

**Hearing Date: January 14, 2013 at 9:00 a.m. (ET)**  
**Objection Deadline: November 28, 2012 at 4:00 p.m. (ET)**

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Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

-----	)	
In re:	)	Case No. 12-12020 (MG)
	)	
RESIDENTIAL CAPITAL, LLC, <u>et al.</u> ,	)	Chapter 11
	)	
Debtors.	)	Jointly Administered
-----	)	

**NOTICE OF HEARING ON DEBTORS' SECOND SUPPLEMENTAL MOTION  
PURSUANT TO FED. R. BANKR. P. 9019 FOR APPROVAL OF RMBS TRUST  
SETTLEMENT AGREEMENTS**

**PLEASE TAKE NOTICE** that, on October 19, 2012, the above-captioned debtors and debtors in possession (collectively, the "Debtors") filed *Debtors' Second Supplemental Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* (the "Motion").

**PLEASE TAKE FURTHER NOTICE** that a hearing will be held on the Motion before the Honorable Martin Glenn, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York, Courtroom 501, One Bowling Green, New York,



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New York 10004 (the “Bankruptcy Court”) on **January 14, 2013 at 9:00 a.m. (prevailing Eastern time)**, or as soon thereafter as counsel may be heard.

**PLEASE TAKE FURTHER NOTICE** that objections, if any, to the Motion and the relief requested therein must be filed with the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, NY 10004 and served so as to be received by the following parties no later than **4:00 p.m. Eastern time on November 28, 2012:**

(a) Residential Capital, LLC, 1177 Avenue of the Americas, New York, NY 10036 (Attn: Tammy Hamzehpour); (b) counsel for the Debtors and Debtors in Possession, Morrison & Foerster LLP, 1290 Avenue of the Americas, New York, NY 10104 (Attn: Gary S. Lee, Anthony Princi, Jamie Levitt, and Larren M. Nashelsky); (c) the Office of the United States Trustee for the Southern District of New York, 33 Whitehall Street, 21<sup>st</sup> Floor, New York, NY 10004 (Attn: Tracy Hope Davis, Linda A. Riffkin, and Brian S. Masumoto); (d) the Office of the United States Attorney General, U.S. Department of Justice, 950 Pennsylvania Avenue NW, Washington, DC 20530-0001 (Attn: US Attorney General, Eric H. Holder, Jr.); (e) Office of the New York State Attorney General, The Capitol, Albany, NY 12224-0341 (Attn: Nancy Lord, Esq. and Neal Mann, Esq.); (f) Office of the U.S. Attorney for the Southern District of New York, One St. Andrews Plaza, New York, NY 10007 (Attn: Joseph N. Cordaro, Esq.) (g) counsel for Official Committee of Unsecured Creditors, Kramer Levin Naftalis & Frankel LLP, 1117 Avenue of the Americas, New York, NY 10036 (Attn: Ken Eckstein and Douglas H. Mannal); (h) Citibank N.A., 390 Greenwich Street, 6th Floor, New York, NY 10013 (Attn: Bobbie Theivakurnaran); (i) Fannie Mae, 3900 Wisconsin Avenue NW, Mail Stop 8H-504, Washington, D.C. 20016 (Attn: Vice President, Credit Management, John S. Forlines); (j) counsel for Ally Financial Inc., Kirkland & Ellis, 601 Lexington Avenue, New York, NY 10022 (Attn: Richard M. Cieri and

Ray C. Schrock) (k) Deutsche Bank Trust Company Americas, 25 DeForest Avenue, Summit, NJ 07901 (Attn: Kevin Vargas); (l) The Bank of New York Mellon, Asset Backed Securities Group, 101 Barclays Street 4W, New York, NY 10286; (m) U.S. Bank National Association, 50 South 16th Street, Suite 2000, Philadelphia, PA 19102 (Attn: George Rayzis); (n) U.S. Bank National Association, 60 Livingston Avenue, EP-MN-WS1D, St. Paul, MN 55107 (Attn: Irina Palchuk); (o) counsel to U.S. Bank National Association, Kelley Drye & Warren LLP, 101 Park Avenue, New York, NY 10178 (Attn: James S. Carr and Eric R. Wilson); (p) Wells Fargo Bank, N.A., P.O. Box 98, Columbia, MD 21046 (Attn: Corporate Trust Services, GMACM Home Equity Notes 2004 Variable Funding Trust); (q) counsel to the administrative agent for the Debtors' proposed providers of debtor in possession financing, Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036 (Attention: Kenneth S. Ziman and Jonathan H. Hofer); (r) Nationstar Mortgage LLC, 350 Highland Drive, Lewisville, TX 75067 (Attn: General Counsel) (s) counsel to Nationstar Mortgage LLC, Sidley Austin LLP, One South Dearborn, Chicago, IL 60603 (Attn: Larry Nyhan and Jessica CK Boelter); (t) Internal Revenue Service, P.O. Box 7346, Philadelphia, PA 19101-7346 (if by overnight mail, to 2970 Market Street, Mail Stop 5-Q30.133, Philadelphia, PA 19104-5016); (u) Securities and Exchange Commission, New York Regional Office, 3 World Financial Center, Suite 400, New York, NY 10281-1022 (Attn: George S. Canellos, Regional Director); (v) Talcott Franklin, P.C., 208 N. Market Street Suite 200, Dallas, Texas 75202 (Attn: Talcott Franklin), Miller, Johnson, Snell & Cummiskey, P.L.C., 250 Monroe Avenue NW, Suite 800, P.O. Box 306 Grand Rapids, MI 49501-0306, (Attn: Thomas P. Sarb), and Carter Ledyard & Milburn LLP, 2 Wall Street, New York, New York 10005 (Attn: James Gadsden); and (x) Gibbs & Bruns LLP, 1100 Louisiana, Suite 5300, Houston, TX 77002 (Attn: Kathy D. Patrick) and Ropes & Gray LLP, 1211 Avenue

of the Americas, New York, NY 10036-8704 (Attn: D. Ross Martin and Keith H. Wofford);  
(y) counsel to the Bank of New York Mellon Trust Company, N.A., Dechert LLP, 1095 Avenue  
of the Americas, New York, NY 10036 (Attn: Glenn E. Siegel); (z) counsel to Deutsche Bank  
National Trust Company and Deutsche Bank Trust Company Americas, Morgan, Lewis &  
Brockius LLP, 101 Park Avenue, New York, NY 10178 (Attn: James L. Garrity, Jr.); (aa)  
counsel to Wells Fargo Bank, National Association, Alston & Bird LLP, 90 Park Avenue, New  
York, NY 10016 (Attn: Martin G. Bunin); and (bb) counsel to U.S. Bank National Association  
or Wells Fargo Bank, N.A., Seward & Kissel LLP, One Battery Park Plaza, New York, NY  
10004 (Attn: Ronald L. Cohen).



**PLEASE TAKE FURTHER NOTICE** that the relief requested in the Motion may be granted without a hearing if no objection is timely filed and served as set forth above and in accordance with the order, dated May 23, 2012, implementing certain notice and case management procedures in these cases [Docket No. 141] (the “Case Management Order”).

Dated: October 19, 2012  
New York, New York

/s/ Gary S. Lee  
\_\_\_\_\_  
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*Counsel for the Debtors and  
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Darryl Rains  
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*Counsel for the Debtors  
and Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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In re:	)	Case No. 12-12020 (MG)
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RESIDENTIAL CAPITAL, LLC, <u>et al.</u> ,	)	Chapter 11
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Debtors.	)	Jointly Administered
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**DEBTORS' SECOND SUPPLEMENTAL MOTION PURSUANT TO FED. R. BANKR. P.  
9019 FOR APPROVAL OF THE RMBS TRUST SETTLEMENT AGREEMENTS**

## TABLE OF CONTENTS

	Page
INTRODUCTION .....	2
JURISDICTION AND VENUE .....	7
BACKGROUND .....	7
A.    THE MECHANICS OF THE RMBS TRUST SETTLEMENT.....	11
B.    THE AGREED-UPON ALLOWED CLAIM.....	15
C.    PLAN SUPPORT AND THE RESOLUTION OF OBJECTIONS TO THE DEBTORS' PROPOSED SALE.....	18
D.    PAYMENT OF LEGAL FEES.....	19
RELIEF REQUESTED.....	20
ANALYSIS.....	20
A.    THE RMBS TRUST SETTLEMENT SATISFIES THE SECOND CIRCUIT'S STANDARD UNDER FED. R. BANKR. P. 9019(a).....	20
i.    THE BALANCE BETWEEN THE LITIGATION'S POSSIBILITY OF SUCCESS AND THE SETTLEMENT'S FUTURE BENEFITS .....	22
ii.   THE LIKELIHOOD OF COMPLEX AND PROTRACTED LITIGATION .....	26
iii.  THE PARAMOUNT INTERESTS OF CREDITORS .....	29
iv.   SUPPORT FOR THE SETTLEMENT BY THE PARTIES IN INTEREST .....	30
v.    THE PROPOSED RMBS TRUST SETTLEMENT SATISFIES THE REMAINING <i>IRIDIUM</i> FACTORS .....	31
B.    THE RMBS TRUST SETTLEMENT IS FAIR AND REASONABLE TO THE INSTITUTIONAL INVESTORS AND OTHER CERTIFICATEHOLDERS IN THE TRUSTS.....	31
i.    THE TRUSTS' RECOVERY UNDER THE RMBS TRUST SETTLEMENT IS WITHIN THE RANGE OF THE DEBTORS' POTENTIAL REPURCHASE LIABILITY .....	32
ii.   THE TRUSTS AND INVESTORS ALSO AVOID THE COSTS AND DELAYS OF LITIGATION.....	33
CONCLUSION.....	34
NOTICE.....	35
NO PRIOR REQUEST.....	35

## TABLE OF AUTHORITES

	<u>Page(s)</u>
 <b>CASES</b>	
<i>Federal Housing Finance Agency, as Conservator for The Federal Home Loan Mortgage Corporation v. Ally Financial Inc.,</i> No. 11 Civ. 7010 (S.D.N.Y. Sept. 2, 2011) .....	16 n.43
<i>Finkelstein v. W. T. Grant Co. (In re W.T. Grant Co.),</i> 699 F.2d 599 (2d Cir. 1983).....	21, 34
<i>In re Bank of New York Mellon,</i> No. 651786/2011 (Sup. Ct. N.Y. Cnty. June 29, 2011) .....	4 n.7, 24 n.67
<i>In re Hibbard Brown &amp; Co.,</i> 217 B.R. 41 (Bankr. S.D.N.Y. 1998).....	20-21, 22
<i>In re Ionosphere Clubs, Inc.,</i> 156 B.R. 414 (S.D.N.Y. 1993).....	20
<i>In re Lehman Bros. Holdings Inc.,</i> No. 08-13555 (Bankr. S.D.N.Y. Feb. 22, 2012) .....	23, 24 n.68
<i>In re Purofied Down Prods.,</i> 150 B.R. 519 (S.D.N.Y. 1993).....	21
<i>In re Residential Capital,</i> No. 12-12020 (Bankr. S.D.N.Y. May 14, 2012).....	7 n.12
<i>Kame v. Johns-Manville Corp.,</i> 843 F.2d 636 (2d Cir. 1988).....	21 n.57
<i>Mass. Mutual Life Ins. Co. v. Residential Funding Co.,</i> No. 11-cv-30035-MAP (D. Mass. May 17, 2012) .....	16 n.44
<i>MBIA Ins. Corp. v. Residential Funding Co.,</i> No. 603552/2008 (Sup. Ct. N.Y. Cnty. Dec. 4, 2008) .....	15 nn. 39 & 42, 27
<i>MBIA Ins. Corp. v. Countrywide Home Loans, Inc.,</i> No. 602825/08 (Sup. Ct. N.Y. Cnty) .....	28 n.92
<i>Motorola, Inc. v. Official Comm. of Unsecured Creditors (In re Iridium Operating LLC),</i> 478 F.3d 452 (2d Cir. 2007).....	22
<i>Nellis v. Shugrue,</i> 165 B.R. 115 (S.D.N.Y. 1994).....	20, 21

<i>Newman v. Stein</i> , 464 F.2d 689 (2d Cir. 1972).....	21
<i>Ogle v. Fid. &amp; Deposit Co. of Md.</i> , 586 F.3d 143 (2d Cir. 2009).....	21 n.57
<i>Porges v. Gruntal &amp; Co. (In re Porges)</i> , 44 F.3d 159 (2d Cir. 1995).....	21 n.57

#### STATUTES

28 U.S.C. § 157.....	7
28 U.S.C. § 1334.....	7
28 U.S.C. § 1408.....	7
28 U.S.C. § 1409.....	7
Fed. R. Bankr. P. 2002.....	35
Fed. R. Bankr. P. 9019 .....	7, 20, 34

EXHIBIT 1 – Amended Proposed Order

EXHIBIT 2 – Third Amended and Restated RMBS Trust Settlement Agreement with the  
Steering Committee Group

EXHIBIT 3 – Third Amended and Restated RMBS Trust Settlement Agreement with the Talcott  
Franklin Group

EXHIBIT 4 – Supplemental Declaration of Jeffrey A. Lipps

EXHIBIT 5 – Supplemental Declaration of Frank Sillman in Support of Debtors’ Motion  
Pursuant to Fed. R. Bankr. P. 9019 for Approval of the RMBS Trust Settlement  
Agreements

**TO THE HONORABLE JUDGE GLENN,  
UNITED STATES BANKRUPTCY JUDGE:**

Residential Capital, LLC (“ResCap LLC”) and each of its debtor affiliates (collectively, the “Debtors”), submit this *Debtors’ Second Supplemental Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* (the “Second Supplement”), amending and supplementing the *Debtors’ Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* [ECF Doc. # 320] (the “Initial Motion”) and the *Debtors’ Supplemental Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* [ECF Doc. # 1176] (the “Supplement,” and together with the Initial Motion and the Second Supplement, the “Motion”), under Rule 9019 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”). With the Motion, the Debtors seek entry of an order substantially in the form annexed hereto as Exhibit 1 (the “Amended Proposed Order”) approving the compromise and settlement of an allowed claim of up to \$8.7 billion against certain Debtors, as described below (the “Allowed Claim”), to be offered to and allocated amongst certain securitization trusts in accordance with the terms and conditions of the RMBS Trust Settlement Agreements (as defined herein),<sup>1</sup> attached hereto as Exhibits 2 and 3

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<sup>1</sup> The Debtors entered into two identical settlement agreements with two sets of institutional investors that own securities held by the Trusts (as defined below). The first is a group of institutions represented by Kathy Patrick of Gibbs & Bruns LLP (the “Steering Committee Group”). The other group of investors is represented by Talcott Franklin of Talcott Franklin, P.C. (the “Talcott Franklin Group” and, together with the Steering Committee Group, the “Institutional Investors”). As explained below, these settlements will jointly draw on the same allowed claim against certain Debtors, and, accordingly, this settlement process warrants a single motion for their approval by the Court under the Bankruptcy Code and the Bankruptcy Rules. The Amended RMBS Trust Settlement Agreements, attached to the Supplement as Exhibits 2 and 3, have been amended and restated through continued negotiation by the Parties. Though the Parties executed Second Amended and Restated RMBS Trust Settlement Agreements, the parties further amended those agreements based on the views expressed by the Court during the September 19, 2012, status hearing on the 9019 Motion. The resulting Third Amended and Restated RMBS Trust Settlement Agreements are attached hereto as Exhibit 2 and Exhibit 3

(collectively, the “RMBS Trust Settlement”). For the sake of clarity, the Debtors note that this Motion concerns only the RMBS Trust Settlement. Neither this Motion nor the RMBS Trust Settlement is contingent upon any plan support agreement with any other party or upon the settlement between the Debtors and Ally Financial Inc. (“AFI”).

In support of this Motion, the Debtors refer to the affidavit of James Whitlinger, the declaration of Jeffrey Lipps dated May 24, 2012 (the “Lipps Declaration”), the declaration of Frank Sillman (the “Sillman Declaration”), and the declaration of William J. Nolan (the “Nolan Declaration”), filed with the Initial Motion, the supplemental declaration of Frank Sillman (“Sillman Supp. Decl.”) and the supplemental declaration of Jeffrey Lipps dated September 28, 2012 (“Lipps Supp. Decl.”), as well as other supporting materials, and respectfully state as follows:<sup>2</sup>

### **INTRODUCTION**

1. The RMBS Trust Settlement resolves, in exchange for the Allowed Claim, alleged and potential representation and warranty claims (the “R&W Claims”) held by up to 392 securitization trusts (each a “Trust” and, collectively, the “Trusts”)<sup>3</sup> in connection with approximately 1.6 million mortgage loans and approximately \$221 billion in original issue balance (“OIB”) of associated residential mortgage-backed securities (“RMBS”), comprising all

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(such agreements, collectively, the “RMBS Trust Settlement Agreements”). To the extent of any inconsistencies between the Motion and the terms of the RMBS Trust Settlement, the RMBS Trust Settlement shall control in all respects.

<sup>2</sup> Capitalized terms not otherwise defined herein have the meanings ascribed to them in the RMBS Trust Settlement Agreements.

<sup>3</sup> In an agreement separate from and not affecting the RMBS Trust Settlement or the Allowed Claim (as defined below), the Debtors have agreed to negotiate in good faith with the Trustees concerning the resolution of claims, if any, held by trusts not covered by the RMBS Trust Settlement.

of such securities issued by the Debtors' affiliates from 2004 to 2007.<sup>4</sup> While the exact amount of such claims is the subject of debate, in aggregate the R&W Claims represent tens of billions of dollars in potential claims against the Debtors' estates.<sup>5</sup> The R&W Claims allegedly arise under Pooling and Servicing Agreements, Assignment and Assumption Agreements, Indentures, Mortgage Loan Purchase Agreements, and other documents governing the Trusts (collectively, the "Governing Agreements"). These Governing Agreements require mortgage Sellers,<sup>6</sup> in certain circumstances, to repurchase securitized Mortgage Loans that materially breach applicable representations and warranties. While the Debtors dispute the Trusts' claims, the Debtors have repurchased approximately \$1.16 billion in loans out of \$30.3 billion cumulative losses to date since 2005 to resolve similar contractual representation and warranty claims. The Debtors dispute the R&W Claims and will vigorously defend future contractual representation and warranty claims brought against them. However, absent the RMBS Trust Settlement, the Debtors' estates face substantial litigation costs and risks in connection with the R&W Claims and potentially disabling disruption to confirmation of a chapter 11 plan.

2. The R&W Claims are the single largest set of disputed claims against the Debtors' estates by a wide margin, and the RMBS Trust Settlement would resolve them without the need for protracted, costly, and all-consuming litigation. The enormous expense to the Debtors' estates and delays in administering the Debtors' bankruptcy cases that pursuing such

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<sup>4</sup> The Institutional Investors are a substantial subset of the certificateholders who own the securities held by the Trusts. The entire group of the certificateholders is referred to herein as the "Investors" or the "Holders."

<sup>5</sup> For instance, AFI, the Debtors' ultimate parent company and a secured creditor in the Debtors' bankruptcy cases, has also taken reserves in the billions of dollars and, for accounting purposes, made disclosures that these liabilities could be significant. *See, e.g.*, AFI Form 10-Q, filed April 27, 2012.

<sup>6</sup> In descriptions of the terms of the Governing Agreements, capitalized terms have the meaning ascribed to them in the Governing Agreements.



litigation would cause are clear. Prepetition litigation of similar claims by debtor Residential Funding Company, LLC (“RFC”), for example, which involved just five securitizations and only 63,000 home equity lines of credit or closed-end second mortgages issued by RFC in just one year, required RFC to produce 1,000,000 pages of documents along with a terabyte of data and involved 80 days of fact depositions of current or former RFC and other personnel. In contrast, and dwarfing the scope of this litigation, litigation of the R&W Claims would be based on almost 400 separate securitizations and would involve approximately 1.6 million mortgage loans of varying sizes and loan types securitized over many years. Resolving the R&W Claims through litigation would drain exponentially more resources of the estate than Debtors’ prepetition litigation of similar claims. As discussed below, the litigation of the R&W Claims would lead to objections and additional litigation by the Trusts and Institutional Investors in the bankruptcy cases, which could undermine the cornerstones of the Debtors’ restructuring strategy and substantially hinder the Debtors’ reorganization.

3. As described at the first-day hearings in these cases, the Debtors and two large groups of investors, which include some of the world’s largest and most sophisticated,<sup>7</sup> extensively negotiated the terms of the proposed compromise in the period leading up to the Debtors’ May 14, 2012 bankruptcy filing (the “Petition Date”).<sup>8</sup> The Steering Committee Group

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<sup>7</sup> Many of the investors in the Steering Committee Group were previously involved in similar negotiations with other major financial institutions that were involved in mortgage origination, and were able to use their collective negotiating position to reach an \$8.5 billion settlement with Bank of America, N.A., approval of which is pending in a New York state court. *See In re Bank of New York Mellon*, No. 651786/2011 (Sup. Ct. N.Y. Cnty. June 29, 2011).

<sup>8</sup> The investors in the Steering Committee Group consist of AEGON USA Investment Management, LLC, Angelo Gordon, Bayerische Landesbank, BlackRock Financial Management Inc., Cascade Investment, LLC, Federal Home Loan Bank of Atlanta, Goldman Sachs Asset Management, L.P., ING Investment Management Co. LLC, ING Investment Management LLC, Kore Advisors, L.P., Pacific Investment Management Company LLC, Maiden Lane LLC and Maiden Lane III LLC (by the Federal Reserve Bank of New York as managing member),

alone represents 25% or more of the Holders of one or more classes of certificates in at least 304 of the 392 Trusts, which Trusts account for approximately 77.5% of the total OIB. As of the filing of this Motion, the Talcott Franklin Group represents 25% or more of the Holders of 295 classes of certificates in at least 189 Trusts, which accounts for an additional \$17 billion in OIB and adds 35 additional Trusts to the Institutional Investors' holdings. The Institutional Investors currently hold at least 25% of the voting rights (as required by the Governing Agreements) of a class of the RMBS in not less than 336 of the Trusts, with OIB of approximately \$193 billion, which accounts for approximately 87% of the total OIB, and that they have directed the trustees

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Metropolitan Life Insurance Company, Neuberger Berman Europe Limited, SNB StabFund, The TCW Group, Inc., Teachers Insurance and Annuity Association of America, Thrivent Financial for Lutherans, Western Asset Management Company, and certain of their affiliates, either in their own capacities or as advisors or investment managers.

