fixed vs. adjustable. S&P also publishes their criteria when reviewing subprime securitizations on this site.

<http://www.moody.com> – gives some basic information for free, but must subscribe for more extensive data and reports.

<http://www.fitchratings.com> – like Moody's, must be a subscriber for anything beyond basic information, though recent problems in the subprime industry have led to a great deal of useful analysis and articles by clicking on their link to subprime mortgage-related information.

<http://www.dbrs.com> – the last of the four rating agencies, with good content available at no charge.

To research debtor/creditor relationships, Uniform Commercial Code (UCC) filings with each state's respective Secretary of State provide a glimpse into who is financing whom. The best (free) place to do this is each state's respective Secretary of State website; a listing of all Secretaries of State can be found at the website of the National Association of Secretaries of State: <http://www.nass.org> and click on either "Corporate Registration" or "UCC Filings" in the left column.

This can be especially useful because each successive purchaser of a loan pool in a securitization transaction files a UCC-1 (financing statement) showing the seller of the loans as a debtor and the purchaser as a secured party.

UCC filings are also helpful when assessing what sources of capital lenders are utilizing for their loan originations. While a UCC-1 and its attachments do not usually include loan documents or loan information, they can tell you what financial relationships exist and are particularly useful for researching private companies that do not file with the SEC.

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The following table, "Securitization Sponsors and Affiliated SPEs," contains a listing of originators/buyers of loans and their securitization Depositors.

**RESIDENTIAL SUBPRIME and ALT-A SECURITIZATION SPONSORS and
AFFILIATED SPECIAL PURPOSE ENTITIES**

SECURITIZATION SPONSORS (Lender/Investment Bank)	AFFILIATED SPECIAL PURPOSE ENTITY
Accredited Home Lenders, Inc.	Accredited Mortgage Loan REIT Trust
American Home Mortgage Corp	American Home Mortgage Assets LLC
Ameriquest Mortgage Inc	Ameriquest Mortgage Securities, Inc. Argent Securities, Inc. Park Place Securities, Inc.
Bank of America, NA	Asset-Backed Funding Corp.
Barclays Bank PLC	Securitized Asset Backed Receivables, LLC (SABR)
Bayview Financial, LP	Bayview Financial Securities Company, LLC
Bear Stearns	Bear Stearns Asset Backed Corp. Bear Stearns Asset Backed Securities, Inc. Structured Asset Mortgage Investments, Inc.
Carrington Securities, LP (Carrington Capital Management)	Stanwich Asset Acceptance Company, LLC
Chase Manhattan Mortgage Corp.	Chase Funding, Inc.
Citicorp Trust Bank, FSB	Citicorp Residential Mortgage Securities, Inc
CitiMortgage, Inc	Citicorp Mortgage Securities, Inc Citigroup Mortgage Loan Trust, Inc
Countrywide Home Loans Inc	CWABS, Inc. CWALT, Inc.
Credit Suisse/DLJ Mortgage Capital, Inc.	Asset-Backed Securities Corp Credit Suisse First Boston Mortgage Securities, Inc.
Delta Funding Corp.	Renaissance Mortgage Acceptance Corp.
Deutsche Bank AG (DB Structured Products, Inc)	Ace Securities Corp. Deutsche Alt-A Securities, Inc
Fieldstone Investment Corporation	Fieldstone Mortgage Investment Corp.
Goldman Sachs & Co.	GS Mortgage Securities Corp.
Greenpoint Mortgage Funding, Inc.	Greenpoint Mortgage Securities, LLC
Greenwich Capital Markets, Inc. (Royal Bank of Scotland)	Financial Asset Securities Corp.
HSBC Finance Corp (old Household Finance)	HSBC Home Equity Loan Corp. (formerly HFC Revolving Corp)

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**RESIDENTIAL SUBPRIME and ALT-A SECURITIZATION SPONSORS and
AFFILIATED SPECIAL PURPOSE ENTITIES**

SECURITIZATION SPONSORS (Lender/Investment Bank)	AFFILIATED SPECIAL PURPOSE ENTITY
HSBC Holding plc	HSI Asset Securitization Corp
Indymac Bank	Indymac ABS, Inc
JPMorgan Chase/Banc One Financial, LLC	Bond Securitization, LLC Chase Funding, Inc JPMorgan Acceptance Corporation (JPMAC)
Lehman Brothers	Lehman ABS Corp. Structured Asset Securities Corp.
Long Beach Mortgage Co.	Long Beach Securities Corp.
Merrill Lynch	Merrill Lynch Mortgage Investors, Inc.
Morgan Stanley	Morgan Stanley Dean Witter Capital, Inc. Morgan Stanley ABS Capital I, Inc.
New Century Mortgage Corp.	New Century Mortgage Securities LLC
Novastar Mortgage, Inc.	Novastar Mortgage Funding Corporation Novastar Certificates Financing Corporation
Opteum Financial Services, LLC (fka Homestar Financial Services, LLC)	Opteum Mortgage Acceptance Corp. (fka Homestar Mortgage Acceptance Corp.)
Option One Mortgage Corp.	Option One Mortgage Acceptance Corp.
Residential Funding Company, LLC (ultimate parent: GMAC)	Residential Asset Securities Corp (RASC) Residential Asset Mortgage Products (RAMP) Residential Accredited Loan, Inc (RALI)
People's Choice Home Loans, Inc.	People's Choice Home Loan Securities Corp.
Saxon Mortgage, Inc.	Saxon Asset Securities Company
Salomon Smith Barney	Salomon Smith Barney Mortgage Securities
UBS Real Estate Securities, Inc.	Mortgage Asset Securitization Transactions, Inc. (MASTR)
Wachovia Securities	Residential Asset Funding Corporation
Washington Mutual Bank	WaMu Asset Acceptance Corp Washington Mutual Mortgage Securities Corp
Wells Fargo Bank	Wells Fargo Asset Securities Corp.

Bio

Kevin Byers is a licensed CPA with over twelve years' experience directing the affordable housing and real estate work of two not-for-profit community development corporations. For many of those years he had a side business researching and investigating subprime

mortgage lending, including extensive work on the secondary market and securitization transactions. He now has his own forensic accounting consulting practice focusing on real estate-related matters including mortgage origination and servicing, and maintains an active presence in Atlanta providing consulting services to affordable housing developers.