As of the filing of this second supplemental motion, the investors in the Talcott Franklin Group consist of: Anchor Bank, fsb, Bankwest, Inc., Blue Heron Funding V, Caterpillar Life Insurance Company, Caterpillar Insurance Co. Ltd., Caterpillar Product Services Corporation, Cedar Hill Mortgage Opportunity Master Fund, L.P., Citizens Bank & Trust Co., Commerce Bancshares, Inc., Commonwealth Advisors, Inc., CQS ABS Master Fund Limited, CQS Select ABS Master Fund Limited, CQS ABS Alpha Master Fund Limited, Citizens Bank and Trust Company, DNB National Bank, Doubleline Capital LP, Ellington Management Group, LLC., Everest Reinsurance (Bermuda) Ltd., Everest International Re, Ltd., Farallon Capital Management, L.L.C., Farmers and Merchants Trust Company of Chambersburg, First National Bank and Trust Company of Rochelle, First National Banking Company, First National Bank of Wynne, First FarmersState Bank, First Bank, Gemstone CDO I, Gemstone CDO II, Gemstone CDO V, Gemstone CDO VII, HBK Master Fund L.P., Heartland Bank, Kerndt Brothers Savings Bank, Kleros Preferred Funding V plc, Knights of Columbus, LL Funds LLC, Lea County State Bank, Manichaeian Capital, LLC, Mutual Savings Association FSA, Northwestern Bank N.A., Pinnacle Bank of South Carolina, Peoples Independent Bank, Perkins State Bank, Phoenix Light SF Limited, Radian Asset Assurance Inc., Randolph Bank and Trust, Rocky Mountain Bank & Trust, Royal Park Investments SA/NV, SBLI USA Mutual Life Insurance Company, Silver Elms CDO II Limited, Silver Elms CDO plc, South Carolina Medical Malpractice Liability JUA, Summit Credit Union, Thomaston Savings Bank, Union Investment Luxembourg S.A., United Educators Insurance - Reciprocal Risk Retention Group, Wells River Savings Bank, Vertical Capital, LLC, and certain of their affiliates, either in their own capacities or as advisors or investment managers.

Collectively, the Institutional Investors and their clients have aggregate holdings of securities of greater than 25% of the voting rights in one or more classes of securities issued by not less than 336 of the Trusts covered by the RMBS Trust Settlement.

of these Trusts<sup>9</sup> to accept the settlement.<sup>10</sup> The RMBS Trust Settlement is structured to provide the same settlement opportunity to all Trusts, not just those in which the Institutional Investors have significant holdings.

4. Additionally, the RMBS Trust Settlement is an integral component of the Debtors' efforts to restructure. The RMBS Trust Settlement allowed the Debtors to defer additional and allegedly substantial objections to the proposed sale of the Debtors' mortgage origination and servicing platform. For example, the Institutional Investors and the Trustees argue that the Trusts have (i) substantial cure claims in connection with any assumption and assignment of the Debtors' Pooling and Servicing Agreements, which assignment is the foundation of the Debtors' proposed sale and (ii) potential claims for setoff and/or recoupment that could attach to the proceeds of such sale under section 506(a) of the Bankruptcy Code. Because of the RMBS Trust Settlement, these cure claim objections were reserved with up to \$600 million to cover any such successful claims as administrative expenses in the event the RMBS Trust Settlement is not approved or fully accepted.<sup>11</sup> In consideration for accepting the RMBS Trust Settlement, the Trusts will also release their setoff and recoupment claims. While the Debtors dispute the validity of such claims, if asserted they could be in the range of billions of dollars and could eclipse the proceeds of the sale themselves.

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<sup>9</sup> The trustees are The Bank of New York Mellon Trust Company, N.A., Deutsche Bank Trust Company Americas, Deutsche Bank National Trust Company, U.S. Bank National Association or Wells Fargo Bank, N.A., in each case solely in their respective capacity as trustee or indenture trustee for a RMBS Trust and not in any other capacity) (collectively, the "Trustees").

<sup>10</sup> In addition to the holdings of each group, the Institutional Investors add two Trusts with approximately \$1.02 billion OIB when their holdings are aggregated.

<sup>11</sup> See the Court's *Revised Joint Omnibus Scheduling Order and Provisions for Other Relief Regarding (i) Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements, and (ii) The RMBS Trustees' Limited Objection to the Sale Motion* (ECF Doc. # 945) at 7-8.

5. In short, the Debtors believe that the RMBS Trust Settlement represents a fair and equitable resolution of the R&W Claims, is in the best interests of the Debtors' estates and the Trusts, and satisfies the Second Circuit's standard for approval of a compromise under Bankruptcy Rule 9019. The Debtors respectfully request that the Court authorize the Debtors to enter into, and perform under, the RMBS Trust Settlement.

### **JURISDICTION AND VENUE**

6. This Court has subject matter jurisdiction to consider this Motion pursuant to 28 U.S.C. §§ 157 and 1334, and this Motion is a "core proceeding" arising in the Chapter 11 cases.

7. Venue before this Court is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

### **BACKGROUND**

8. The Debtors are a leading residential real estate finance company indirectly owned by AFI, which is not a Debtor. The Debtors and their non-debtor affiliates operate the fifth-largest mortgage servicing business and the tenth-largest mortgage origination business in the United States. A more detailed description of the Debtors, including their business operations, their capital and debt structure, and the events leading to the filing of these bankruptcy cases, is set forth in the affidavit of James Whitlinger, dated May 14, 2012 ("Whitlinger Affidavit").<sup>12</sup>

9. Prior to the Petition Date, a principal business of the Debtors was the origination, acquisition, and securitization of residential mortgages.<sup>13</sup> From 2004 to 2007, the Debtors were

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<sup>12</sup> Submitted in *In re Residential Capital*, No. 12-12020 (Bankr. S.D.N.Y. May 14, 2012) (ECF Doc. # 6).

<sup>13</sup> See Whitlinger Aff. ¶¶ 9-37.

involved in securitizations of residential mortgage-backed securities with OIB of approximately \$221 billion.<sup>14</sup>

10. To securitize mortgage loans, Debtors RFC or GMAC Mortgage LLC (“GMAC Mortgage”) originated or acquired residential mortgage loans which were then sold to a Trust, in some cases through one or more Debtors, acting as depositor.<sup>15</sup> The interests in these Trusts — as well as the accompanying rights to receive the income generated by the mortgage loans held therein — are evidenced by the RMBS, which were created and sold to the Investors.<sup>16</sup>

11. In connection with selling mortgage loans to the Trusts, one or more of the Debtors provided contractual representations and warranties in the Governing Agreements regarding the sold mortgage loans.<sup>17</sup> These representations and warranties vary based on the Governing Agreements, but typically pertain to, among other things: (a) the standards and practices used in underwriting each mortgage loan; (b) the creditworthiness of the borrowers on the mortgage loans; (c) the percentage of a mortgage pool which has certain characteristics, such as owner-occupancy and documentation type; (d) the disclosure of information on the loan tape; (e) the completeness of each mortgage loan file; (f) the origination of the loans in accordance with applicable federal and state laws; and/or (g) various characteristics of each specific mortgage loan such as loan-to-value ratio, debt-to-income ratio, lien position, and whether the property mortgaged is owner-occupied.<sup>18</sup>

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<sup>14</sup> See *id.* ¶ 108; see also Exhibits 2 and 3 hereto (“Settlement Agrmts.”), Ex. A.

<sup>15</sup> See Whitlinger Aff. ¶ 23.

<sup>16</sup> See *id.*

<sup>17</sup> See *id.* ¶ 83. The Debtors issued their RMBS securitizations in series, so they adopted a standardized set of terms that generally applied to a particular series. Exhibit 6 to the Initial Motion is an exemplar of a typical pooling and servicing agreement.

<sup>18</sup> See Exhibit 6 to the Initial Motion, Pooling and Servicing Agreement (“Pooling and Serv. Agrmnt”) § 2.03.

12. Certain Governing Agreements contain provisions that impose a joint obligation on the mortgage Seller and Depositor to repurchase or substitute Mortgage Loans sold to a Trust that materially breach the stated representations and warranties when certain conditions are met.<sup>19</sup> In the aftermath of the substantial downturn in the real estate and financial markets beginning in 2007, investors in securitization trusts and other interested parties — such as the government-sponsored entities (“GSEs”) or “monoline” insurers, which are third-party or financial guarantors or credit enhancers — have brought claims regarding alleged breaches of representations and warranties contained in the agreements governing those trusts.<sup>20</sup> The Debtors have vigorously defended such claims, but the Debtors have nonetheless repurchased approximately \$1.16 billion in loans out of \$30.3 billion cumulative losses to date since 2005 to resolve similar contractual representation and warranty claims.<sup>21</sup> Though the Debtors do not admit liability for any repurchases associated with the R&W Claims, this previous liability suggests the potential for successful claims against the Debtors if the RMBS Trust Settlement is not approved.

13. Under the Governing Agreements, the Mortgage Loans belong to the Trusts, which hold them for the benefit of the Holders in the Trusts.<sup>22</sup> The same is true of the contractual mortgage repurchase claims: the Trusts own the claims for the benefit of the

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<sup>19</sup> See Pooling and Serv. Agrmnt § 2.04.

<sup>20</sup> See, e.g., Whitlinger Aff. ¶¶ 101-103.

<sup>21</sup> See Declaration of William J. Nolan, attached to the Initial Motion as Exhibit 7 (“FTI Decl.”) ¶¶ 9, 23; Whitlinger Aff. ¶¶ 83-84.

<sup>22</sup> See Pooling and Serv. Agrmnt § 2.01(a) (“The Company, concurrently with the execution and delivery hereof, does hereby assign to the Trustee for the benefit of the Certificateholders, without recourse all the right, title and interest of the Company in and to the Mortgage Loans...”) and § 2.02 (acceptance by Trustee).

Holders.<sup>23</sup> The Trustee for each Trust is the party ultimately authorized to pursue representation and warranty claims and to receive the proceeds from any repurchase of loans for which there is a breach of a representation or warranty.<sup>24</sup> Monoline insurers also have contractual rights in certain cases to enforce breaches of representations and warranties regarding the mortgage loans.<sup>25</sup>

14. As the ongoing housing downturn unfolded, with an unsurprising impact on the performance of the securitizations, the Institutional Investors organized themselves into voting blocs with sufficient holdings to direct or otherwise persuade trustees to pursue claims for alleged breaches of loan-level representations and warranties.<sup>26</sup> As of the date of the filing of this Motion, the Institutional Investors hold RMBS that give them 25% of the voting rights for at least 336 of the 392 outstanding securitization Trusts created by the Debtors, with approximately \$193 billion OIB.<sup>27</sup>

15. After weeks of negotiations with the Institutional Investors, the Debtors concluded that a reasonable resolution of the Trusts' repurchase claims could be achieved that would benefit all of the Debtors' creditors, by removing the risks associated with expensive and uncertain litigation over tens of billions of dollars in potential mortgage repurchase claims. As negotiated, and as discussed below, such resolution would also avoid an inevitable disruption and potential delay to the Debtors' proposed sale of its mortgage origination and servicing

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<sup>23</sup> *Id.* § 2.04 (Trustee owns and holds right to enforce mortgage repurchase claims.).

<sup>24</sup> *See id.*

<sup>25</sup> *See* Whitlinger Aff. ¶ 108.

<sup>26</sup> Most of the Trusts permit holders of 25% or more of the certificates or notes in any tranche to direct the Trustee with respect to such Trust. *See* Pooling and Serv. Agrmnt § 11.03.

<sup>27</sup> *See* Settlement Agrmts., Exs. D.

platform. These arm's-length and exhaustive negotiations culminated in the up to \$8.7 billion Allowed Claim under the RMBS Trust Settlement.

**A. THE MECHANICS OF THE RMBS TRUST SETTLEMENT**

16. As set forth in the Amended and Restated RMBS Trust Settlement Agreements, the Debtors have agreed to offer each Trust that accepts the settlement (the “Accepting Trusts”) an allocated share of the Allowed Claim. The Trustees, on behalf of the Trusts, will have fourteen days after the entry of an order by this Court approving the RMBS Trust Settlement to accept or reject the RMBS Trust Settlement.<sup>28</sup> The final amount of the Allowed Claim will be reduced from \$8.7 billion by the percentage, based on OIB, of Trusts that do not accept the offer to participate in the Allowed Claim.<sup>29</sup>

17. Each Trust's share of the Allowed Claim will be allocated under Article VI of the Amended and Restated RMBS Trust Settlement Agreements and based on the agreed-upon formulation attached to each as “Exhibit B – Allocated Allowed Claims.”<sup>30</sup> To ensure the fairness of such allocation, an independent expert will be hired to allocate the Allowed Claim based on net expected lifetime mortgage losses among the accepting Trusts, without regard to expected lifetime claims to be paid by the monoline insurers on the securitizations they insured.<sup>31</sup> Deposits into each Trust as a result of a distribution on an Allowed Claim will be treated as a

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<sup>28</sup> See the Court's *Second Revised Joint Omnibus Scheduling Order Regarding Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* (ECF Doc. # 1551), at ¶ 21. As of the time of the filing of this Motion, the Debtors have submitted to the Court a proposed *Third Revised Joint Omnibus Scheduling Order and Provisions for Other Relief Regarding Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements*, which order will amend the discovery and hearing schedule for the 9019 Motion but will not change the timeframe in which any Trust must accept or reject the RMBS Trust Settlement.

<sup>29</sup> See Settlement Agrmts. § 5.01.

<sup>30</sup> See *id.* § 6.01; *id.*, Ex. B.

<sup>31</sup> See *id.*, Ex. B.



“subsequent recovery” (where applicable) and distributed by the terms of the waterfall in the Governing Agreements.<sup>32</sup> Accordingly, the RMBS Trust Settlement and its claims allocation will prevent a windfall to any one Trust or Institutional Investor, treat the Holders equitably and in accordance with their contractual rights under the Governing Agreements, and maximize recoveries for all Investors.

18. As described in greater detail below, the Institutional Investors and the Debtors agreed, as a non-severable condition to the settlement, that the legal fees for counsel to the Institutional Investors, as well as counsel for other Investors that have sufficient holdings to direct the Trustees to accept the RMBS Trust Settlement, would be paid in the form of an allowed claim, taken from the Trusts’ Allocated Allowed Claim in the percentage set forth in Exhibit C to the RMBS Trust Settlement Agreements. Thus, the amount of the Allowed Claim allocated to counsel will reduce the amount of the Allowed Claim that is ultimately provided to the Trusts.

19. Pursuant to the language in the Settlement Agreements filed with the Initial Motion, the Institutional Investors received an Allowed Claim of up to \$8.7 billion against “Residential Capital, LLC and its direct and indirect subsidiaries.” Under the RMBS Trust Settlement Agreements attached hereto, the Allowed Claim will be against debtors RFC and GMAC Mortgage (collectively, the “Seller Entities”) and also against debtors Residential Funding Mortgage Securities I, Residential Funding Mortgage Securities II, Residential Asset Securities Corp., Residential Accredited Loans, Inc., and Residential Asset Mortgage Products, Inc. (collectively, the “Depositor Entities”).<sup>33</sup> The Seller Entities and the Depositor Entities are

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<sup>32</sup> See *id.*

<sup>33</sup> See *id.* § 6.01-02; *id.*, Ex. B.

jointly liable for each Accepting Trusts' allocable portion of the Allowed Claim (the "Allocated Claim").

20. The RMBS Trust Settlement Agreements do not provide for a claim against ResCap LLC, nor do they provide ResCap LLC with any release of claims. However, the RMBS Trust Settlement Agreements provide a mechanism for the Accepting Trusts to file a proof of claim against ResCap LLC (a "ResCap LLC Claim"). Such claim will be capped at the amount of any Accepting Trusts' Allocated Claim. ResCap LLC expressly does not concede or admit fault for any liability under the Governing Agreements, and if such a claim is made, ResCap LLC – or any other party – will have the ability to object to and fully litigate both the validity and the amount of any ResCap LLC Claims. If an Accepting Trusts' ResCap LLC claim is successful, any recovery on such claim will be reduced by any amount paid to such accepting trust under the RMBS Trust Settlement.

21. In exchange for their allocable portion of the Allowed Claim, the Trustees for the Accepting Trusts agree to release all R&W Claims for such Trusts against the Debtors, effective on the date on which a Trustee accepts the settlement on behalf of any particular Trust.<sup>34</sup> The Institutional Investors also agreed to direct and have directed the Trustees to accept the terms set forth in the RMBS Trust Settlement, which includes a release and waiver by the accepting Trusts and Trustees of all R&W Claims against the Debtors — again, effective on the date on which a Trustee accepts the settlement on behalf of any particular Trust.<sup>35</sup> If, and when, a Trustee for a particular Trust accepts the RMBS Trust Settlement, by completing the Joinder as contemplated in the Amended Proposed Order, the Trust will be bound thereby and that particular Trust will

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<sup>34</sup> See *id.* § 7.01.

<sup>35</sup> See *id.* §§ 4.01, 4.02.

benefit from the Allowed Claim.<sup>36</sup> The RMBS Trustees have endeavored, and will continue, to provide notice of the Motion and the RMBS Trust Settlements (the “RMBS Trustee Notice”) to Investors. As of the date of the filing of this Second Supplement,<sup>37</sup> the RMBS Trustee Notice has consisted of:

- Mailing a copy of the RMBS Trustee Notice to Investors whose names and addresses appear on the securities registration books of the RMBS Trustees;
- Providing the RMBS Trustee Notice to the Depository Trust Company (“DTC”), which will post the RMBS Trustee Notice in accordance with DTC’s established procedures;
- Publishing the RMBS Trustee Notice in The Wall Street Journal (Global), Financial Times Worldwide, and The New York Times for at least one (1) business day in each publication;
- Publishing the RMBS Trustee Notice to PRNewswire, a media distribution wire services;
- Establishing a website, [www.rescaprmbssettlement.com](http://www.rescaprmbssettlement.com), that will post a copy of the RMBS Trustee Notice, the RMBS Trust Settlements, and any other related, material documents that are relevant to the RMBS Trust Settlements;
- Creating a hyperlink to [www.rescaprmbssettlement.com](http://www.rescaprmbssettlement.com), on the Debtors’ claims agent website – <http://www.kccllc.net/rescap> – and investor reporting website – <https://investor.gmacrfc.com/vision/> – for information about the RMBS Trust Settlements; and
- Purchasing banner advertisements announcing the RMBS Trust Settlements, with a hyperlink to [www.rescaprmbssettlement.com](http://www.rescaprmbssettlement.com), on the following websites: [wsj.com](http://wsj.com), [MarketWatch.com](http://MarketWatch.com), [Barrons.com](http://Barrons.com), [AllthingsD.com](http://AllthingsD.com), [IHT.com](http://IHT.com), [SmartMoney.com](http://SmartMoney.com), [investors.com](http://investors.com), [reuters.com](http://reuters.com), and [economist.com](http://economist.com).

22. If a Trust does not accept the settlement — for any reason, including a decision by a Trustee or by a monoline insurer that has contractual rights with regard to a particular Trust — that Trust remains free to assert a claim in the bankruptcy cases that will then be subject to the ordinary — albeit lengthy — claims allowance process.

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<sup>36</sup> See Settlement Agrmts. § 5.01.

<sup>37</sup> While the Settlement Agreements have been amended, and the Motion supplemented, the RMBS Trustees provided the notice discussed in this section using the version of the Settlement Agreements and Motion available at the time such notice was given.

**B. THE AGREED-UPON ALLOWED CLAIM**

23. The Debtors and the Institutional Investors extensively negotiated the RMBS Trust Settlement, and, in particular, the Allowed Claim, based on differing views of the Debtors' potential liability.

24. The Debtors face considerable uncertainty and risk associated with the R&W Claims. Although the calculation and estimation of repurchase exposure depends on a number of uncertain factors that parties to, and beneficiaries of, the Governing Agreements value and measure differently, the plaintiffs in similar RMBS litigation have asserted claims in the tens of billions of dollars.<sup>38</sup> For instance, in its First Amended Complaint against RFC, MBIA alleged that more than 88% of 7,913 delinquent mortgage loans it had reviewed breached a representation or warranty.<sup>39</sup> If this alleged breach rate were applied across all of the Debtors' securitizations, it would yield a repurchase claim in excess of \$40 billion.<sup>40</sup> While the Debtors vigorously dispute the accuracy and methodology of MBIA's allegations, it is notable that the loans MBIA claims to have examined were acquired on the same platforms as many of the loans held by the Trusts.<sup>41</sup> The Institutional Investors, using more conservative estimates that are also disputed by the Debtors, estimate the potential liability of the Debtors in excess of \$20 billion.

25. In prepetition securities cases brought against the Debtors, plaintiffs alleged that 37% to 88% of the loans at issue in those cases, and which are also included in the RMBS Trust

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<sup>38</sup> See Lipps Decl. ¶¶ 1, 8, 12, 20, 29, 33, 45, and 64; see Supplemental Declaration of Jeffrey A. Lipps ("Lipps Supp. Decl."), attached hereto as Exhibit 4, ¶¶ 13-113.

<sup>39</sup> See *MBIA Insurance Corp. v. Residential Funding Co., LLC*, No. 603552/2008 (Sup. Ct. N.Y. Cnty. Dec. 4, 2008), Docket No. 28 at ¶ 50; see also Lipps Decl. ¶¶ 26-30.

<sup>40</sup> See, e.g., Declaration of Frank Sillman, attached to the Initial Motion as Exhibit 8 ("Sillman Decl.") ¶ 67; see also Supplemental Declaration of Frank Sillman in Support of Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of the RMBS Trust Settlement Agreements ("Sillman Supp. Decl."), attached hereto as Exhibit 5, ¶ 15.

<sup>41</sup> See FTI Decl. ¶ 13.

Settlement, contained breaches.<sup>42</sup> For instance, the Federal Housing Finance Agency alleged that the Debtors misstated loan-to-value ratios by approximately 18-25% and misstated owner occupancy rates by more than 10%.<sup>43</sup> Massachusetts Mutual, another securities plaintiff, alleged that nearly 30% of loans in certain of the Trusts exceeded the required loan-to-value ratio threshold.<sup>44</sup> While the Debtors vigorously dispute these allegations, such allegations illustrate the potential exposure of the Debtors to these types of claims.

26. Additionally, other factors may significantly affect the size of the potential repurchase claims the Debtors might face. Any repurchase claim necessarily involves the conveyance of an existing home mortgage out of the collateral pool and back to the seller.<sup>45</sup> This conveyance (and thus, the net cost of a repurchase to the Debtors) occurs at a given point in time, in a given market for real estate.<sup>46</sup> Thus, to value any individual repurchase claim — and to estimate the exposure represented by all potential repurchase claims — the Debtors also considered additional factors such as: estimated loss severity at the time of repurchase, conditions in the housing market, roll rates (a measure of the percentage of loans that are current and/or in various stages of delinquency that ultimately “roll” to default), the number of modified loans, the likelihood that modified loans would re-default, and the rate at which losses would be

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<sup>42</sup> See, e.g., First Amended Complaint filed by Allstate Insurance Co., et al., in Civil File No. 27-CV-11-3480 (Minn. Dist. Ct., Hennepin Cnty. Apr. 15, 2011) at ¶ 130; *MBIA Insurance Corp. v. Residential Funding Company, LLC*, Case No. 603552/2008 (Sup. Ct., N.Y. Cnty.), Docket No. 28 at ¶ 50.

<sup>43</sup> See Complaint at ¶¶ 98, 01, *Federal Housing Finance Agency, as Conservator for The Federal Home Loan Mortgage Corp. v. Ally Financial Inc.*, No. 11 Civ. 7010 (S.D.N.Y. Sept. 2, 2011) ECF No. 1; see also Lipps Decl. ¶¶ 63-68.

<sup>44</sup> See First Am. Compl. at ¶¶ 74-181, *Mass. Mutual Life Ins. Co. v. Residential Funding Co.*, No. 11-cv-30035-MAP (D. Mass. May 17, 2012) ECF No. 86.

<sup>45</sup> See Sillman Decl. ¶¶ 28-42.

<sup>46</sup> See *id.*

realized in the future.<sup>47</sup> A new downturn in the housing market, or even a continuation of the present soft market, could thus magnify the Debtors' potential exposure.<sup>48</sup>

27. Based on assertions that a certain percentage of the loans in the securitizations should be repurchased or made whole due to alleged breaches of representations and warranties (the "Alleged Breach Rate") and the percentage of loans that the Debtors would agree should be repurchased or made whole (the "Agree Rate"), the parties arrived at a Loss Share Rate of approximately 20%, which all parties agree represents a fair and reasonable means of assessing and resolving the Debtors' potential liability while avoiding costly and risky litigation.<sup>49</sup> The Allowed Claim was calculated by multiplying the Loss Share Rate by the "Estimated Lifetime Losses" for the Trusts.<sup>50</sup> In the Declaration of Frank Sillman, dated May 24, 2012, the Estimated Lifetime Losses were calculated by combining actual Trust losses to date with projected losses on the remaining loan portfolios based on an assumed frequency and severity of losses due to the foreclosure, short sale or write-off of liquidated loans.<sup>51</sup> In the Supplemental Declaration of Frank Sillman, dated September 28, 2012, the Estimated Lifetime Losses were calculated using an alternative method.<sup>52</sup> This alternative method, referred to as the "Trust Level Model," is more granular and detailed, and calculations were made by using trust and loan level data.<sup>53</sup> All parties agree that the RMBS Trust Settlement, which is based on a 20% Loss Share Rate, is an

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<sup>47</sup> See *id.* ¶¶ 31-34; Sillman Supp. Decl. ¶¶ 5-8 (Debtors' supplemental analysis considered loan-level Remit Data with hundreds of data fields, when available, as well as trust-level Remit Data.).

<sup>48</sup> See Sillman Decl. ¶¶ 31-34.

<sup>49</sup> See Sillman Decl. ¶¶ 64-70.

<sup>50</sup> See *id.* ¶¶ 26, 68; Sillman Supp. Decl. ¶ 17. Terms defined in this section are explained in greater detail in the Sillman Declaration.

<sup>51</sup> See Sillman Decl. ¶¶ 25, 67-68.

<sup>52</sup> See Sillman Supp. Decl. ¶¶ 15, 17.

<sup>53</sup> See *id.*

appropriate, prudent, objectively reasonable, and indeed preferable manner in which to settle R&W Claims.<sup>54</sup>

**C. PLAN SUPPORT AND THE RESOLUTION OF OBJECTIONS TO THE DEBTORS' PROPOSED SALE**

28. The RMBS Trust Settlement benefits the Debtors in two additional ways. First, subject to Bankruptcy Court approval, the Debtors, following extensive, good-faith, and arm's-length, multi-party negotiations, entered into substantially the same Chapter 11 Plan Support Agreement with the Steering Committee Group and the Talcott Franklin Group. Absent the RMBS Trust Settlement, the Debtors could not have compelled the Institutional Investors to agree to support the Debtors' restructuring plan. The ability of the Institutional Investors to object to the plan and otherwise interfere with the Debtors' attempt to complete transactions necessary for the Debtors' successful reorganization could thwart or delay the Debtors' restructuring efforts.<sup>55</sup> Additionally, if the RMBS Trust Settlement is not approved, the Institutional Investors remain free to object to every step of the Debtors' Chapter 11 cases, a right that they surely would exercise.

29. The RMBS Trust Settlement is also an integral component of the Debtors' efforts to restructure through a sale of its mortgage origination and servicing platform and provides the Debtors with significant and valuable benefits. The RMBS Trust Settlement allowed the Debtors to defer substantial objections to the proposed sale of the Debtors' mortgage origination and servicing platform. For example, the Institutional Investors and the Trustees argue that the Trusts have substantial cure claims in connection with any assumption and assignment of the Debtors' Pooling and Servicing Agreements – the foundation of the Debtors' proposed sale – and that they

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<sup>54</sup> See Sillman Decl. ¶¶ 67-70; Sillman Supp. Decl. ¶ 17.

<sup>55</sup> See FTI Decl. ¶¶ 21, 26.

have potential (though disputed) claims for setoff and/or recoupment that would attach to the proceeds of such sale under section 506(a) of the Bankruptcy Code. In consideration for accepting the RMBS Trust Settlement, the Trusts deferred these claims and objections and will also release their setoff and recoupment claims, which would be in the range of billions of dollars and could eclipse the proceeds of the sale themselves. Although Debtors dispute the validity and strength of these cure and recoupment claims, their settlement provides extraordinary benefit to the Debtors, their estates, and creditors.

**D. PAYMENT OF LEGAL FEES**

30. Pursuant to the RMBS Trust Settlement Agreement, the Institutional Investors and the Debtors agreed that, as a non-severable condition to the settlement, the legal fees for counsel to the Institutional Investors would be paid out of the Allowed Claim.<sup>56</sup> The firms representing the Institutional Investors are to receive the percentages of the Allowed Claim set forth on Exhibits C to the RMBS Trust Settlement Agreements. Thus, the amount of the Allowed Claim allocated to counsel for the Institutional Investors will reduce the amount of the Allowed Claim that is ultimately provided to the Trustees, and, in turn, the RMBS Holders. The Accepting Trusts will receive benefits under the Settlement Agreement, and since all Holders in the Accepting Trusts will receive benefits under the settlement in accordance with the Governing Agreements, the Allowed Claim granted to the Trusts is reduced to reflect the fees incurred to achieve the settlement.

31. The RMBS Trust Settlement Agreement also contemplates that additional investors may provide a direction to be given to the trustees of additional trusts to accept the RMBS Trust Settlement Agreement. In such a case, the agreement provides that counsel to such

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<sup>56</sup> *See id.* § 6.03(b).



investors may be compensated in the same manner (but without an aggregate increase in the claims allocated to legal fees, all as set forth more fully in section 6.03(b) of the RMBS Trust Settlement Agreement).

### **RELIEF REQUESTED**

32. The Debtors respectfully request that this Court enter an order substantially in the form of the Amended Proposed Order, including the allowance of the Allowed Claim, pursuant to Bankruptcy Rule 9019(a).

### **ANALYSIS**

33. Debtors respectfully submit that the Court should grant the relief requested in this Motion and enter the Amended Proposed Order, both because the RMBS Trust Settlement satisfies the Second Circuit's standard for settlements under Fed. R. Bankr. P. 9019(a) because the RMBS Trust Settlement is fair and in the best interests of the Investors.

#### **A. THE RMBS TRUST SETTLEMENT SATISFIES THE SECOND CIRCUIT'S STANDARD UNDER FED. R. BANKR. P. 9019(a)**

34. Rule 9019(a) provides, in part, that "[o]n motion by the [debtor-in-possession] and after notice and a hearing, the court may approve a compromise or settlement." Fed. R. Bankr. P. 9019(a). This rule empowers bankruptcy courts to approve a settlement agreement where "it is supported by adequate consideration, is 'fair and equitable,' and is in the best interests of the estate." *In re Ionosphere Clubs, Inc.*, 156 B.R. 414, 426 (S.D.N.Y. 1993). The Court's analysis is not a mechanical process, but rather contemplates a "range of reasonableness . . . which recognizes the uncertainties of law and fact in any particular case and the concomitant risks and costs necessarily inherent in taking any litigation to completion...." *Newman v. Stein*, 464 F.2d 689, 693 (2d Cir. 1972).

35. The decision to approve a particular settlement lies within the sound discretion of the Bankruptcy Court. *See Nellis v. Shugrue*, 165 B.R. 115, 122-23 (S.D.N.Y. 1994); *In re Ionosphere Clubs, Inc.*, 156 B.R. at 426. Discretion should be exercised by the Bankruptcy Court “in light of the general public policy favoring settlements.” *In re Hibbard Brown & Co.*, 217 B.R. 41, 46 (Bankr. S.D.N.Y. 1998); *Shugrue*, 165 B.R. at 123 (“[T]he general rule [is] that settlements are favored and, in fact, encouraged.”).

36. To approve a proposed settlement, the Court need not definitively decide the numerous issues of law and fact raised by the settlement. Rather, the Court should “canvass the issues and see whether the settlement ‘fall[s] below the lowest point in the range of reasonableness.’” *Finkelstein v. W.T. Grant Co. (In re W.T. Grant Co.)*, 699 F.2d 599, 608 (2d Cir. 1983) (citing *Newman v. Stein*, 464 F.2d 689, 693 (2d Cir. 1972)); *see also In re Purofied Down Prods.*, 150 B.R. 519, 522 (S.D.N.Y. 1993) (“the court need not conduct a ‘mini-trial’ to determine the merits of the underlying [dispute]”).<sup>57</sup>

37. In deciding whether a particular settlement falls within the “range of reasonableness,” courts consider the following “*Iridium*” factors: (a) the balance between the litigation’s possibility of success and the settlement’s future benefits; (b) the likelihood of complex and protracted litigation, “with its attendant expense, inconvenience, and delay”; (c) the

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<sup>57</sup> While the Court need not resolve the numerous issues of law and fact raised by the proposed settlement, the Court would have to address the validity of the Trusts’ claims absent the settlement. Under Second Circuit law, a bankruptcy court is required “to determine the validity of the claim[s] and the amount allowed.” *Porges v. Gruntal & Co. (In re Porges)*, 44 F.3d 159, 164 (2d Cir. 1995) (citing *Kame v. Johns-Manville Corp.*, 843 F.2d 636, 646 (2d Cir. 1988)). Unless a specific provision of the Bankruptcy Code requires otherwise, the Court must make this determination under applicable nonbankruptcy substantive law. *See Ogle v. Fid. & Deposit Co. of Md.*, 586 F.3d 143, 147-48 (2d Cir. 2009). Thus, in resolving any future objection to the proofs of claim that the Trustees would surely file on behalf of the Trusts alleging breaches of the Governing Agreements if the settlement is not approved, the Court would be required to address the same kinds of complicated legal and factual issues faced by other courts when dealing with prepetition lawsuits alleging the Debtors breached the Governing Agreements.

paramount interests of creditors; (d) whether other parties in interest support the settlement; (e) “the nature and breadth of releases to be obtained by officers and directors”; (f) the “competency and experience of counsel” supporting, and “[t]he experience and knowledge of the bankruptcy court judge” reviewing the settlement; and (g) “the extent to which the settlement is the product of arm’s-length bargaining.” *Motorola, Inc. v. Official Comm. of Unsecured Creditors (In re Iridium Operating LLC)*, 478 F.3d 452, 462 (2d Cir. 2007) (internal citations and quotations omitted).

38. The Debtors respectfully submit that each of the *Iridium* factors weighs in favor of this Court’s approval of the RMBS Trust Settlement.

**i. THE BALANCE BETWEEN THE LITIGATION’S POSSIBILITY OF SUCCESS AND THE SETTLEMENT’S FUTURE BENEFITS**

39. The RMBS Trust Settlement is the result of tough, arm’s-length negotiations between sophisticated parties. As part of these negotiations, the Institutional Investors and the Debtors each concluded, based on their own assessments of the possibility of success of the litigation and the benefits of the settlement, that a Loss Share Rate of approximately 20% was a reasonable basis for the settlement.<sup>58</sup> This percentage reflects the Debtors’ reasonable assessment of the risk, as well as the substantial expense of litigation, of the R&W Claims that could be brought by the 392 Trusts, and the related impact on the Debtors’ restructuring efforts, balanced against the benefits to all parties of early resolution of such litigation.<sup>59</sup> The RMBS Trust Settlement also resolves substantial impediments to the Debtors’ successful sale process and restructuring and corresponding prompt emergence from Chapter 11.

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<sup>58</sup> See Sillman Decl. ¶¶ 64-70; Sillman Supp. Decl. ¶ 17.

<sup>59</sup> See FTI Decl. ¶¶ 14-17; Sillman Decl. ¶¶ 58, 64-70.

40. Although the resolution of disputes through litigation always involves some measure of uncertainty, that is particularly true in the complex RMBS securitization context.<sup>60</sup> However, any uncertainty regarding the possibility for success in the litigation is not a bar to approval. *See, e.g., In re Hibbard Brown & Co.*, 217 B.R. at 45 (approving settlement after finding that the multiple legal issues presented were “complex” and carried “no guarantee of success”); *In re Lehman Brothers Holdings Inc.*, No. 08-13555 (Bankr. S.D.N.Y. Feb. 22, 2012) (approving the establishment of \$5 billion reserve, pursuant to the terms of the debtors’ plan of reorganization, for claims asserted by indenture trustees arising out of RMBS sold by non-debtor affiliates).

41. Determining the precise percentage of loans that the Debtors would be required to repurchase under the Governing Agreements if the matter were litigated would involve a Herculean and contentious loan-file-by-loan-file-review.<sup>61</sup> Even if only a subset were ultimately reviewed — defaulted loans only, for example — the number of individual loans that would need to be examined across 392 securitizations containing over 1.6 million loans would still be massive.<sup>62</sup> The Debtors and Institutional Investors agree that the cost, burden and time that would need to be dedicated to that litigation exercise are prohibitive. Short of a loan-by-loan review, various analyses and review metrics can be used to estimate Alleged Breach Rates and Agree Rates in the mortgage loan industry, each ranging from approximately 30% to 50%, which equates to a Loss Share Rate ranging from 9% to 25%.<sup>63</sup> Naturally, if claimants could prove a Loss Share Rate above 20%, it would give rise to liability greater than the \$8.7 billion Allowed

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<sup>60</sup> *See* Lipps Decl. ¶¶ 17-18; Lipps Supp. Decl. ¶ 23.

<sup>61</sup> *See* Lipps Decl. ¶¶ 17-18; Lipps Supp. Decl. ¶¶ 47-59; 119.

<sup>62</sup> *See, e.g.,* Lipps Decl. ¶ 28.

<sup>63</sup> *See* Sillman Decl. ¶¶ 44-46, 64-69; Sillman Supp. Decl. ¶ 17.

Claim, and, of course, a Loss Share Rate of less than 20% would give rise to less liability.<sup>64</sup>

However, after careful, practical and independent assessment, and taking into consideration the cost, burden and risk of litigation, the Debtors and the Institutional Investors agreed that utilizing a Loss Share Rate of approximately 20% is an objectively fair and reasonable way – for both the Debtors and the Investors – of resolving the Debtors’ potential liability, deferring objections and claims that could interfere with the sale process, and obtaining the support of the Institutional Investors for the Debtors’ Plan.<sup>65</sup>

42. Notably, comparable settlements with other sponsors have applied Breach Rates and Agree Rates within the ranges provided above.<sup>66</sup> Similar claims brought by certain trustees against Bank of America, N.A., on account of securitized mortgage loans sold and/or serviced by its Countrywide Financial Corporation subsidiaries, assumed a 36% Breach Rate and a 40% Agree Rate.<sup>67</sup> In the settlement reached between the debtors and potential claimants in the Lehman Brothers Holdings Inc. Chapter 11 proceeding, the debtors calculated their estimate of potential claims using a range of 30% to 35% for the Breach Rate and a range of 30 to 40% for the Agree Rate.<sup>68</sup>

43. Although the Parties may have differing views of the possibility of success in the litigations (but agree that applying a Loss Share Rate of approximately 20% is a reasonable compromise), there is universal agreement among the Parties that the proposed RMBS Trust Settlement provides substantial benefits to the Debtors, all Trustees accepting the compromise on

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<sup>64</sup> See Sillman Decl. ¶¶ 64-70.

<sup>65</sup> See *id.*; Sillman Supp. Decl. ¶ 17.

<sup>66</sup> See Sillman Decl. ¶¶ 59-63.

<sup>67</sup> See *id.*; see also *In re Bank of New York Mellon*, No. 651786/2011 (Sup. Ct. N.Y. Cnty. June 29, 2011).

<sup>68</sup> See *In re Lehman Bros. Holdings Inc.*, No. 08-13555 JMP (Bankr. S.D.N.Y.); Sillman Decl. ¶¶ 59-63.

behalf of their Trusts, and other stakeholders relative to any alternative path. Litigating these issues would distract the Debtors from focusing on critical aspects of their restructuring.<sup>69</sup> Moreover, lengthy claims litigation would not likely improve matters for the Debtors' other unsecured creditors.<sup>70</sup> The claims of the other unsecured creditors are largely fixed in nature, and are dwarfed by the size of the R&W Claims.<sup>71</sup> Increasing the size of the R&W Claims (or instituting an estimation procedure that risks increasing their potential size) could dramatically lower recoveries for the other creditors whose claims will be paid from the same, limited pool of funds.<sup>72</sup>

44. The R&W Claims involve a multitude of issues, arguments, and discovery requirements from both sides.<sup>73</sup> Particularly in the context of almost 400 complex mortgage securitizations and the varied loan products in each, the Debtors submit that the complexity of the litigation at issue, the difficulty inherent in predicting the success of either party with respect to any particular disputed issue, and the risks and unnecessary distractions associated with complex and protracted claims litigation render the RMBS Trust Settlement particularly reasonable and appropriate both for the Debtors and the Investors.<sup>74</sup>

45. The RMBS Trust Settlement proposed in this Motion provides certainty to the Debtors with respect to the single largest set of disputed claims against the Debtors' estates and removes hurdles to resolving substantial impediments to a successful sale process and

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<sup>69</sup> See FTI Decl. ¶¶ 18-22.

<sup>70</sup> See *id.* ¶ 22.

<sup>71</sup> See *id.* ¶ 29.

<sup>72</sup> See *id.*

<sup>73</sup> See Lipps Decl. ¶¶ 17-18, 38-43, 58-62, 67; Lipps Supp. Decl. ¶¶ 13-122.

<sup>74</sup> See Lipps Decl. ¶¶ 17-18, 38-43, 58-62, 67; Lipps Supp. Decl. ¶¶ 11, 22.

restructuring of the Debtors in order to permit a prompt emergence from Chapter 11.<sup>75</sup> In particular, the Debtors' entry into the RMBS Trust Settlement was necessary to obtain the Institutional Investors' commitment to perform under the Plan Support Agreements, which is critical to the Debtors' obtaining the necessary relief throughout these bankruptcy cases and, ultimately, a successful reorganization.<sup>76</sup> Additionally, if the RMBS Trust Settlement is not approved and the R&W Claims are increased, the recovery by the holders of the Debtors' Junior Secured Bonds will be diluted and could compromise the Debtors' plan support agreement with such bondholders and impede the Debtors' Chapter 11 proceedings.<sup>77</sup>

46. In short, although the potential outcome of the R&W Claims after a lengthy litigation process could be more or less than the Allowed Claim of up to \$8.7 billion, the administrative costs of an extended bankruptcy case and the costs and uncertainty of such litigation make settlement a more efficient and reasonable way to resolve these claims in the best interest of all parties, including the Debtors' estates and creditors and the Investors. The compromise of offering the \$8.7 billion Allowed Claim will, if accepted by the Trusts, fully resolve these matters, provide certainty in recoveries for the Investors, and greatly facilitate the confirmation of the Debtors' Plan.

**ii. THE LIKELIHOOD OF COMPLEX AND PROTRACTED LITIGATION**

47. The claims by the 392 Trusts involving OIB of approximately \$221 billion of RMBS securitizations and dozens of parties, if not resolved in settlement, will likely continue in litigation for years and will inevitably delay the implementation of the Debtors' restructuring, increase administrative costs, and tie up significant assets which would otherwise be available to

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<sup>75</sup> See FTI Decl. ¶¶ 18-22, 29.

<sup>76</sup> See *id.* ¶ 29.

<sup>77</sup> See *id.*

creditors.<sup>78</sup> Uncertain and protracted litigation would similarly delay and could negatively impact recovery for the Investors.

48. As set out above, the litigation of alleged representation and warranty breaches alone is extremely complex, labor-intensive, costly and time-consuming.<sup>79</sup> The discovery required to resolve claims based on the 1.6 million loans in the Trusts would be massive, as the relevant documents and information will differ from case to case.<sup>80</sup> As an example, each claim will involve a different securitization, and RFC and GMAC Mortgage each ran their own securitization efforts with different personnel and procedures during this timeframe.<sup>81</sup> Each Trust involves a unique set of mortgage loans, and each securitization shelf (an entity that registers with the SEC to publicly offer securities through the Trusts) involves unique documents, processes and personnel, all of which also varied over time for each shelf.<sup>82</sup> Different loan products — second liens, first liens, prime, Alt-A, subprime — likewise involved different teams of employees, different automated processes, different evolving underwriting guidelines, different diligence standards, and different quality audit practices.<sup>83</sup> As a result, the litigation of each claim poses a new discovery challenge and unique discovery burdens. For instance, a claim involving 2005 RALI securitizations of Alt-A first liens will involve different documents and witnesses from a lawsuit involving 2006 RFMSII home equity securitizations, which would be different again from a lawsuit involving RASC subprime securitizations of any vintage.

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<sup>78</sup> See *id.* ¶¶ 14-22.

<sup>79</sup> See Lipps Decl. ¶¶ 17-18, 38-43, 58-62, and 67; Lipps Supp. Decl. ¶¶ 22, 122.

<sup>80</sup> See Lipps Decl. ¶¶ 17-18.

<sup>81</sup> See *id.*; Lipps Supp. Decl. ¶¶ 23, 26.

<sup>82</sup> See Lipps Decl. ¶¶ 17-18; Lipps Supp. Decl. ¶¶ 23, 26.

<sup>83</sup> See Lipps Decl. ¶¶ 17-18; Lipps Supp. Decl. ¶¶ 23, 26.



49. Due to the complexity of the transactions at issue, as well as the number of parties involved, in breach of representation and warranty litigation, the fact discovery requirements are crippling. ResCap's experience in *MBIA Insurance Corp. v. Residential Funding Company, LLC*<sup>84</sup> illustrates the true enormity and difficulty of such litigation.<sup>85</sup> MBIA's lawsuit against RFC involved just five trusts securitizing approximately 63,000 Alt-A home equity lines of credit or closed-end second mortgages — just two of the many loan types involved in the 392 trusts — brought to market over the course of less than one year.<sup>86</sup> Yet, fact discovery has not been completed over three and a half years after MBIA first sued RFC.<sup>87</sup> RFC has produced more than a million pages of documents, including loan files for more than 63,000 mortgage loans.<sup>88</sup> RFC has produced nearly one terabyte of data, including a variety of source code, other application data, and back-end loan-level data relating to automated systems used in connection with underwriting, pricing, acquiring, pooling, auditing, and servicing the mortgage loans.<sup>89</sup>

50. Further, MBIA has taken over 80 days of depositions of current or former ResCap entity personnel over the course of more than a year. RFC has taken 50 days of depositions of current or former MBIA personnel.<sup>90</sup> A number of third-party depositions have been taken or would be required, and the parties exchanged 10 expert reports without including rebuttal reports.<sup>91</sup>

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<sup>84</sup> This case is now subject to the automatic stay.

<sup>85</sup> See Lipps Decl. ¶¶ 26-30.

<sup>86</sup> See *id.*

<sup>87</sup> See *id.*

<sup>88</sup> See Lipps Decl. ¶¶ 26-30; Lipps Supp. Decl. ¶ 10.

<sup>89</sup> See Lipps Decl. ¶¶ 26-30.

<sup>90</sup> See Lipps Decl. ¶¶ 26-30; Lipps Supp. Decl. ¶¶ 10, 115.

<sup>91</sup> See Lipps Decl. ¶¶ 26-30; Lipps Supp. Decl. ¶ 10.

51. The extent of the discovery in the MBIA case against RFC is anything but aberrational — indeed, litigation of the separate MBIA lawsuit against Countrywide has been even more protracted<sup>92</sup> — and the litigation of the R&W Claims potentially held by the 392 Trusts invited to take part in the RMBS Trust Settlement would mire the Debtors' estates, the Trustees, and the Investors in litigation for years, and at great expense.<sup>93</sup>

**iii. THE PARAMOUNT INTERESTS OF CREDITORS**

52. The RMBS Trust Settlement is beneficial to the Debtors' estates and their stakeholders because the proposed settlement is well within the range of potential litigation outcomes and will resolve the single largest group of unsecured claims against the Debtors, thereby providing much-needed predictability with respect to the Debtors' claims pool, a critical step towards obtaining consensus around a Chapter 11 plan.<sup>94</sup> Moreover, the certainty of the proposed settlement avoids the necessity of setting aside substantial reserves for the potential payment of R&W Claims, which could delay (and reduce) recoveries to other stakeholders.<sup>95</sup>

53. Additionally, the RMBS Trust Settlement removes a substantial number of potential objectors. As noted above, absent the terms of the RMBS Trust Settlement, the Institutional Investors and Trustees would remain free to object to and complicate every step of the Debtors' Chapter 11 cases. Furthermore, in the absence of the Settlement, the Trusts would not have deferred their allegedly substantial cure claims in connection with the Debtors' proposed sale, cure claims that, if successful, arguably could have administrative priority and/or

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<sup>92</sup> See *MBIA Ins. Corp. v. Countrywide Home Loans, Inc.*, No. 602825/08 (Sup. Ct. N.Y. Cnty), Decision dated May 25, 2012 (granting in part MBIA's motion to compel production of additional documents) (Docket No. 1726).

<sup>93</sup> See FTI Decl. ¶¶ 18-22.

<sup>94</sup> See *id.* ¶¶ 23-30.

<sup>95</sup> See *id.* ¶ 14.

be secured under section 506(a) of the Bankruptcy Code. The resolution of the alleged R&W Claims and cure claims, as well as the releases given under the RMBS Trust Settlement, assures a more efficient and expeditious reorganization process.

54. Additionally, it is indisputable that the litigation of claims brought by the 392 Trusts would inevitably burden the Debtors' estates with significant legal expenses. Even if the Debtors were to defeat each claim, the administrative expenses incurred through defending the litigation, as well as the distraction of the Debtors' limited personnel, would necessarily harm the Debtors' estates and reduce and delay recoveries for the Debtors' creditors.<sup>96</sup>

**iv. SUPPORT FOR THE SETTLEMENT BY THE PARTIES  
IN INTEREST**

55. The RMBS Trust Settlement is supported by a significant percentage of the Holders, and this number continues to grow as more investors join the RMBS Trust Settlement. As noted above, the Steering Committee Group alone represents 25% or more of the Holders of one or more classes of certificates in at least 304 of the 392 Trusts, which Trusts account for approximately 77.5% of the total OIB.<sup>97</sup> As of the filing of this Motion, the Talcott Franklin Group represents 25% or more of the Holders of 295 classes of certificates in at least 189 Trusts, which accounts for an additional \$17 billion in OIB and adds 35 additional Trusts to the Institutional Investors' holdings.<sup>98</sup> Accordingly, under the RMBS Trust Settlement, 336 Trusts, representing approximately 83% of the total OIB at issue, have been directed to accept the settlement, and the Debtors believe that these and many, if not all, of the other Trusts will accept.

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<sup>96</sup> See *id.* ¶¶ 14-22.

<sup>97</sup> See Settlement Agrmnt., Ex. D.

<sup>98</sup> See *id.*

**v. THE PROPOSED RMBS TRUST SETTLEMENT SATISFIES THE REMAINING *IRIDIUM* FACTORS**

56. For the reasons stated above, the Debtors believe that the paramount interests of all parties are best served by approval of the RMBS Trust Settlement. Moreover, the final three *Iridium* factors are satisfied. The RMBS Trust Settlement only released the Debtors' officers or directors to the extent that the Debtors are released and do not extend beyond claims brought under the Governing Agreements, with no exceptions or additional releases for the directors or officers, so this *Iridium* factor weighs in favor of approval. Second, the RMBS Trust Settlement was negotiated separately between the Debtors and the Steering Committee Group and the Debtors and the Talcott Franklin Group, without collusion, in good faith, and from arm's-length bargaining positions, and all parties were represented by experienced and sophisticated counsel.

57. Furthermore, the RMBS Trust Settlement is intentionally structured to reduce the Allowed Claim proportionally if Trusts do not opt in, and to preserve the rights of those Trusts to bring their claim in the normal course if they wish to do so. The RMBS Trust Settlement is a binding offer by the Debtors to all Trustees to accept on behalf of their Trusts, or to decline if they prefer the uncertainties and costs of litigation. Accordingly, only those Trustees that are contractually directed to accept and/or independently decide that the RMBS Trust Settlement is beneficial for their respective Institutional Investors will accept the settlement.<sup>99</sup>

**B. THE RMBS TRUST SETTLEMENT IS FAIR AND REASONABLE TO THE INSTITUTIONAL INVESTORS AND OTHER CERTIFICATEHOLDERS IN THE TRUSTS**

58. While the RMBS Trust Settlement is soundly within the "range of reasonableness" for the Debtors, it is equally so for the Investors. The very documents and

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<sup>99</sup> As noted above, Debtors believe, and the Steering Committee Group and the Talcott Franklin Group have each represented with regard to their holdings, that the Institutional Investors will cumulatively direct approximately 83% of the 392 Trusts.

analysis relied upon by the Debtors – the Sillman Declarations, the Nolan Declaration, and the Lipps Affidavits – speak directly to the benefit of the RMBS Trust Settlement to the Investors, and the resolution of the R&W Claims in a manner that is equitable and cost-effective for all parties. First, as described in the Sillman Declaration and the Supplemental Sillman Declaration, the maximum Allowed Claim of \$8.7 billion falls within a reasonable range of potential litigation outcomes that the Trusts, and thus the Investors, could expect absent settlement. Second, the Investors have an equally strong interest in the expedient resolution of these claims and in preventing years of expensive and uncertain litigation before they could potentially see any recovery. These reasons are addressed in turn.

**i. THE TRUSTS' RECOVERY UNDER THE RMBS TRUST SETTLEMENT IS WITHIN THE RANGE OF THE DEBTORS' POTENTIAL REPURCHASE LIABILITY**

59. Whether considered in the aggregate or for each Trust, the RMBS Trust Settlement is in the best interests of the Trusts and the Investors. The Potential Repurchase Requirement range of \$6.7 billion to \$10.3 billion in the Sillman Declaration estimates the potential range of liability for the Debtors and of recovery for the Trusts.<sup>100</sup> The maximum Allowed Claim under the RMBS Trust Settlement offers the Trusts on behalf of their Investors a settlement of the R&W Claims for \$8.7 billion, an amount well within, but above the midpoint of, the potential range of recovery. As noted in the Sillman Declaration, similar, but slightly lower Agree Rates and Breach Rates were used to estimate liability for settlement purposes for similar claims brought by certain trustees against Bank of America, N.A., and in the Lehman Brothers Holdings Inc. Chapter 11 proceeding. While these slightly-lower rates are still within the reasonable range for settlement by the Debtors, the Institutional Investors have alleged that

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<sup>100</sup> See Sillman Decl. ¶¶ 28-42; Sillman Supp. Decl. ¶¶ 13-16.

the Breach Rates were significantly higher in the Trusts and asserted claims in excess of \$20 billion based on conservative estimates, according to the Institutional Investors. Under this settlement, all Investors would benefit from this higher end of the range recovery, and would do so without the uncertainties, costs, and delays of litigating their claims.

60. The RMBS Trust Settlement is also equitable when each Trust and that Trust's investors are considered individually. The \$8.7 billion Allowed Claim is reduced proportionally according to the Trusts that do not accept the RMBS Trust Settlement, which means that the Debtors' estates will not be diminished by the share of the settlement allocated to any non-accepting Trust that instead chooses to pursue its own claims.<sup>101</sup> For those Trusts accepting the RMBS Trust Settlement on behalf of their investors, the method by which the Allowed Claim is allocated considers the types of loan in each – vintage, product, and shelf – and allocates the claims according to the forecasted losses for those loans.<sup>102</sup> The Parties believe this intra-trust allocation of the Allowed Claim leaves to the expert the determination of the allocation of loss in a way that is fair and in the best interest of the Holders, so that no Trust or Investors will get less (or more) than their equitable allocation of the Allowed Claim. Once allocated, the allocated portion of the Allowed Claim will be distributed under each Trust's Governing Agreements, which “waterfall” the Investors agreed to upon purchase of their certificates.

**ii. THE TRUSTS AND INVESTORS ALSO AVOID  
THE COSTS AND DELAYS OF LITIGATION**

61. The Trusts and Investors benefit from the expedient and rational settlement of the R&W Claims for precisely the same reasons as the Debtors: they avoid the uncertainty, cost, and

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<sup>101</sup> See Settlement Agrmts. § 5.01.

<sup>102</sup> See *id.*, Ex. B.

delay that necessarily accompany RMBS litigation.<sup>103</sup> As set out above and in the accompanying declarations, the legal uncertainties and extensive discovery involved in every RMBS claim multiplied by 392 trusts with 1.6 million loans and varying representations and warranties, make the costs and risks and time to litigate monumental with no certainty of recovery or recovery amount. Under the RMBS Trust Settlement, these claims are resolved with an Allowed Claim based on a loss share rate and estimated range of recovery that all the parties and an independent expert deemed fair and reasonable, and they are resolved without requiring the Trusts or Investors to invest significant resources in fees to legal and financial professionals and without the unavoidable delay and uncertainty of litigation.

### **CONCLUSION**

62. In sum, the Debtors have determined, exercising their sound business judgment that the RMBS Trust Settlement is fair, equitable, and eminently reasonable to the Debtors' estates and creditors, thereby satisfying the standards of Bankruptcy Rule 9019, and similarly fair and in the best interest of the Trusts and the Investors on whose behalf these claims would be brought. The timely resolution of these extensive claims is in the best interests of the Debtors and their creditors and the Investors. The Debtors therefore submit that the RMBS Trust Settlement is fair and well within the range of reasonableness — and certainly not “below the lowest point in the range of reasonableness.” *Finkelstein*, 699 F.2d at 608. Accordingly, the Debtors respectfully request that the Court approve the RMBS Trust Settlement pursuant to Bankruptcy Rule 9019.

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<sup>103</sup> See Lipps Decl. ¶¶ 17-18, 38-43, 58-62, and 67; Sillman Supp. Decl. ¶ 122; see also FTI Decl. ¶¶ 18-22, 29.

**NOTICE**

63. Notice of this Motion will be given to the following parties, or in lieu thereof, to their counsel: (a) the Office of the United States Trustee for the Southern District of New York; (b) the Office of the United States Attorney General; (c) the Office of the New York Attorney General; (d) the Office of the United States Attorney for the Southern District of New York; (e) the Internal Revenue Service; (f) the Securities and Exchange Commission; (g) each of the Debtors' prepetition lenders, or their agents, if applicable; (h) each of the indenture trustees for the Debtors' outstanding notes issuances; (i) Ally Financial Inc.; (j) the Steering Committee Group; (k) the Talcott Franklin group (l) Barclays Bank PLC, as administrative agent for the lenders under the debtor in possession financing facility; (m) Nationstar Mortgage LLC and its counsel; (n) the Creditors' Committee; (o) the Trustees, and (p) all parties requesting notice pursuant to Bankruptcy Rule 2002. The Debtors submit that, in view of the facts and circumstances, such notice is sufficient and no other or further notice need be provided.

**NO PRIOR REQUEST**

64. Except as otherwise noted herein, no prior application for the relief requested herein has been made to this Court or any other court.



**WHEREFORE**, the Debtors respectfully request the entry of the Amended Proposed Order granting the relief requested herein and such other and further relief as the Court may deem just and proper.

Dated: New York, NY  
October 19, 2012

Respectfully submitted,

/s/ Gary S. Lee

Gary S. Lee  
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Darryl Rains  
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*Counsel for the Debtors  
and Debtors in Possession*

**Exhibit 1**

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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In re:

RESIDENTIAL CAPITAL, LLC, et al.,

Debtors.  
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Case No. 12-12020 (MG)

Chapter 11

Jointly Administered

**ORDER GRANTING DEBTORS' MOTION PURSUANT TO FED. R. BANKR. P. 9019  
FOR APPROVAL OF THE RMBS TRUST SETTLEMENT AGREEMENTS**

1. Upon consideration of *Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* (the "Initial Motion") of the above-captioned debtors and debtors in possession (collectively, the "Debtors" and each, a "Debtor") for entry of an order granting Debtors' Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of the RMBS Trust Settlement Agreements and the *Debtors' Supplemental Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements* (the "Supplement," and together with the Initial Motion, the "Motion"), requesting the same remedy;<sup>1</sup> and upon the Whitlinger Affidavit and the Declarations of Jeffrey Lipps, Frank Sillman, and William J. Nolan, and the affidavits of publication and mailing to all Investors and Releasors (the "RMBS Trustee Notice Affidavits") of the notice of the Trustees (defined below) of the Motion and the RMBS Trust Settlement (the "RMBS Trustee Notice"); and it appearing that this Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334; and it appearing that venue of these Chapter 11 cases and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and it appearing that this proceeding on the Motion is a core proceeding pursuant to 28 U.S.C. §157(b); and sufficient notice of the Motion having been given; and it appearing that no

<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

other or further notice need be provided; and the Court having found that the RMBS Trust Settlement is reasonable, fair and equitable and supported by adequate consideration; and that the relief requested in the Motion is in the best interests of the Debtors' estates, their creditors, and other parties in interest, including the Investors in any RMBS Trust that accepts the RMBS Trust Settlement pursuant to a Joinder (defined below); and after due deliberation and sufficient cause appearing therefore, it is hereby:

**ORDERED, ADJUDGED, AND DECREED THAT:**

1. The Motion is granted to the extent set forth herein.
2. The RMBS Trust Settlement Agreements between the Debtors and the Institutional Investors are hereby approved pursuant to Federal Rule of Bankruptcy Procedure 9019(a) and the applicable decisional case law, and the Parties are hereby authorized and ordered to take any and all actions as may be necessary to effectuate and implement the RMBS Trust Settlement, subject to the terms thereof.
3. Each Trust, each acting by its named trustee, or indenture trustee (*i.e.*, The Bank of New York Mellon Trust Company, N.A., Deutsche Bank Trust Company Americas, Deutsche Bank National Trust Company, U.S. Bank National Association or Wells Fargo Bank, N.A., in each case solely in their respective capacity as trustee or indenture trustee for a RMBS Trust and not in any other capacity) (collectively, the "Trustees") and the Debtors may enter into the RMBS Trust Settlement. A draft form for the acceptance by a Trust of the Trust Settlement, entitled "Trustee Joinder and Acceptance of the RMBS Trust Settlement Agreement," is attached hereto as Exhibit A (the "Joinder").
4. Each Trust that executes a Joinder to the RMBS Trust Settlement shall have an allowed general unsecured claim in these cases under the terms of the RMBS Trust Settlement.

5. The RMBS Trust Settlement, including the releases given therein, meet the standards established by the Second Circuit for the approval of a compromise and settlement in bankruptcy, and are fair and reasonable to, and in the best interest of, all interested parties, including but not limited to the Debtors, their respective creditors, including but not limited to the Institutional Investors, the Investors for each Trust that executes a Joinder and each such Trust, the Trustees, and other Releasors, as a compromise of each joining Trust's asserted claims against the Debtors.

6. Notice of the RMBS Trust Settlement and the Motion, including the notice given by the Debtors in these bankruptcy cases and the RMBS Trustee Notice, was sufficient and effective in satisfaction of federal and state due process requirements and other applicable law to put the parties in interest in this bankruptcy proceeding, including the Investors and Releasors, on notice of the RMBS Trust Settlement, the Motion, and the relief requested therein

7. The terms and conditions of this Order shall be effective and enforceable immediately upon entry of this Order.

8. All objections to the Motion or the relief requested therein that have not been withdrawn, waived or settled, and all reservations of rights included therein, are overruled on the merits.

9. Notwithstanding anything herein to the contrary, this Order shall not modify or affect the terms and provisions of, nor the rights and obligations under, (a) the Board of Governors of the Federal Reserve System Consent Order, dated April 13, 2011, by and among AFI, Ally Bank, ResCap, GMAC Mortgage, LLC, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation, (b) the consent judgment entered April 5, 2012 by the District Court for the District of Columbia, dated February 9, 2012,

(c) the Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as amended, dated February 10, 2012, and (d) all related agreements with AFI and Ally Bank and their respective subsidiaries and affiliates.

10. Upon notice to the parties and no objection having been interposed, an affiliated debtor shall be deemed to be a “Future Debtor” upon the Court’s entry of an order authorizing the joint administration of such Future Debtor’s Chapter 11 case with the Chapter 11 cases of the Debtors. Upon notice to the parties and no objection being timely interposed, the relief granted by this Order shall apply to the Future Debtor in these jointly-administered cases.

11. Nothing contained in the RMBS Trust Settlement Agreement, this Order, and any associated expert reports, including exhibits, schedules, declarations, and other documents attached thereto or referenced therein, or in any declarations, pleadings, or other documents or evidence submitted to, or filed in, the Bankruptcy Court in connection therewith, shall be construed as an admission of, or to prejudice in any way, Ally Financial Inc. and its non-Debtor direct and indirect subsidiaries and affiliates (collectively, “Ally”) and may not be used as evidence against Ally in any court proceeding.

12. This Court shall retain jurisdiction with respect to all matters arising or related to the implementation of this Order.

Dated: \_\_\_\_\_, 2012  
New York, New York

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THE HONORABLE MARTIN GLENN  
UNITED STATES BANKRUPTCY JUDGE

**Exhibit A**

**TRUSTEE JOINDER AND ACCEPTANCE OF THE RMBS SETTLEMENT**

This joinder and acceptance ("Joinder") relates to the RMBS Trust Settlement Agreement, dated as of May 13, 2012 (as amended, the "Settlement Agreement"), by and among Residential Capital, LLC ("ResCap") and certain of its direct and indirect subsidiaries (collectively, the "Debtors") and the Institutional Investors (as defined therein), is made by [ \_\_\_\_\_ ], as trustee or indenture trustee (the "Joining Trustee") for [ \_\_\_\_\_ ] (the "Accepting RMBS Trust") and is executed and delivered as of [ \_\_\_\_\_ ], 2012. Each capitalized term used herein but not otherwise defined has the meaning set forth in the Settlement Agreement.

1. ***Agreement to be Bound.*** The Joining Trustee, on behalf of the Accepting RMBS Trust, hereby accepts the offer to settle set forth in Section 5.01 of the Settlement Agreement and agrees on its and the Accepting RMBS Trust's respective behalves to be bound by the terms of Articles V, VI, VII, VIII, IX and X of the Settlement Agreement and all exhibits referred to therein (as the same has been or may, with the consent of the Joining Trustee, be hereafter amended, restated or otherwise modified from time to time in accordance with the provisions hereof), applicable to Trusts and Trustees. The Accepting RMBS Trust shall be deemed to be an "Accepting RMBS Trust" for all purposes under the Settlement Agreement. For avoidance of doubt, the Joining Trustee and the Accepting RMBS Trust shall assume no obligations under the Settlement Agreement except as expressly set forth in this paragraph and nothing in this Joinder shall be deemed to represent an adoption, concurrence or consent by the Joining Trustee in or to any recital, representation or statement made by the Debtors, the Institutional Investors or any other party in interest in the Chapter 11 Cases either in the Settlement Agreement or in any motion, pleading, notice or other document relating to the Settlement Agreement or the settlement thereunder.

2. ***Representations and Warranties.*** The Joining Trustee hereby represents and warrants that it is the duly appointed trustee for the Accepting RMBS Trust and that it has the authority to take the actions contemplated under the Settlement Agreement and has the authority with respect to any other entities, account holders or accounts for which or on behalf of which it is signing this Joinder. In making this representations, the Joining Trustee has, with the consent of the Debtors, relied, *inter alia* on the Bankruptcy Court's order approving the Settlement Agreement.

3. ***Governing Law.*** This Joinder shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to any conflicts of law provisions which would require the application of the law of any other jurisdiction.

4. ***Notice.*** All notices and other communications given or made pursuant to the Settlement Agreement shall be sent to:

To the Joining Trustee at:  
[JOINING TRUSTEE]  
As Trustee for [ \_\_\_\_\_ ]

Attn.:  
Facsimile:  
Email:



**IN WITNESS WHEREOF**, the Joining Trustee has caused this Joinder to be executed  
as of the date first written above.

[JOINING TRUSTEE]

solely in its capacity as trustee of the Accepting  
RMBS Trust and not in its individual capacity

By: \_\_\_\_\_

Name:

Title:

**Exhibit 2**

**THIRD AMENDED AND RESTATED RMBS TRUST SETTLEMENT AGREEMENT**

This THIRD Amended and Restated RMBS Trust Settlement Agreement is entered into as of September 21, 2012, by and between Residential Capital, LLC (“ResCap LLC”) and its direct and indirect subsidiaries (collectively, “ResCap” or the “Debtors”), on the one hand, and the Institutional Investors (as defined below), on the other hand (the “Settlement Agreement”), and amends and restates in its entirety the Second Amended RMBS Trust Settlement Agreement entered into as of September 17, 2012, by and between ResCap, on the one hand, and the Institutional Investors, on the other hand. Each of ResCap and the Institutional Investors may be referred to herein as a “Party” and collectively as the “Parties.”

**RECITALS**

WHEREAS, certain ResCap entities were the Seller, Depositor, Servicer and/or Master Servicer for the securitizations identified on the attached Exhibit A (the “Settlement Trusts”);

WHEREAS, certain ResCap entities are parties to certain applicable Pooling and Servicing Agreements, Assignment and Assumption Agreements, Indentures, Mortgage Loan Purchase Agreements and/or other agreements governing the Settlement Trusts (the “Governing Agreements”), and certain ResCap entities have, at times, acted as Master Servicer and/or Servicer for the Settlement Trusts pursuant to certain of the Governing Agreements;

WHEREAS, pursuant to the Governing Agreements, certain ResCap entities have contributed or sold loans into the Settlement Trusts (the “Mortgage Loans”);

WHEREAS, the Institutional Investors have alleged that certain loans held by the Settlement Trusts were originally contributed in breach of representations and warranties contained in the Governing Agreements, allowing the Investors in such Settlement Trusts to seek to compel the trustee or indenture trustee (each, a “Trustee”) to take certain actions with respect to those loans, and further have asserted past and continuing covenant breaches and defaults by various ResCap entities under the Governing Agreements;

WHEREAS, the Institutional Investors have indicated their intent under the Governing Agreements for each Settlement Trust in which the Institutional Investors collectively hold or are authorized investment managers for holders of at least 25% of a particular tranche of the Securities (as defined below) held by such Settlement Trust either to seek action by the Trustee for such Settlement Trust or to pursue claims, including but not limited to claims to compel ResCap to cure the alleged breaches of representations and warranties, and ResCap disputes such claims and allegations of breach and waives no rights, and preserves all of its defenses, with respect to such allegations and putative cure requirements;

WHEREAS, the Institutional Investors are jointly represented by Gibbs & Bruns, LLP (“Gibbs & Bruns”) and Ropes & Gray LLP (“Ropes & Gray”) and have, through counsel, engaged in arm’s length settlement negotiations with ResCap that included the exchange of confidential materials;

WHEREAS, ResCap filed petitions for relief under chapter 11 of the Bankruptcy Code (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”);

WHEREAS, ResCap and the Institutional Investors have reached agreement concerning all claims of the Settlement Trusts under the Governing Agreements; and

WHEREAS, the Parties therefore enter into this Settlement Agreement to set forth their mutual understandings and agreements for terms for resolving the disputes regarding the Governing Agreements:

### **AGREEMENT**

NOW, THEREFORE, after good faith, arm’s length negotiations without collusion, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to the following terms:

#### **ARTICLE I. DEFINITIONS.**

As used in this Settlement Agreement, in addition to the terms otherwise defined herein, the following terms shall have the meanings set forth below (the definitions to be applicable to both the singular and the plural forms of each term defined if both forms of such term are used in this Settlement Agreement). Any capitalized terms not defined in this Settlement Agreement shall have the definition given to them in the Governing Agreements.

Section 1.01 “Bankruptcy Code” shall mean title 11 of the United States Code.

Section 1.02 “Covered Trusts” means the Settlement Trusts listed in Exhibit D hereto and any other Settlement Trusts for which the Institutional Investors in the aggregate hold, and/or are authorized investment managers for holders of, 25% or more of the voting rights in one or more classes of notes, bonds and/or certificates backed by mortgage loans held by the Trusts.

Section 1.03 “Depositor Entity” means, for each individual Settlement Trust, the entity from the following list that the Governing Agreements define as the “Company” for that Settlement Trust, including but not limited to: Residential Funding Mortgage Securities I, Inc., Residential Funding Mortgage Securities II, Inc., Residential Asset Securities Corp., Residential Accredit Loans, Inc., and Residential Asset Mortgage Products, Inc.

Section 1.04 “Direction” shall mean the direction by the Institutional Investors, to the extent permitted by the Governing Agreements, directing any Trustee to take or refrain from taking any action; *provided, however*, that in no event shall the Institutional Investors be required to provide a Trustee with any security or indemnity for action or inaction taken at the direction of the Institutional Investors and the Institutional Investors shall not be required to directly or indirectly incur any costs, fees, or expenses to compel any action or inaction by a Trustee, except that the Institutional Investors shall continue to retain contingency counsel.

Section 1.05 “Effective Date” shall have the meaning ascribed in Section 2.01.

Section 1.06 “Governmental Authority” shall mean any United States or foreign government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to the foregoing, or any other authority, agency, department, board, commission, or instrumentality of the United States, any State of the United States or any political subdivision thereof or any foreign jurisdiction, and any court, tribunal, or arbitrator(s) of competent jurisdiction, and any United States or foreign governmental or non-governmental self-regulatory organization, agency, or authority (including the New York Stock Exchange, Nasdaq, and the Financial Industry Regulatory Authority).

Section 1.07 “Institutional Investors” shall mean the authorized investment managers and Investors identified in the attached signature pages.

Section 1.08 “Investors” shall mean all certificateholders, bondholders and noteholders in the Settlement Trusts, and their successors in interest, assigns, pledgees, and/or transferees.

Section 1.09 “Net Losses” means, with respect to any Settlement Trust, the amount of net losses for such Settlement Trust that have been or are estimated to be borne by that trust from its inception date to its expected date of termination, as determined by the Expert (as defined in Exhibit B) in accordance with the methodology described in Exhibit B. For the avoidance of doubt, a loss on a mortgage loan that has been reimbursed or indemnified by reason of applicable policies of mortgage or bond insurance shall be considered a loss on a mortgage loan and included within the calculation of “Net Losses.”

Section 1.10 “Person” shall mean any individual, corporation, company, partnership, limited liability company, joint venture, association, trust, or other entity, including a Governmental Authority.

Section 1.11 “Petition Date” means the date on which ResCap files petitions under chapter 11 of the Bankruptcy Code.

Section 1.12 “Plan” shall mean a chapter 11 plan of reorganization for the Debtors.

Section 1.13 “Purchaser” means Nationstar Mortgage LLC or any other successful bidder for any or all of the Debtors’ mortgage loan origination and servicing platform.

Section 1.14 “Scheduling Order” shall mean the Revised Joint Omnibus Scheduling Order and Provisions for Other Relief Regarding (I) Debtors’ Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements, and (II) the Trustees’ Limited Objection to the Sale Motion, entered by the Bankruptcy Court on July 31, 2012.

Section 1.15 “Securities” shall mean securities, notes, bonds, certificates, and/or other instruments backed by mortgage loans held by Settlement Trusts.

Section 1.16 “Seller Entity” means, for each Settlement Trust, the entity from the following list that the Governing Agreements define as the “Seller” for that Trust, including but

not limited to: Residential Funding Company LLC (f/k/a Residential Funding Corporation) and GMAC Mortgage LLC (f/k/a GMAC Mortgage Corporation).

## ARTICLE II. SETTLEMENT PROCESS.

Section 2.01 Effective Date. This Settlement Agreement shall be effective immediately except as to the granting of allowed claims to the Accepting Trusts (as defined below in Section 5.01) and the releases set forth herein. The claims allowance and releases shall only be effective, with respect to a specific Accepting Trust on the date on which a Trustee accepts the settlement with respect to such Settlement Trust (the “Effective Date”). However, for the sake of clarity, the Debtors’ obligations hereunder are subject to the approval of this Settlement Agreement by the Court.

Section 2.02 Bankruptcy Court Approval. The Debtors (a) orally presented this Settlement Agreement in court on the Petition Date, including the agreed amount of the Total Allowed Claim (as defined below in Section 5.01), and (b) shall comply with the schedule for the approval of this Settlement Agreement set forth in the Scheduling Order. The Trustee for each Settlement Trust may accept the offer of a compromise contemplated by this Settlement Agreement on behalf of such Settlement Trust, within the time set forth in the Scheduling Order, by a writing substantially in the form of acceptance included in the proposed order for approval of this Settlement Agreement to be submitted to the Bankruptcy Court.

Section 2.03 Standing. The Debtors agree that the Institutional Investors are parties in interest in the chapter 11 cases of ResCap for the purposes of enforcing rights and complying with obligations under this Settlement Agreement. The Parties further agree that they will not oppose any effort of the Institutional Investors or any other Investor(s) in seeking status as a party in interest in the Chapter 11 Cases.

## ARTICLE III. REPRESENTATIONS AND WARRANTIES.

Section 3.01 Holdings and Authority. As of May 13, 2012, lead counsel to the Institutional Investors, Gibbs & Bruns, has represented to ResCap that the Institutional Investors have or advise clients who have aggregate holdings of greater than 25% of the voting rights in one or more classes of the Securities issued by each of the Settlement Trusts identified on the attached Exhibit D. Each Institutional Investor represents that (i) it has the authority to take the actions contemplated by this Settlement Agreement, to the extent that it has the authority with respect to any other entities, account holders, or accounts for which or on behalf of which it is signing this Settlement Agreement, and (ii) it holds, or is the authorized investment manager for the holders of, the Securities listed in Exhibit D hereto, in the respective amounts set forth therein by CUSIP number, that such schedule was accurate as of the date set forth for the respective institution, and that since the date set forth for the Institutional Investor, the Institutional Investor has not, in the aggregate, materially decreased the Institutional Investor’s holdings in the Securities. The Parties agree that the aggregate amounts of Securities collectively held by the Institutional Investors for each Settlement Trust may be disclosed publicly, but that the individual holdings of the Institutional Investors shall remain confidential, subject to review only by ResCap, the Bankruptcy Court, the Office of the United States Trustee,

the Trustees, and the official committee of unsecured creditors appointed in the Chapter 11 Cases.

Section 3.02 Holdings Retention. As of May 13, 2012, the Institutional Investors collectively held Securities representing in aggregate 25% of the voting rights in one or more classes of Securities of not less than 290 of the Settlement Trusts. The Institutional Investors, collectively, shall maintain holdings aggregating 25% of the voting rights in one or more classes of Securities of not less than 235 of the Covered Trusts (“Requisite Holdings”) until the earliest of: (i) confirmation of a plan of reorganization, (ii) December 31, 2012, (iii) a Consenting Claimant Termination Event, or (iv) a Debtor Termination Event (as the terms in subsections (iii) and (iv) were defined in the plan support agreement agreed to by the Parties); *provided, however*, that any reduction in Requisite Holdings caused by: (a) sales by Maiden Lane I and Maiden Lane III; or (b) exclusion of one or more trusts due to the exercise of voting rights by a third party guarantor or financial guaranty provider, shall not be considered in determining whether the Requisite Holdings threshold has been met. If the Requisite Holdings are not maintained, ResCap shall have the right to terminate the Settlement Agreement, but ResCap shall not terminate the Settlement Agreement before it has conferred in good faith with the Institutional Investors concerning whether termination is warranted. For the avoidance of doubt, other than as set forth above, this Settlement Agreement shall not restrict the right of any Institutional Investor to sell or exchange any Securities issued by a Settlement Trust free and clear of any encumbrance. The Institutional Investors will not sell any of the Securities for the purpose of avoiding their obligations under this Settlement Agreement, and each Institutional Investor (except Maiden Lane I and Maiden Lane III) commits to maintain at least one position in one of the Securities in one of the Settlement Trusts until the earliest of the dates set forth above. If the Debtor reaches a similar agreement to this with another bondholder group, the Debtor will include a substantially similar proportionate holdings requirement in that agreement as contained herein.

#### ARTICLE IV. DIRECTION TO TRUSTEES AND INDENTURE TRUSTEES.

Section 4.01 Direction to Trustees and Indenture Trustees. The relevant Institutional Investors for each Settlement Trust shall, by the time of the filing of a motion to approve this Settlement Agreement, provide the relevant Trustee with Direction to accept the settlement and compromises set forth herein. The Institutional Investors hereby agree to confer in good faith with ResCap as to any further or other Direction that may be reasonably necessary to effectuate the settlement contemplated herein, including filing motions and pleadings with the Bankruptcy Court and making statements in open court in support of the Debtors’ restructuring.

Section 4.02 No Inconsistent Directions. Except for providing Directions in accordance with Section 4.01, the Institutional Investors agree that (i) between the date hereof and the Effective Date, with respect to the Securities issued by the Settlement Trusts, they will not, individually or collectively, direct, vote for, or take any other action that they may have the right or the option to take under the Governing Agreements or to join with any other Investors or the Trustee of any note, bond or other security issued by the Settlement Trusts, to cause the Trustees to enforce (or seek derivatively to enforce) any representations and warranties regarding the Mortgage Loans or the servicing of the Mortgage Loans, and (ii) to the extent that any of the Institutional Investors have already taken any such action, the applicable Institutional Investor

will promptly rescind or terminate such action. Nothing in the foregoing shall restrict the ability of the Institutional Investors to demand that any Investor who seeks to direct the Trustee for a Settlement Trust post any indemnity or bond required by the Governing Agreements for the applicable Settlement Trust.

Section 4.03 Amendments to Governing Agreements Regarding Financing of Advances. The Institutional Investors agree to use commercially reasonable efforts (which shall not require the giving of any indemnity or other payment obligation or expenditure of out-of-pocket funds) to negotiate any request by the Debtors or the Trustees for any Settlement Trusts with respect to which the servicing rights are being assumed and assigned to the Purchaser, and if any Trustee shall require a vote of the certificate or note holders with respect thereto, shall vote in favor of (to the extent agreement is reached) any amendment to the relevant Governing Agreements and related documents requested by the Debtors in order to permit "Advances" (as it or any similar term may be defined in the Governing Agreements) to be financeable and to make such other amendments thereto as may be reasonably requested by the Debtors in accordance with any agreement to acquire all or substantially all of the Debtors' servicing assets, so long as such changes would not cause material financial detriment to the Settlement Trusts, their respective trustees, certificate or note holders, or the Institutional Investors.

#### ARTICLE V. ALLOWANCE OF CLAIM.

Section 5.01 The Allowed Claim. ResCap hereby makes an irrevocable offer to settle, expiring at 5:00 p.m. prevailing New York time on the date that is set forth in the Scheduling Order, with each of the Settlement Trusts (the Settlement Trusts that timely agree to the terms of this Settlement Agreement being the "Accepting Trusts"). In consideration for such agreement, ResCap will provide a general unsecured claim of \$8,700,000,000 in the aggregate against the Seller Entities and the Depositor Entities (as the Depositor Entities are jointly liable for such claim) (the "Total Allowed Claim"), all of which shall be allocated and implemented as provided in Section 6.01. For the avoidance of doubt, the Total Allowed Claim shall be allocated among the Accepting Trusts, subject to the provisions of this Settlement Agreement. Subject to the provisions of this Settlement Agreement, the Accepting Trusts shall be allowed an aggregate claim in an amount calculated as set forth below (the "Allowed Claim"), which aggregate claim shall be allocated to each Accepting Trust pursuant to Article VI herein. The amount of the Allowed Claim shall equal (i) \$8,700,000,000, less (ii) \$8,700,000,000 multiplied by the percentage represented by (a) the total dollar amount of original principal balance for the Settlement Trusts not accepting the offer outlined above, divided by (b) the total dollar amount of original principal balance for all Settlement Trusts.

Section 5.02 Waiver of Setoff and Recoupment. By accepting the offer to settle contained in Section 5.01, each Accepting Trust irrevocably waives any right to setoff and/or recoupment such Accepting Trust may have against ResCap, except that such right, if any, shall be preserved with respect to claims, described in Section 8.02 hereof, that are not released or waived under Article VII hereof.



ARTICLE VI. ALLOCATION OF ALLOWED CLAIM.

Section 6.01 The Allocation of the Allowed Claim. Each Accepting Trust shall be allocated a share of the Allowed Claim against its Seller Entity and its Depositor Entity (the "Allocated Claim"), calculated as set forth on Exhibit B hereto, for which such Seller Entity and Depositor Entity are jointly liable.

Section 6.02 In the event the Bankruptcy Court does not approve the Allowed Claim as to a particular Seller Entity or Depositor Entity, the settlement shall remain in full force with respect to any other Seller Entity or Depositor Entity, as applicable; *provided, however*, that if the Allowed Claim in the amounts proposed herein is not approved as to any of the Seller Entities or Depositor Entities, the Institutional Investors shall have the right to terminate this Settlement Agreement upon written notice to the Debtors; *provided, further*, that in the event that the Bankruptcy Court does not approve the Allowed Claim as to a particular Seller Entity or Depositor Entity, that particular Seller Entity or Depositor Entity shall not receive any release, waiver, or discharge of any Released Claims pursuant to Article VII.

Section 6.03 Legal Fees.

- (a) ResCap and the Institutional Investors agree that Gibbs & Bruns and Ropes & Gray shall, on the Effective Date, be allocated legal fees as follows, as an integrated and nonseverable part of this Settlement Agreement. First, Gibbs & Bruns and Ropes & Gray, as counsel to the Institutional Investors, shall be allocated by ResCap without conveyance to the Trustees the percentages of the Allowed Claim set forth on the fee schedule attached hereto as Exhibit C, without requirement of submitting any form of estate retention or fee application, for their work relating to these cases and the settlement. Second, the Debtors and Institutional Investors may further agree at any time, that the Debtors may pay Gibbs & Bruns and Ropes & Gray in cash, in an amount that Gibbs & Bruns and Ropes & Gray respectively agree is equal to the cash value of their respective portions of the Allowed Claim, and in any such event, no estate retention application, fee application or further order of the Bankruptcy Court shall be required as a condition of the Debtors making such agreed allocation. Third, the Debtors agree and the settlement approval order shall provide that the amount of the Allowed Claim payable to Gibbs & Bruns and Ropes & Gray may be reduced to a separate claim stipulation for convenience of the parties.
- (b) In the event that, prior to acceptance of this compromise by a Trustee for a Settlement Trust other than a Covered Trust, counsel to Investors in such Settlement Trust cause a direction to be given by more than 25% of the holders of a tranche of such Settlement Trust to accept this compromise, then the same provisions as contained in Section 6.02(a) shall apply to such counsel, solely as to the amounts allocated to such Settlement Trust. Such counsel shall be entitled to a share of the fee for such trust equal to the ratio of (a) 25% minus the percentage of such tranche held by Institutional Investors divided by (b) 25%. Counsel would be required to identify itself and satisfy the Debtors and Institutional Investors as to the holdings of client-investors and that counsel caused such directions.

ARTICLE VII. RELEASES.

Section 7.01 Releases. Except as set forth in Article VIII, as of the Effective Date, with respect to each and every Accepting Trust, and in exchange for the Allowed Claim, the Institutional Investors, Accepting Trusts, Trustees in respect of such trusts, and any Persons claiming by, through or on behalf of such Accepting Trust or the Trustees of such trusts (including Investors claiming derivatively) (collectively, the “Releasors”), irrevocably and unconditionally grant a full, final, and complete release, waiver, and discharge of all alleged or actual claims, demands to repurchase, demands to cure, demands to substitute, counterclaims, defenses, rights of setoff, rights of rescission, liens, disputes, liabilities, losses, debts, costs, expenses, obligations, demands, claims for accountings or audits, alleged events of default, damages, rights, and causes of action of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, suspected or unsuspected, fixed or contingent, in contract, tort, or otherwise, secured or unsecured, accrued or unaccrued, whether direct or derivative, arising under law or equity (collectively, “Claims”), against the Debtors (with the exception of ResCap LLC as set forth in the last sentence of this Section 7.01) and their current and former officers, directors, and employees (but in no case does this section apply to Ally Financial Inc. (“AFI”) or any person who is an officer or director of AFI) that arise under the Governing Agreements. Such released claims include, but are not limited to, claims arising out of and/or relating to (i) the origination and sale of mortgage loans to the Accepting Trusts (including, without limitation, the liability of any Debtors that are party to a Pooling and Servicing Agreement with respect to representations and warranties made in connection with such sale or with respect to the noticing and enforcement of any remedies in respect of alleged breaches of such representations and warranties) (collectively, the “Origination-Related Provisions”), (ii) the documentation of the Mortgage Loans held by the Accepting Trusts including with respect to allegedly defective, incomplete, or non-existent documentation, as well as issues arising out of or relating to recordation, title, assignment, or any other matter relating to legal enforceability of a Mortgage or Mortgage Note, or any alleged failure to provide notice of such defective, incomplete or non-existent documentation, (iii) the servicing of the Mortgage Loans held by the Accepting Trusts (including any claim relating to the timing of collection efforts or foreclosure efforts, loss mitigation, transfers to subservicers, advances or servicing advances) (the “Servicing Claims”), but only to the extent assumed pursuant to Section 365 of the Bankruptcy Code by an assignee to the applicable Debtor in its capacity as Master Servicer or Servicer under any Governing Agreement (the “Assumed Servicing Claims”), (iv) any duty of a debtor as master servicer, servicer or sub-servicer to notice and enforce remedies in respect of alleged breaches of representations and warranties (together with the Assumed Servicing Claims, the “Released Servicing Claims”), (v) setoff or recoupment under the Governing Agreements against ResCap with respect to the Origination-Related Provisions or the Released Servicing Claims, and (vi) any loan seller that either sold loans to ResCap or AFI that were sold and transferred to such Accepting Trust or sold loans directly to such Accepting Trust, in all cases prior to the Petition Date (collectively, all such claims being defined as the “Released Claims”). For the avoidance of doubt, this release does not include individual direct claims for securities fraud or other disclosure-related claims arising from the purchase or sale of Securities. Notwithstanding any provision of this Section 7.01, the Releasors do not release, waive, or discharge any Claims against ResCap LLC.

Section 7.02 Release of Claims Against Investors, Accepting Trusts, and Trustees. Except as set forth in Article VIII, as of the Effective Date, ResCap irrevocably and unconditionally grants to the Accepting Trusts, Trustees in respect of such trusts, and Investors in such trusts, as well as such Accepting Trusts', Trustees' and Investors' respective officers, directors, and employees, a full final, and complete release, waiver, and discharge of all alleged or actual claims from any claim it may have under or arising out of the Governing Agreements.

Section 7.03 Agreement Not to Pursue Relief from the Stay. The Institutional Investors agree that neither they nor their successors in interest, assigns, pledges, delegates, affiliates, subsidiaries, and/or transferees, will seek relief from the automatic stay imposed by section 362 of the Bankruptcy Code in order to institute, continue or otherwise prosecute any action relating to the Released Claims; provided, however, nothing contained herein shall preclude the Institutional Investors or their advised clients from seeking any such relief with respect to direct claims for securities fraud or other disclosure-related claims arising from the purchase or sale of Securities. ResCap reserves its rights and defenses therewith.

Section 7.04 Inclusion of Accepting Trusts and Trustees in Plan Release and Exculpation Provisions. The Accepting Trusts and the Trustees in respect of any such Accepting Trust and their respective counsel shall be entitled to the benefit of any releases and plan exculpation provisions, if any, included in the Plan, which provisions shall be no less favorable than the releases and plan exculpation provisions extended to similarly situated creditors or parties in interest who are parties to any plan support agreement with ResCap.

#### ARTICLE VIII. CLAIMS NOT RELEASED

Section 8.01 ResCap LLC Claim. ResCap LLC does not concede or admit fault for any liability under the Governing Agreements. Without any limitation on the foregoing, each Accepting Trust shall be entitled to file a proof of claim against ResCap LLC for claims, if any, arising under the Governing Agreements (any such claim is hereinafter referred to as a "ResCap LLC Claim"). Nothing contained herein shall be deemed to establish the validity or amount of any ResCap LLC Claim, which shall remain subject to objections in all respects in accordance with the Federal Rules of Bankruptcy Procedure. Notwithstanding the foregoing, the allowed amount of any ResCap LLC Claim shall not exceed such Accepting Trust's Allocated Claim; provided that any recovery on any such allowed ResCap LLC Claim shall be reduced by any amount paid by any Seller Entity or Depositor Entity on account of the Accepting Trust's Allocated Claim. Subject to the provisions of this Agreement, the Accepting Trusts expressly reserve all rights regarding the validity and amount of any ResCap LLC Claim.

Section 8.02 Administration of the Mortgage Loans. The releases and waivers in Article VII herein do not include: (i) claims that first arise after the Effective Date and are based in whole or in part on any actions, inactions, or practices of the Master Servicer, Servicer, or Subservicer as to the servicing of the Mortgage Loans held by the Accepting Trusts, and (ii) any Servicing Claim that is not an Assumed Servicing Claim and for which the Court finds a cure or rejection claim exists pursuant to Section 365 of the Bankruptcy Code (it being understood that such cure or rejection claims, if any, are not intended to be affected by such releases and waivers).

Section 8.03 Financial-Guaranty Provider Rights and Obligations. To the extent that any third party guarantor or financial-guaranty provider with respect to any Settlement Trust has rights or obligations independent of the rights or obligations of the Investors, the Trustees, or the Settlement Trusts, the releases and waivers in Article VII are not intended to and shall not release such rights.

Section 8.04 Settlement Agreement Rights. The Parties do not release or waive any rights or claims against each other to enforce the terms of this Settlement Agreement or the Allowed Claim.

Section 8.05 Disclosure Claims. The releases and waivers in Article VII do not include any claims based on improper disclosures under federal or state securities law.

Section 8.06 Reservation of Rights. Notwithstanding anything in this Settlement Agreement to the contrary, the Institutional Investors have not waived their right to file an objection to a motion of the holders of the ResCap 9 5/8% bonds requesting payment of any interest on account of their ResCap 9 5/8% bond claims that may be due and owing after the Petition Date.

#### ARTICLE IX. RELEASE OF UNKNOWN CLAIMS.

Each of the Parties acknowledges that it has been advised by its attorneys concerning, and is familiar with, California Civil Code Section 1542 and expressly waives any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to the provisions of the California Civil Code Section 1542, including that provision itself, which reads as follows:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

The Parties acknowledge that inclusion of the provisions of this Article IX to this Settlement Agreement was a material and separately bargained for element of this Settlement Agreement.

#### ARTICLE X. OTHER PROVISIONS

Section 10.01 Voluntary Agreement. Each Party acknowledges that it has read all of the terms of this Settlement Agreement, has had an opportunity to consult with counsel of its own choosing or voluntarily waived such right and enters into this Settlement Agreement voluntarily and without duress.

Section 10.02 No Admission of Breach or Wrongdoing. ResCap has denied and continues to deny any breach, fault, liability, or wrongdoing. This denial includes, but is not limited to, breaches of representations and warranties, violations of state or federal securities laws, and other claims sounding in contract or tort in connection with any securitizations,

including those for which ResCap was the Seller, Servicer and/or Master Servicer. Neither this Settlement Agreement, whether or not consummated, any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, whether or not consummated, shall be construed as, or deemed to be evidence of, an admission or concession on the part of ResCap with respect to any claim or of any breach, liability, fault, wrongdoing, or damage whatsoever, or with respect to any infirmity in any defense that ResCap has or could have asserted.

Section 10.03 No Admission Regarding Claim Status. ResCap expressly states that in the event this Settlement Agreement is not consummated or is terminated prior to the Effective Date, then neither this Settlement Agreement, nor any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, shall be construed as, or deemed to be evidence of, an admission or concession on the part of ResCap that any claims asserted by the Institutional Investors are not contingent, unliquidated or disputed. The Institutional Investors expressly state that in the event this Settlement Agreement is not consummated or is terminated prior to the Effective Date, neither this Settlement Agreement, nor any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, shall be construed as, or deemed to be evidence of, an admission or concession on the part of the Institutional Investors that any claims asserted by the Institutional Investors and Trustees are not limited to the amounts set forth in this Settlement Agreement or are of any particular priority.

Section 10.04 Counterparts. This Settlement Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Settlement Agreement. Delivery of a signature page to this Settlement Agreement by facsimile or other electronic means shall be effective as delivery of the original signature page to this Settlement Agreement.

Section 10.05 Joint Drafting. This Settlement Agreement shall be deemed to have been jointly drafted by the Parties, and in construing and interpreting this Settlement Agreement, no provision shall be construed and interpreted for or against any of the Parties because such provision or any other provision of the Settlement Agreement as a whole is purportedly prepared or requested by such Party.

Section 10.06 Entire Agreement. This document contains the entire agreement between the Parties, and may only be modified, altered, amended, or supplemented in writing signed by the Parties or their duly appointed agents. All prior agreements and understandings between the Parties concerning the subject matter hereof are superseded by the terms of this Settlement Agreement.

Section 10.07 Specific Performance. It is understood that money damages are not a sufficient remedy for any breach of this Settlement Agreement, and the Parties shall have the right, in addition to any other rights and remedies contained herein, to seek specific performance, injunctive, or other equitable relief from the Bankruptcy Court as a remedy for any such breach. The Parties hereby agree that specific performance shall be their only remedy for any violation of this Agreement.

Section 10.08 Authority. Each Party represents and warrants that each Person who executes this Settlement Agreement on its behalf is duly authorized to execute this Settlement Agreement on behalf of the respective Party, and that such Party has full knowledge of and has consented to this Settlement Agreement.

Section 10.09 No Third Party Beneficiaries. There are no third party beneficiaries of this Settlement Agreement.

Section 10.10 Headings. The headings of all sections of this Settlement Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

Section 10.11 Notices. All notices or demands given or made by one Party to the other relating to this Settlement Agreement shall be in writing and either personally served or sent by registered or certified mail, postage paid, return receipt requested, overnight delivery service, or by electronic mail transmission, and shall be deemed to be given for purposes of this Settlement Agreement on the earlier of the date of actual receipt or three days after the deposit thereof in the mail or the electronic transmission of the message. Unless a different or additional address for subsequent notices is specified in a notice sent or delivered in accordance with this Section, such notices or demands shall be sent as follows:

To: Institutional Investors  
c/o Kathy Patrick  
Gibbs & Bruns LLP  
1100 Louisiana  
Suite 5300  
Houston, TX 77002  
Tel: 713-650-8805  
Email: kpatrick@gibbsbruns.com  
-and-  
Keith H. Wofford  
D. Ross Martin  
Ropes & Gray LLP  
1211 Avenue of the Americas  
New York, NY 10036  
Tel: 212-841-5700  
Email: keith.wofford@ropesgray.com  
ross.martin@ropesgray.com

To: ResCap  
c/o Gary S. Lee  
Jamie A. Levitt  
Morrison & Foerster LLP  
1290 Avenue of the Americas  
New York, NY 10104  
Tel: 212-468-8000  
Email: glee@mofo.com  
jlevitt@mofo.com

Section 10.12 Disputes. This Settlement Agreement, and any disputes arising under or in connection with this Settlement Agreement, are to be governed by and construed in accordance with the laws of the State of New York, without giving effect to the choice of laws principles thereof. Further, by its execution and delivery of this Settlement Agreement, each of the Parties hereto hereby irrevocably and unconditionally agrees that the United States District Court for the Southern District of New York shall have jurisdiction to enforce this Settlement Agreement, *provided, however*, that, upon commencement of the Chapter 11 Cases, the Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of or in connection with this Settlement Agreement.

Section 10.13 The Parties have agreed to include the following statement in the proposed order attached to the Debtors' motion to approve this Settlement Agreement: "Nothing contained in the RMBS Trust Settlement Agreement, the order approving the RMBS Trust Settlement Agreement, and any associated expert reports, including exhibits, schedules, declarations, and other documents attached thereto or referenced therein, or in any declarations, pleadings, or other documents or evidence submitted to, or filed in, the Bankruptcy Court in connection therewith, shall be construed as an admission of, or to prejudice in any way, Ally Financial Inc. and its non-Debtor direct and indirect subsidiaries and affiliates (collectively, "Ally") and may not be used as evidence against Ally in any court proceeding."

Section 10.14 Notwithstanding anything to the contrary in this Settlement Agreement, nothing herein is intended to or shall be deemed to amend any of the Governing Agreements for any Settlement Trust.

**[REST OF PAGE INTENTIONALLY LEFT BLANK]**

Dated the 21<sup>st</sup> day of September, 2012.

ROPES + GRAY LLP

~~Gibbs & Bruns LLP~~ on behalf of the  
Institutional Investors

Signature: 

Name: KEITH WOLFORD

Title: PARTNER



**EXECUTION COPY**

Dated the 21<sup>st</sup> day of September, 2012.

Residential Capital, LLC  
for itself and its direct and indirect subsidiaries

Signature: Tammy Hamzehpour

Name: Tammy Hamzehpour

Title: General Counsel

**EXECUTION COPY**

**EXHIBIT A**

**TRUSTS**

**Exhibit A- Trusts**

<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>	<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>
2004-AR1	635.0	2004-QS12	424.3
2004-AR2	510.1	2004-QS13	129.2
2004-GH1	224.1	2004-QS14	212.9
2004-HE1	1,292.3	2004-QS15	213.7
2004-HE2	711.5	2004-QS16	534.7
2004-HE3	977.3	2004-QS2	292.3
2004-HE4	1,018.0	2004-QS3	207.8
2004-HE5	700.0	2004-QS4	320.6
2004-HI1	235.0	2004-QS5	293.7
2004-HI2	275.0	2004-QS6	156.5
2004-HI3	220.0	2004-QS7	449.2
2004-HLTV1	175.0	2004-QS8	271.0
2004-HS1	477.1	2004-QS9	105.1
2004-HS2	604.1	2004-RP1	199.5
2004-HS3	284.0	2004-RS1	1,400.0
2004-J1	401.0	2004-RS10	1,250.0
2004-J2	400.6	2004-RS11	925.0
2004-J3	350.0	2004-RS12	975.0
2004-J4	600.1	2004-RS2	875.0
2004-J5	551.9	2004-RS3	600.0
2004-J6	408.0	2004-RS4	1,100.0
2004-KR1	2,000.0	2004-RS5	1,050.0
2004-KR2	1,250.0	2004-RS6	1,000.0
2004-KS1	950.0	2004-RS7	1,183.7
2004-KS10	986.0	2004-RS8	900.0
2004-KS11	692.7	2004-RS9	950.0
2004-KS12	541.8	2004-RZ1	485.0
2004-KS2	990.0	2004-RZ2	475.0
2004-KS3	675.0	2004-RZ3	360.0
2004-KS4	1,000.0	2004-RZ4	276.6
2004-KS5	1,175.0	2004-S1	307.7
2004-KS6	1,000.0	2004-S2	362.0
2004-KS7	850.0	2004-S3	228.3
2004-KS8	600.0	2004-S4	460.3
2004-KS9	600.0	2004-S5	423.5
2004-PS1	100.1	2004-S6	527.2
2004-QA1	201.3	2004-S7	105.3
2004-QA2	365.1	2004-S8	311.0
2004-QA3	320.1	2004-S9	645.9
2004-QA4	290.2	2004-SA1	250.1
2004-QA5	325.1	2004-SL1	632.9
2004-QA6	720.3	2004-SL2	499.0
2004-QS1	319.9	2004-SL3	222.5
2004-QS10	216.6	2004-SL4	206.5
2004-QS11	217.5	2004-SP1	233.7

Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2004-SP2	145.1	2005-KS8	1,165.8
2004-SP3	306.9	2005-KS9	487.0
2004-VFT	820.7	2005-NC1	870.8
2005-AA1	265.6	2005-QA1	296.7
2005-AF1	235.5	2005-QA10	621.8
2005-AF2	296.9	2005-QA11	525.1
2005-AHL1	463.7	2005-QA12	285.2
2005-AHL2	434.2	2005-QA13	560.2
2005-AHL3	488.8	2005-QA2	501.0
2005-AR1	399.8	2005-QA3	500.0
2005-AR2	458.4	2005-QA4	525.2
2005-AR3	523.7	2005-QA5	241.8
2005-AR4	386.1	2005-QA6	575.5
2005-AR5	597.2	2005-QA7	575.0
2005-AR6	592.0	2005-QA8	519.5
2005-EFC1	1,101.5	2005-QA9	650.5
2005-EFC2	679.3	2005-QO1	711.1
2005-EFC3	731.9	2005-QO2	425.1
2005-EFC4	707.8	2005-QO3	500.6
2005-EFC5	693.3	2005-QO4	797.0
2005-EFC6	672.7	2005-QO5	1,275.1
2005-EFC7	698.2	2005-QS1	214.6
2005-EMX1	792.8	2005-QS10	265.7
2005-EMX2	620.4	2005-QS11	213.6
2005-EMX3	674.5	2005-QS12	528.9
2005-EMX4	492.6	2005-QS13	639.2
2005-EMX5	380.0	2005-QS14	615.8
2005-HE1	991.1	2005-QS15	431.5
2005-HE2	1,113.5	2005-QS16	428.0
2005-HE3	988.0	2005-QS17	540.1
2005-HI1	240.0	2005-QS2	213.0
2005-HI2	240.0	2005-QS3	475.6
2005-HI3	224.9	2005-QS4	211.7
2005-HS1	853.8	2005-QS5	214.0
2005-HS2	577.5	2005-QS6	265.1
2005-HSA1	278.8	2005-QS7	370.0
2005-J1	525.5	2005-QS8	104.1
2005-KS1	708.8	2005-QS9	371.0
2005-KS10	1,299.2	2005-RP1	343.1
2005-KS11	1,339.3	2005-RP2	301.1
2005-KS12	1,117.2	2005-RP3	282.5
2005-KS2	543.4	2005-RS1	975.0
2005-KS3	413.5	2005-RS2	725.0
2005-KS4	411.1	2005-RS3	741.3
2005-KS5	401.8	2005-RS4	522.4
2005-KS6	596.2	2005-RS5	497.5
2005-KS7	387.6	2005-RS6	1,183.2

Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2005-RS7	493.0	2006-HI4	272.7
2005-RS8	660.0	2006-HI5	247.5
2005-RS9	1,179.0	2006-HLTV1	229.9
2005-RZ1	203.8	2006-HSA1	461.4
2005-RZ2	333.7	2006-HSA2	447.9
2005-RZ3	340.0	2006-HSA3	201.0
2005-RZ4	411.2	2006-HSA4	402.1
2005-S1	463.1	2006-HSA5	295.6
2005-S2	260.9	2006-J1	550.0
2005-S3	183.1	2006-KS1	840.1
2005-S4	259.4	2006-KS2	977.5
2005-S5	258.2	2006-KS3	1,125.9
2005-S6	412.9	2006-KS4	687.8
2005-S7	311.7	2006-KS5	687.1
2005-S8	312.3	2006-KS6	529.1
2005-S9	366.6	2006-KS7	532.7
2005-SA1	295.2	2006-KS8	535.9
2005-SA2	500.8	2006-KS9	1,197.1
2005-SA3	675.2	2006-NC1	536.8
2005-SA4	850.5	2006-NC2	745.2
2005-SA5	355.3	2006-NC3	504.9
2005-SL1	370.5	2006-QA1	603.9
2005-SL2	168.9	2006-QA10	375.5
2005-SP1	831.0	2006-QA11	372.4
2005-SP2	490.2	2006-QA2	394.0
2005-SP3	285.7	2006-QA3	398.5
2006-AR1	508.7	2006-QA4	304.4
2006-AR2	373.0	2006-QA5	695.6
2006-EFC1	593.2	2006-QA6	625.8
2006-EFC2	387.6	2006-QA7	588.2
2006-EMX1	424.6	2006-QA8	795.1
2006-EMX2	550.1	2006-QA9	369.2
2006-EMX3	773.6	2006-QH1	337.9
2006-EMX4	661.7	2006-QO1	901.2
2006-EMX5	580.2	2006-QO10	895.7
2006-EMX6	620.5	2006-QO2	665.5
2006-EMX7	495.3	2006-QO3	644.8
2006-EMX8	698.6	2006-QO4	843.2
2006-EMX9	728.8	2006-QO5	1,071.6
2006-HE1	1,274.2	2006-QO6	1,290.3
2006-HE2	626.2	2006-QO7	1,542.4
2006-HE3	1,142.3	2006-QO8	1,288.1
2006-HE4	1,159.1	2006-QO9	895.6
2006-HE5	1,244.5	2006-QS1	323.8
2006-HI1	214.2	2006-QS10	533.6
2006-HI2	237.4	2006-QS11	751.5
2006-HI3	223.2	2006-QS12	541.3

Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2006-QS13	641.0	2006-SP3	291.9
2006-QS14	753.7	2006-SP4	303.9
2006-QS15	538.6	2007-EMX1	692.9
2006-QS16	752.1	2007-HE1	1,185.9
2006-QS17	537.0	2007-HE2	1,240.9
2006-QS18	1,181.9	2007-HE3	350.6
2006-QS2	881.7	2007-HI1	255.0
2006-QS3	969.8	2007-HSA1	546.8
2006-QS4	752.3	2007-HSA2	1,231.4
2006-QS5	698.0	2007-HSA3	796.4
2006-QS6	858.8	2007-KS1	415.6
2006-QS7	537.5	2007-KS2	961.5
2006-QS8	966.3	2007-KS3	1,270.3
2006-QS9	540.1	2007-KS4	235.9
2006-RP1	293.0	2007-QA1	410.1
2006-RP2	317.0	2007-QA2	367.0
2006-RP3	290.4	2007-QA3	882.4
2006-RP4	357.4	2007-QA4	243.5
2006-RS1	1,173.6	2007-QA5	504.1
2006-RS2	785.6	2007-QH1	522.3
2006-RS3	741.6	2007-QH2	348.4
2006-RS4	887.5	2007-QH3	349.5
2006-RS5	382.6	2007-QH4	401.0
2006-RS6	372.2	2007-QH5	497.5
2006-RZ1	483.8	2007-QH6	597.0
2006-RZ2	368.6	2007-QH7	347.0
2006-RZ3	688.3	2007-QH8	560.1
2006-RZ4	851.8	2007-QH9	594.4
2006-RZ5	505.1	2007-QO1	625.1
2006-S1	367.1	2007-QO2	529.3
2006-S10	1,087.7	2007-QO3	296.3
2006-S11	623.2	2007-QO4	502.8
2006-S12	1,204.3	2007-QO5	231.2
2006-S2	260.6	2007-QS1	1,297.4
2006-S3	337.8	2007-QS10	435.8
2006-S4	313.9	2007-QS11	305.8
2006-S5	678.1	2007-QS2	536.7
2006-S6	599.6	2007-QS3	971.6
2006-S7	469.7	2007-QS4	746.9
2006-S8	416.3	2007-QS5	432.7
2006-S9	442.3	2007-QS6	808.3
2006-SA1	275.1	2007-QS7	803.3
2006-SA2	791.3	2007-QS8	651.8
2006-SA3	350.9	2007-QS9	707.0
2006-SA4	282.3	2007-RP1	334.4
2006-SP1	275.9	2007-RP2	263.3
2006-SP2	348.1	2007-RP3	346.6

<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>
2007-RP4	239.2
2007-RS1	478.3
2007-RS2	376.8
2007-RZ1	329.3
2007-S1	522.5
2007-S2	472.2
2007-S3	575.3
2007-S4	314.5
2007-S5	524.8
2007-S6	707.7
2007-S7	419.1
2007-S8	488.8
2007-S9	172.4
2007-SA1	310.8
2007-SA2	385.1
2007-SA3	363.8
2007-SA4	414.9
2007-SP1	346.6
2007-SP2	279.3
2007-SP3	298.1
<b>Grand Total</b>	<b>220,987.7</b>

## **EXHIBIT B**

### **ALLOCATION OF ALLOWED CLAIM**

1. The Allowed Claim shall be allocated amongst the Accepting Trusts by the Trustees pursuant to the determination of a qualified financial advisor (the “Expert”) who will make any determinations and perform any calculations required in connection with the allocation of the Allowed Claim among the Accepting Trusts. To the extent that the collateral in any Accepting Trust is divided by the Governing Agreements into groups of loans (“Loan Groups”) so that ordinarily only certain classes of investors benefit from the proceeds of particular Loan Groups, those Loan Groups shall be deemed to be separate Accepting Trusts for purposes of the allocation and distribution methodologies set forth below. The Expert is to apply the following allocation formulas:

(i) *First*, the Expert shall calculate the amount of Net Losses for each Accepting Trust as a percentage of the sum of the Net Losses for all Accepting Trusts (such amount, the “Net Loss Percentage”);

(ii) *Second*, the Expert shall calculate the “Allocated Claim” for each Accepting Trust by multiplying (A) the amount of the Allowed Claim by (B) the Net Loss Percentage for such Accepting Trust, expressed as a decimal; provided that the Expert shall be entitled to make adjustments to the Allocated Claim of each Accepting Trust to ensure that the effects of rounding do not cause the sum of the Allocated Claims for all Accepting Trusts to exceed the amount of the Allowed Claim.

(iii) For the avoidance of doubt, the Seller Entity and Depositor Entity for each Accepting Trust are jointly liable for that Trust’s Allocated Claim.

(iv) If applicable, the Expert shall calculate the portion of the Allocated Claim that relates to principal-only certificates or notes and the portion of the Allocated Claim that relates to all other certificates or notes.

2. All distributions from the Estate to an Accepting Trust on account of any Allocated Claim shall be treated as Subsequent Recoveries, as that term is defined in the Governing Agreement for that trust; provided that if the Governing Agreement for a particular Accepting Trust does not include the term “Subsequent Recovery,” the distribution resulting from the Allocated Claim shall be distributed as though it was unscheduled principal available for distribution on that distribution date; *provided, however*, that should the Bankruptcy Court determine that a different treatment is required to conform the distributions to the requirements of the Governing Agreements, that determination shall govern and shall not constitute a material change to this Settlement Agreement.

3. Notwithstanding any other provision of any Governing Agreement, the Debtors and all Servicers agree that neither the Master Servicer nor any Subservicer shall be entitled to receive any portion of any distribution resulting from any Allocated Claim for any purpose, including without limitation the satisfaction of any Servicing Advances, it being understood that the Master Servicer’s other entitlements to payments, and to reimbursement or recovery, including of



Advances and Servicing Advances, under the terms of the Governing Agreements shall not be affected by this Settlement Agreement except as expressly provided here. To the extent that as a result of the distribution resulting from an Allocated Claim in a particular Accepting Trust a principal payment would become payable to a class of REMIC residual interests, whether on the distribution of the amount resulting from the Allocated Claim or on any subsequent distribution date that is not the final distribution date under the Governing Agreement for such Accepting Trust, such payment shall be maintained in the distribution account and the relevant Trustee shall distribute it on the next distribution date according to the provisions of this section.

4. In addition, after any distribution resulting from an Allocated Claim pursuant to section 3 above, the relevant Trustee will allocate the amount of the distribution for that Accepting Trust in the reverse order of previously allocated Realized Losses, to increase the Class Certificate Balance, Component Balance, Component Principal Balance, or Note Principal Balance, as applicable, of each class of Certificates or Notes (or Components thereof) (other than any class of REMIC residual interests) to which Realized Losses have been previously allocated, but in each case by not more than the amount of Realized Losses previously allocated to that class of Certificates or Notes (or Components thereof) pursuant to the Governing Agreements. For the avoidance of doubt, for Accepting Trusts for which the Credit Support Depletion Date shall have occurred prior to the allocation of the amount of the Allocable Share in accordance with the immediately preceding sentence, in no event shall the foregoing allocation be deemed to reverse the occurrence of the Credit Support Depletion Date in such Accepting Trusts. Holders of such Certificates or Notes (or Components thereof) will not be entitled to any payment in respect of interest on the amount of such increases for any interest accrual period relating to the distribution date on which such increase occurs or any prior distribution date. Any such increase shall be applied pro rata to the Certificate Balance, Component Balance, Component Principal Balance, or Note Principal Balance of each Certificate or Note of each class. For the avoidance of doubt, this section 4 is intended only to increase Class Certificate Balances, Component Balances, Component Principal Balances, and Note Principal Balances, as provided for herein, and shall not affect any distributions resulting from Allocated Claims provided for in section 3 above.

5. Nothing in this Settlement Agreement amends or modifies in any way any provisions of any Governing Agreement. To the extent any credit enhancer or financial guarantee insurer receives a distribution on account of the Allowed Claim, such distribution shall be credited at least dollar for dollar against the amount of any claim it files against the Debtor that does not arise under the Governing Agreements.

6. In no event shall the distribution to an Accepting Trust as a result of any Allocated Claim be deemed to reduce the collateral losses experienced by such Accepting Trust.

**EXHIBIT C**  
**FEE SCHEDULE**

**Exhibit C -- Fee Schedule**

Percentage of the Allowed Claim (being the sum of the Allocated Allow Claims) allocable to trusts which accept the settlement, subject to adjustment pursuant to section 6.02(b) for trusts other than original "Covered Trusts."

Gibbs & Bruns, L.L.P.: 4.75%

Ropes & Gray LLP:

If Effective Date of Plan occurs on or before Sept. 2, 2012, 0.475%

If Effective Date of Plan occurs after Sept. 2, 2012 and on or before Dec. 2, 2012, 0.7125%

If Effective Date of Plan occurs after Dec. 3, 2012 and on or before May 2, 2013, 0.855%

If Effective Date of Plan occurs after May 2, 2013, 0.95%

**EXHIBIT D**  
**SCHEDULE OF INSTITUTIONAL INVESTOR HOLDINGS**

EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
GMACM 2004-AR1	36185NX54	\$112,473,000.00	\$16,847,947.57
GMACM 2004-AR1	36185NX70	\$66,361,100.00	\$11,441,610.81
GMACM 2004-AR1	36185NX39	\$37,725,000.00	\$4,576,874.83
GMACM 2004-AR1	36185NX62	\$14,902,800.00	\$769,857.84
GMACM 2004-AR1	36185NX88	\$11,279,800.00	\$1,475,371.18
GMACM 2004-AR2	36185N3U2	\$32,000,000.00	\$5,386,526.90
GMACM 2004-AR2	36185N3V0	\$25,000,000.00	\$4,981,543.75
GMACM 2004-AR2	36185N4A5	\$2,000,000.00	\$398,523.50
GMACM 2004-AR2	36185N3T5	\$600,000.00	\$112,213.82
GMACM 2004-HE2	361856DD6	\$7,075,000.00	\$1,676,186.29
GMACM 2004-HE3	361856DG9	\$121,607,000.00	\$35,528,965.33
GMACM 2004-HE4	361856DR5	\$152,334,917.00	\$52,999,477.73
GMACM 2004-HE5	361856DX2	\$20,000,000.00	\$9,387,414.13
GMACM 2004-HE5	361856DY0	\$10,570,000.00	\$3,734,479.38
GMACM 2004-J1	36185NW48	\$6,014,000.00	\$2,960,436.85
GMACM 2004-J1	36185NW55	\$2,406,000.00	\$1,184,371.62
GMACM 2004-J1	36185NV64	\$2,005,000.00	\$1,119,403.35
GMACM 2004-J2	36185N2J8	\$1,135,000.00	\$653,053.80
GMACM 2004-J3	36185N2Z2	\$17,680,250.00	\$9,641,790.32
GMACM 2004-J3	36185N3F5	\$14,008,000.00	\$21,580,904.84
GMACM 2004-J3	36185N3B4	\$10,420,086.00	\$10,420,086.00
GMACM 2004-J3	36185N3G3	\$2,000,000.00	\$639,705.06
GMACM 2004-J4	36185N4K3	\$33,900,000.00	\$52,824,896.98
GMACM 2004-J4	36185N4J6	\$26,000,000.00	\$18,813,906.90
GMACM 2004-J5	36185N5B2	\$16,000,000.00	\$7,992,325.88
GMACM 2004-J5	36185N5C0	\$14,500,000.00	\$14,500,000.00
GMACM 2004-J6	36185N5T3	\$28,000,000.00	\$0.00
GMACM 2004-VF1	36186FAA4	\$416,206,680.00	\$57,512,916.88

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
GMACM 2005-AA1	76112BNN6	\$50,000,000.00	\$9,120,902.08
GMACM 2005-AF1	36185MAK8	\$58,719,000.00	\$5,506,202.18
GMACM 2005-AF1	36185MAJ1	\$31,460,154.00	\$18,076,812.51
GMACM 2005-AF1	36185MAN2	\$1,000,000.00	\$1,515,703.09
GMACM 2005-AF2	36185MDE9	\$202,283,350.00	\$66,663,480.51
GMACM 2005-AR1	76112BKN9	\$53,559,000.00	\$13,585,683.34
GMACM 2005-AR1	76112BKP4	\$16,390,000.00	\$4,267,585.68
GMACM 2005-AR1	76112BKK5	\$10,000,000.00	\$652,161.41
GMACM 2005-AR1	76112BKS8	\$7,796,000.00	\$5,233,926.07
GMACM 2005-AR1	76112BKQ2	\$277,340.00	\$85,019.91
GMACM 2005-AR2	36185N6Q8	\$37,293,000.00	\$13,824,752.42
GMACM 2005-AR2	36185N6M7	\$2,100,000.00	\$348,882.60
GMACM 2005-AR2	36185N6N5	\$1,500,000.00	\$450,323.21
GMACM 2005-AR3	36185N7L8	\$77,773,387.26	\$23,155,494.79
GMACM 2005-AR3	36185N7H7	\$50,000,000.00	\$714,273.84
GMACM 2005-AR3	36185N6Y1	\$29,656,000.00	\$3,801,430.30
GMACM 2005-AR3	36185N7D6	\$9,516,000.00	\$690,005.81
GMACM 2005-AR3	36185N7M6	\$5,000,000.00	\$1,488,651.56
GMACM 2005-AR3	36185N7E4	\$1,600,000.00	\$1,600,000.00
GMACM 2005-AR4	76112BUG3	\$32,500,000.00	\$11,449,717.11
GMACM 2005-AR4	76112BUD0	\$14,512,000.00	\$1,505,874.14
GMACM 2005-AR4	76112BUM0	\$3,933,000.00	\$1,173,821.62
GMACM 2005-AR4	76112BUK4	\$2,592,000.00	\$695,453.80
GMACM 2005-AR5	76112BYD6	\$35,000,000.00	\$11,816,742.05
GMACM 2005-AR5	76112BYF1	\$2,060,000.00	\$803,660.02
GMACM 2005-AR6	36185MBG6	\$48,131,000.00	\$14,520,598.29
GMACM 2005-AR6	36185MBN1	\$44,030,945.00	\$19,754,825.62
GMACM 2005-AR6	36185MBJ0	\$36,875,000.00	\$13,569,454.75

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
GMACM 2005-AR6	36185MBL5	\$34,601,000.00	\$15,206,317.25
GMACM 2005-HE1	361856EC7	\$45,000,000.00	\$19,794,958.79
GMACM 2005-HE1	361856EB9	\$35,100,000.00	\$15,228,116.12
GMACM 2005-HE2	36185MAC6	\$135,760,000.00	\$0.00
GMACM 2005-HE2	36185MAF9	\$44,000,000.00	\$24,584,534.20
GMACM 2005-HE2	36185MAD4	\$5,000,000.00	\$2,446,587.50
GMACM 2005-HE3	361856EH6	\$2,500,000.00	\$1,267,439.51
GMACM 2005-J1	36185MCT7	\$471,782,774.00	\$182,659,887.70
GMACM 2005-J1	36185MCP5	\$24,000,000.00	\$24,000,000.00
GMACM 2005-J1	36185MCJ9	\$20,000,000.00	\$16,034,682.77
GMACM 2005-J1	36185MCL4	\$20,000,000.00	\$17,614,989.29
GMACM 2005-J1	36185MBY7	\$13,650,000.00	\$1,958,471.22
GMACM 2006-AR1	36185MDQ2	\$111,081,545.00	\$44,825,586.15
GMACM 2006-AR1	36185MDN9	\$8,840,000.00	\$3,672,531.90
GMACM 2006-AR2	36185MFB3	\$30,697,840.00	\$8,079,500.72
GMACM 2006-HE1	361856ER4	\$48,485,000.00	\$20,080,691.66
GMACM 2006-HE2	38011AAC8	\$25,150,000.00	\$14,372,599.60
GMACM 2006-HE3	38012TAA0	\$60,000,000.00	\$0.00
GMACM 2006-HE3	38012TAD4	\$16,316,000.00	\$8,656,785.61
GMACM 2006-HE3	38012TAB8	\$8,620,000.00	\$2,976,589.46
GMACM 2006-HE3	38012TAC6	\$1,360,000.00	\$721,575.66
GMACM 2006-HE4	38012UAA7	\$104,119,000.00	\$45,712,255.98
GMACM 2006-HE4	38012UAB5	\$91,100,000.00	\$39,996,412.19
GMACM 2006-HE4	38012UAC3	\$45,000,000.00	\$19,756,734.90
GMACM 2006-HLTV	36185HEJ8	\$20,250,000.00	\$18,142,325.91
GMACM 2006-HLTV	36185HEH2	\$10,200,000.00	\$0.00
GMACM 2006-J1	36185MEB4	\$58,877,000.00	\$7,621,667.70
GMACM 2006-J1	36185MEG3	\$15,000,000.00	\$13,562,469.79

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Deal Name	Cusip	Original Face	Current Face
GMACM 2007-HE1	36186KAA3	\$132,500,000.00	\$0.00
GMACM 2007-HE1	36186KAB1	\$50,000,000.00	\$0.00
GMACM 2007-HE2	36186LAG8	\$51,541,000.00	\$28,216,785.77
GMACM 2007-HE2	36186LAD5	\$5,000,000.00	\$2,737,314.54
GMACM 2007-HE2	36186LAC7	\$2,550,000.00	\$1,396,030.42
GMACM 2007-HE2	36186LAB9	\$90,000.00	\$49,271.77
GMACM 2007-HE3	36186MAC5	\$33,510,000.00	\$16,240,844.03
GMACM 2007-HE3	36186MAA9	\$32,335,000.00	\$11,317,991.12
RAAC 2004-SP1	7609855V9	\$49,812,000.00	\$5,341,999.30
RAAC 2004-SP1	7609855U1	\$2,500,000.00	\$565,156.60
RAAC 2004-SP2	7609857N5	\$1,000,000.00	\$25,497.23
RAAC 2004-SP3	76112BES5	\$30,000,000.00	\$4,631,673.25
RAAC 2005-RP3	76112BP95	\$4,000,000.00	\$4,000,000.00
RAAC 2005-SP1	76112BQN3	\$57,000,000.00	\$0.00
RAAC 2005-SP1	76112BQL7	\$31,117,000.00	\$24,958,888.05
RAAC 2005-SP1	76112BQS2	\$2,180,500.00	\$3,112,080.72
RAAC 2005-SP1	76112BSA9	\$1,500,000.00	\$290,353.24
RAAC 2005-SP1	76112BRE2	\$323,000.00	\$220,372.18
RAAC 2005-SP2	76112BF54	\$153,800,000.00	\$30,195,557.75
RAAC 2005-SP2	76112BF70	\$4,291,000.00	\$1,240,600.18
RAAC 2005-SP2	76112BE71	\$1,551,000.00	\$1,551,000.00
RAAC 2005-SP3	76112BS43	\$2,600,000.00	\$2,165,713.56
RAAC 2006-RP1	76112B3R9	\$37,983,000.00	\$4,416,513.43
RAAC 2006-RP1	76112B2V1	\$1,700,000.00	\$1,700,000.00
RAAC 2006-RP2	74919MAA4	\$127,229,000.00	\$22,012,181.16
RAAC 2006-RP2	74919MAB2	\$5,000,000.00	\$5,000,000.00
RAAC 2006-RP3	74919RAA3	\$146,320,000.00	\$33,626,929.08
RAAC 2006-RP3	74919RAE5	\$15,000,000.00	\$15,000,000.00



EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RAAC 2006-RP4	74919TAA9	\$68,976,520.00	\$17,327,677.33
RAAC 2006-RP4	74919TAB7	\$20,700,000.00	\$20,700,000.00
RAAC 2006-SP1	76112B3F5	\$4,000,000.00	\$4,000,000.00
RAAC 2006-SP1	76112B3D0	\$3,200,000.00	\$665,349.23
RAAC 2006-SP2	74919PAB5	\$35,199,000.00	\$6,692,388.62
RAAC 2006-SP3	74919QAD9	\$4,447,992.00	\$4,447,992.00
RAAC 2006-SP4	74919VAC0	\$15,000,000.00	\$15,000,000.00
RAAC 2006-SP4	74919VAH9	\$5,000,000.00	\$5,000,000.00
RAAC 2006-SP4	74919VAG1	\$2,250,000.00	\$2,250,000.00
RAAC 2007-RP1	74977YAA7	\$107,420,000.00	\$36,656,254.05
RAAC 2007-RP1	74977YAB5	\$12,010,000.00	\$12,010,000.00
RAAC 2007-RP2	74919WAA2	\$59,620,000.00	\$19,261,017.24
RAAC 2007-RP2	74919WAB0	\$5,100,000.00	\$5,100,000.00
RAAC 2007-RP3	74978BAA6	\$53,200,000.00	\$18,784,053.74
RAAC 2007-RP3	74978BAB4	\$6,900,000.00	\$6,900,000.00
RAAC 2007-RP4	74919LAD0	\$57,980,000.00	\$26,801,872.78
RAAC 2007-RP4	74919LAE8	\$16,513,000.00	\$16,513,000.00
RAAC 2007-SP1	74978AAC4	\$18,000,000.00	\$18,000,000.00
RAAC 2007-SP1	74978AAB6	\$17,328,000.00	\$9,367,465.32
RAAC 2007-SP2	74919XAE2	\$13,000,000.00	\$13,000,000.00
RAAC 2007-SP2	74919XAF9	\$3,653,660.00	\$3,653,660.00
RAAC 2007-SP3	74978FAA7	\$142,479,281.00	\$52,679,373.77
RALI 2004-QA1	76110HRM3	\$19,000,000.00	\$769,264.54
RALI 2004-QA2	76110HVVU0	\$25,000,000.00	\$3,109,214.27
RALI 2004-QA4	76110HZH5	\$10,564,000.00	\$1,308,947.16
RALI 2004-QA4	76110HZP7	\$6,095,900.00	\$3,233,999.89
RALI 2004-QA4	76110HZQ5	\$3,143,400.00	\$1,142,101.69
RALI 2004-QA5	76110HC72	\$37,338,000.00	\$2,234,571.97

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Deal Name	Cusip	Original Face	Current Face
RALI 2004-QA5	76110HC98	\$100,000.00	\$5,136.87
RALI 2004-QA6	76110HH28	\$69,548,000.00	\$4,375,797.98
RALI 2004-QA6	76110HH85	\$19,350,000.00	\$4,773,119.65
RALI 2004-QS1	76110HQB9	\$36,482,573.00	\$2,788,769.76
RALI 2004-QS1	76110HQA0	\$1,700,000.00	\$1,275,410.90
RALI 2004-QS10	76110HWK1	\$216,614,427.00	\$51,688,025.33
RALI 2004-QS10	76110HWC9	\$50,000,000.00	\$2,754,580.84
RALI 2004-QS10	76110HWG0	\$21,200,000.00	\$34,562,843.57
RALI 2004-QS11	76110HXC8	\$217,512,005.00	\$53,446,880.06
RALI 2004-QS11	76110HWU9	\$40,633,600.00	\$2,894,550.67
RALI 2004-QS11	76110HWX3	\$19,000,000.00	\$16,112,653.71
RALI 2004-QS11	76110HWV7	\$13,000,000.00	\$13,000,000.00
RALI 2004-QS11	76110HWW5	\$3,380,000.00	\$240,775.64
RALI 2004-QS13	76110HYH6	\$129,166,655.00	\$25,416,484.89
RALI 2004-QS13	76110HYF0	\$3,600,000.00	\$744,183.74
RALI 2004-QS16	76110HJ59	\$122,380,000.00	\$16,512,580.50
RALI 2004-QS16	76110HJ91	\$17,500,000.00	\$14,995,629.67
RALI 2004-QS16	76110HK24	\$3,200,000.00	\$654,089.74
RALI 2004-QS2	76110HQM4	\$95,777,000.00	\$20,210,301.77
RALI 2004-QS2	76110HQG7	\$38,831,040.00	\$4,298,452.30
RALI 2004-QS2	76110HQS1	\$6,870,000.00	\$5,082,347.42
RALI 2004-QS2	76110HQT9	\$3,215,800.00	\$2,410,460.30
RALI 2004-QS2	76110HQB4	\$1,023,200.00	\$0.00
RALI 2004-QS3	76110HRA9	\$11,800,000.00	\$2,096,202.67
RALI 2004-QS4	76110HSG5	\$7,694,900.00	\$5,325,193.30
RALI 2004-QS4	76110HSH3	\$3,686,800.00	\$2,594,066.79
RALI 2004-QS4	76110HRV3	\$2,565,000.00	\$266,891.54
RALI 2004-QS5	76110HSR1	\$12,500,000.00	\$1,562,389.91

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Deal Name	Cusip	Original Face	Current Face
RALI 2004-QS5	76110HSU4	\$12,438,900.00	\$12,438,900.00
RALI 2004-QS5	76110HSW0	\$2,805,000.00	\$343,495.32
RALI 2004-QS6	76110HTG4	\$2,000,000.00	\$381,067.52
RALI 2004-QS7	76110HTV1	\$40,457,000.00	\$1,864,231.52
RALI 2004-QS7	76110HTW9	\$15,000,000.00	\$15,000,000.00
RALI 2004-QS7	76110HTX7	\$2,000,000.00	\$817,879.50
RALI 2004-QS8	76110HUT4	\$25,174,900.00	\$6,587,077.89
RALI 2004-QS8	76110HUN7	\$9,630,166.00	\$595,792.62
RALI 2004-QS8	76110HUR8	\$3,500,000.00	\$5,504,006.55
RALI 2004-QS8	76110HUL1	\$150,000.00	\$6,682.01
RALI 2004-QS9	76110HVVH9	\$51,542,000.00	\$9,656,193.51
RALI 2005-QA1	76110HM63	\$66,000,000.00	\$10,222,714.49
RALI 2005-QA10	761118GD4	\$63,450,000.00	\$27,834,138.84
RALI 2005-QA10	761118GE2	\$62,897,000.00	\$28,838,108.55
RALI 2005-QA12	761118MY1	\$32,839,000.00	\$9,841,820.72
RALI 2005-QA12	761118MZ8	\$24,000,000.00	\$5,876,740.56
RALI 2005-QA12	761118NB0	\$6,249,000.00	\$2,391,362.14
RALI 2005-QA12	761118NC8	\$4,050,000.00	\$1,417,629.80
RALI 2005-QA13	761118PE2	\$214,784,000.00	\$82,675,516.96
RALI 2005-QA13	761118PF9	\$4,470,000.00	\$1,435,529.89
RALI 2005-QA2	76110HT90	\$35,506,000.00	\$10,835,170.46
RALI 2005-QA3	76110H2H1	\$84,080,900.00	\$18,490,442.17
RALI 2005-QA3	76110H2K4	\$24,162,800.00	\$6,065,264.68
RALI 2005-QA3	76110H2P3	\$17,924,800.00	\$1,940,574.77
RALI 2005-QA3	76110H2L2	\$8,765,600.00	\$2,676,826.36
RALI 2005-QA4	76110H4L0	\$87,725,000.00	\$31,227,291.89
RALI 2005-QA4	76110H4F3	\$13,225,000.00	\$3,451,912.00
RALI 2005-QA4	76110H4K2	\$9,868,000.00	\$3,245,127.72

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Deal Name	Cusip	Original Face	Current Face
RALI 2005-QA4	76110H4G1	\$96,000.00	\$23,317.74
RALI 2005-QA5	76110H5A3	\$44,000,000.00	\$2,389,740.60
RALI 2005-QA5	76110H5C9	\$3,859,900.00	\$1,325,550.11
RALI 2005-QA6	76110H6E4	\$20,612,560.00	\$4,579,284.91
RALI 2005-QA6	76110H5Z8	\$940,000.00	\$187,736.76
RALI 2005-QA6	76110H6F1	\$230,000.00	\$229,969.90
RALI 2005-QA7	76110H7B9	\$84,350,000.00	\$29,751,554.40
RALI 2005-QA7	76110H7A1	\$38,002,800.00	\$9,713,243.64
RALI 2005-QA7	76110H7J2	\$5,164,000.00	\$10,818.01
RALI 2005-QA7	76110H7D5	\$5,000,000.00	\$1,765,522.87
RALI 2005-QA8	761118BP2	\$101,397,000.00	\$25,593,321.42
RALI 2005-QA8	761118BS6	\$53,625,000.00	\$18,743,857.21
RALI 2005-QA8	761118BW7	\$14,395,000.00	\$4,729,792.37
RALI 2005-QA9	761118FM5	\$42,390,000.00	\$18,162,523.70
RALI 2005-QA9	761118FJ2	\$41,501,000.00	\$10,887,711.51
RALI 2005-QA9	761118FG8	\$27,700,000.00	\$7,501,698.27
RALI 2005-QO1	761118EN4	\$108,930,000.00	\$31,873,782.79
RALI 2005-QO1	761118EP9	\$24,987,500.00	\$7,311,541.52
RALI 2005-QO2	761118HU5	\$112,657,994.00	\$34,976,333.76
RALI 2005-QO3	761118KU1	\$111,735,000.00	\$37,180,873.48
RALI 2005-QO3	761118KV9	\$36,156,400.00	\$10,619,559.95
RALI 2005-QO4	761118NN4	\$129,600,000.00	\$45,612,079.16
RALI 2005-QO4	761118NP9	\$35,953,000.00	\$9,923,930.20
RALI 2005-QO5	761118QM3	\$410,734,000.00	\$150,583,752.63
RALI 2005-QS1	76110HP78	\$214,597,361.00	\$72,653,992.73
RALI 2005-QS1	76110HN88	\$80,000,000.00	\$20,684,284.56
RALI 2005-QS1	76110HP45	\$40,410,000.00	\$10,448,149.24
RALI 2005-QS10	761118CX4	\$72,649,000.00	\$19,869,196.38

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Deal Name	Cusip	Original Face	Current Face
RALI 2005-QS10	761118CW6	\$25,000,000.00	\$9,424,732.44
RALI 2005-QS10	761118CZ9	\$13,283,000.00	\$9,725,344.72
RALI 2005-QS11	761118CL0	\$213,644,237.00	\$82,446,947.81
RALI 2005-QS11	761118CE6	\$36,149,700.00	\$30,460,096.91
RALI 2005-QS11	761118CJ5	\$8,364,400.00	\$6,558,687.42
RALI 2005-QS11	761118CK2	\$369,202.00	\$190,376.26
RALI 2005-QS12	761118ED6	\$528,901,122.00	\$201,702,182.80
RALI 2005-QS12	761118DN5	\$37,460,154.00	\$20,565,080.93
RALI 2005-QS12	761118DU9	\$12,400,000.00	\$534,582.47
RALI 2005-QS12	761118DR6	\$10,410,000.00	\$9,450,933.30
RALI 2005-QS12	761118EC8	\$1,137,106.00	\$569,611.56
RALI 2005-QS13	761118HJ0	\$639,169,632.00	\$259,991,490.50
RALI 2005-QS13	761118HA9	\$42,460,154.00	\$22,654,128.93
RALI 2005-QS13	761118GW2	\$41,885,000.00	\$8,276,876.03
RALI 2005-QS13	761118HC5	\$29,400,000.00	\$7,263,415.63
RALI 2005-QS13	761118HH4	\$3,199,626.00	\$1,533,043.03
RALI 2005-QS13	761118GX0	\$1,300,000.00	\$499,586.18
RALI 2005-QS14	761118JQ2	\$484,882,069.00	\$166,765,568.45
RALI 2005-QS14	761118JN9	\$130,938,205.00	\$33,312,682.81
RALI 2005-QS14	761118JG4	\$125,510,000.00	\$31,676,001.10
RALI 2005-QS14	761118JJ8	\$99,999,999.68	\$34,058,264.89
RALI 2005-QS14	761118JH2	\$47,530,000.00	\$21,002,024.07
RALI 2005-QS15	761118KL1	\$431,500,310.00	\$162,560,936.80
RALI 2005-QS15	761118KG2	\$66,099,000.00	\$30,694,857.05
RALI 2005-QS15	761118KJ6	\$18,861,000.00	\$7,288,401.30
RALI 2005-QS15	761118KK3	\$8,301,530.00	\$3,722,610.84
RALI 2005-QS16	761118MP0	\$427,980,012.00	\$166,591,924.80
RALI 2005-QS16	761118MC9	\$25,450,000.00	\$22,351,857.23

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Deal Name	Cusip	Original Face	Current Face
RALI 2005-QS16	761118MN5	\$2,596,273.00	\$1,251,664.94
RALI 2005-QS17	761118QC5	\$540,112,378.00	\$202,259,498.70
RALI 2005-QS17	761118PY8	\$103,032,000.00	\$33,504,379.32
RALI 2005-QS17	761118PZ5	\$53,366,200.00	\$14,239,651.11
RALI 2005-QS17	761118PQ5	\$13,165,000.00	\$11,098,613.33
RALI 2005-QS17	761118QB7	\$5,958,254.00	\$2,695,031.23
RALI 2005-QS17	761118PU6	\$1,500,000.00	\$274,455.33
RALI 2005-QS2	76110HQ69	\$53,001,600.00	\$12,876,899.42
RALI 2005-QS3	76110HX79	\$173,143,700.00	\$22,743,125.66
RALI 2005-QS3	76110HY86	\$103,981,675.00	\$23,901,134.23
RALI 2005-QS3	76110HX87	\$24,048,000.00	\$21,661,655.89
RALI 2005-QS3	76110HX61	\$15,000,000.00	\$1,970,310.70
RALI 2005-QS3	76110HX53	\$10,990,200.00	\$9,202,311.44
RALI 2005-QS5	76110H2X6	\$85,000,000.00	\$19,592,718.11
RALI 2005-QS5	76110H2Z1	\$58,392,577.00	\$13,459,640.89
RALI 2005-QS6	76110H5F2	\$118,400,000.00	\$21,687,561.60
RALI 2005-QS6	76110H5J4	\$13,883,333.00	\$6,292,122.05
RALI 2005-QS6	76110H5K1	\$12,787,000.00	\$12,787,000.00
RALI 2005-QS6	76110H5L9	\$8,844,000.00	\$8,063,901.60
RALI 2005-QS6	76110H5M7	\$250,000.00	\$227,948.37
RALI 2005-QS7	761118AK4	\$369,979,162.00	\$131,214,154.70
RALI 2005-QS7	761118AH1	\$99,840,000.00	\$37,775,092.49
RALI 2005-QS7	761118AE8	\$22,827,000.00	\$20,715,771.98
RALI 2005-QS7	761118AA6	\$20,100,000.00	\$4,401,669.21
RALI 2005-QS9	761118BE7	\$370,978,359.00	\$134,913,325.00
RALI 2005-QS9	761118AV0	\$50,000,000.00	\$10,256,441.16
RALI 2005-QS9	761118AZ1	\$12,098,000.00	\$10,896,280.98
RALI 2005-QS9	761118AW8	\$419,959.00	\$84,353.13

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Deal Name	Cusip	Original Face	Current Face
RALI 2006-QA1	761118TB4	\$130,617,000.00	\$55,413,498.20
RALI 2006-QA1	761118SZ2	\$50,000,000.00	\$11,884,081.35
RALI 2006-QA1	761118TD0	\$16,505,000.00	\$5,250,116.48
RALI 2006-QA10	74922NAB5	\$62,495,092.00	\$24,565,187.80
RALI 2006-QA10	74922NAA7	\$35,956,403.00	\$12,720,170.27
RALI 2006-QA10	74922NAG4	\$10,000,000.00	\$0.00
RALI 2006-QA2	761118TN8	\$49,001,476.00	\$18,610,129.67
RALI 2006-QA2	761118TU2	\$24,906,000.00	\$12,289,878.38
RALI 2006-QA2	761118TR9	\$13,300,000.00	\$5,396,391.37
RALI 2006-QA3	75114RAD7	\$65,500,000.00	\$18,930,361.34
RALI 2006-QA4	748939AA3	\$137,490,303.00	\$44,713,057.37
RALI 2006-QA4	748939AH8	\$10,000,000.00	\$0.00
RALI 2006-QA5	75115BAB5	\$100,000,000.00	\$33,647,079.11
RALI 2006-QA5	75115BAA7	\$48,463,281.00	\$16,502,900.63
RALI 2006-QA6	74922MAA9	\$103,500,441.00	\$31,629,706.48
RALI 2006-QA6	74922MAB7	\$15,000,000.00	\$5,097,617.58
RALI 2006-QA6	74922MAC5	\$6,370,000.00	\$2,164,788.27
RALI 2006-QA7	751152AA7	\$132,316,641.00	\$41,045,495.69
RALI 2006-QA8	74922QAA0	\$87,038,737.00	\$28,366,566.55
RALI 2006-QA8	74922QAB8	\$75,800,000.00	\$27,448,666.23
RALI 2006-QA9	75115VAA3	\$17,625,000.00	\$6,207,165.88
RALI 2006-QA9	75115VAF2	\$10,000,000.00	\$0.00
RALI 2006-QH1	75115GAA6	\$18,715,500.00	\$10,130,112.12
RALI 2006-QO1	761118RJ9	\$110,420,000.00	\$32,016,368.72
RALI 2006-QO1	761118RM2	\$107,602,000.00	\$50,948,144.97
RALI 2006-QO1	761118RN0	\$89,680,800.00	\$25,960,135.90
RALI 2006-QO1	761118RG5	\$55,194,000.00	\$7,143,378.65
RALI 2006-QO1	761118RK6	\$10,496,000.00	\$0.00

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Deal Name	Cusip	Original Face	Current Face
RALI 2006-QO10	751153AA5	\$118,805,000.00	\$65,186,558.57
RALI 2006-QO10	751153AB3	\$6,000,000.00	\$2,677,170.97
RALI 2006-QO2	761118VY1	\$242,042,000.00	\$82,681,806.24
RALI 2006-QO2	761118VZ8	\$87,113,600.00	\$32,508,770.82
RALI 2006-QO3	761118WP9	\$215,041,000.00	\$88,532,587.40
RALI 2006-QO3	761118WQ7	\$34,747,000.00	\$16,105,821.07
RALI 2006-QO4	75114GAC3	\$37,720,000.00	\$17,473,832.82
RALI 2006-QO4	75114GAF6	\$3,825,000.00	\$0.00
RALI 2006-QO5	75114HAD9	\$118,000,000.00	\$59,876,334.97
RALI 2006-QO5	75114HAH0	\$29,397,000.00	\$6,506,135.62
RALI 2006-QO5	75114HAE7	\$16,800,000.00	\$5,233,877.08
RALI 2006-QO5	75114HAS6	\$12,962,000.00	\$0.00
RALI 2006-QO5	75114HAK3	\$11,000,000.00	\$9,649,473.16
RALI 2006-QO6	75114NAA2	\$510,853,000.00	\$249,815,342.36
RALI 2006-QO6	75114NAB0	\$226,645,000.00	\$112,710,889.42
RALI 2006-QO7	751150AD5	\$79,746,000.00	\$46,373,963.28
RALI 2006-QO7	751150AH6	\$62,938,000.00	\$43,155,457.12
RALI 2006-QO7	751150AJ2	\$37,954,000.00	\$31,823,148.85
RALI 2006-QO7	751150AA1	\$31,093,476.00	\$17,397,420.69
RALI 2006-QO7	751150AB9	\$30,170,400.00	\$0.00
RALI 2006-QO8	75115FAS9	\$15,000,000.00	\$13,410,428.89
RALI 2006-QO9	75115HAN6	\$548,514,000.00	\$244,866,136.70
RALI 2006-QO9	75114PAC3	\$85,000,000.00	\$78,242,121.30
RALI 2006-QO9	75114PAE9	\$32,526,000.00	\$29,725,432.79
RALI 2006-QO9	75114PAD1	\$20,000,000.00	\$0.00
RALI 2006-QO9	75114PAA7	\$1,700,000.00	\$0.00
RALI 2006-QS1	761118SB5	\$20,000,000.00	\$4,511,999.30
RALI 2006-QS10	751155AS1	\$513,600,596.00	\$202,191,757.41



~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RALI 2006-QS10	751155AP7	\$66,810,666.00	\$27,984,568.32
RALI 2006-QS10	751155AN2	\$16,810,666.00	\$7,041,379.28
RALI 2006-QS10	751155BE1	\$5,293,385.00	\$2,394,049.63
RALI 2006-QS11	75115EAK9	\$742,705,705.00	\$292,981,670.71
RALI 2006-QS11	75115EAA1	\$75,000,000.00	\$25,964,078.40
RALI 2006-QS11	75115EAU7	\$17,284,000.00	\$12,541,986.37
RALI 2006-QS11	75115EAJ2	\$5,521,342.00	\$2,324,932.29
RALI 2006-QS12	751151AA9	\$85,000,000.00	\$23,653,476.82
RALI 2006-QS12	751151AV3	\$40,744,973.00	\$16,204,202.42
RALI 2006-QS12	751151AD3	\$25,177,000.00	\$16,823,384.49
RALI 2006-QS12	751151AH4	\$20,000,000.00	\$12,894,300.88
RALI 2006-QS12	751151AG6	\$7,000,000.00	\$2,490,396.55
RALI 2006-QS12	751151AN1	\$4,902,666.00	\$3,160,822.53
RALI 2006-QS12	751151AZ4	\$2,005,760.00	\$869,484.71
RALI 2006-QS13	75115DAB1	\$166,039,000.00	\$67,600,793.51
RALI 2006-QS13	75115DAK1	\$3,338,000.00	\$2,380,881.47
RALI 2006-QS13	75115DAW5	\$416,200.00	\$0.00
RALI 2006-QS14	74922GAP9	\$75,000,000.00	\$36,177,132.08
RALI 2006-QS14	74922GAE4	\$15,384,616.00	\$5,888,961.17
RALI 2006-QS14	74922GAK0	\$5,547,285.00	\$3,700,068.19
RALI 2006-QS15	74922YAH8	\$538,578,792.00	\$198,276,918.80
RALI 2006-QS15	74922YAA3	\$32,000,000.00	\$13,526,228.62
RALI 2006-QS15	74922YAE5	\$14,697,000.00	\$10,271,178.35
RALI 2006-QS15	74922YAG0	\$1,839,075.00	\$832,070.31
RALI 2006-QS16	74922LAN3	\$752,079,933.00	\$305,603,568.00
RALI 2006-QS16	74922LAB9	\$175,025,250.00	\$76,262,869.36
RALI 2006-QS16	74922LAM5	\$1,212,939.00	\$552,090.55
RALI 2006-QS17	74922SAN8	\$537,005,668.00	\$226,619,000.60

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Deal Name	Cusip	Original Face	Current Face
RALI 2006-QS17	74922SAB4	\$106,635,250.00	\$48,060,333.03
RALI 2006-QS17	74922SAM0	\$1,096,065.00	\$575,380.35
RALI 2006-QS18	74922RAT7	\$323,635,781.00	\$139,882,051.83
RALI 2006-QS18	74922RAC4	\$116,032,000.00	\$40,782,334.44
RALI 2006-QS18	74922RAH3	\$95,475,000.00	\$42,676,095.43
RALI 2006-QS18	74922RAF7	\$50,000,000.00	\$27,934,478.00
RALI 2006-QS18	74922RAU4	\$4,914,900.00	\$2,070,377.21
RALI 2006-QS18	74922RAR1	\$4,660,000.00	\$1,566,628.68
RALI 2006-QS18	74922RAP5	\$2,690,000.00	\$904,341.45
RALI 2006-QS18	74922RAW0	\$355,377.00	\$126,490.53
RALI 2006-QS18	74922RAS9	\$190,116.00	\$67,893.62
RALI 2006-QS2	761118VE5	\$750,230,678.00	\$284,377,685.09
RALI 2006-QS2	761118VA3	\$106,430,000.00	\$24,450,553.43
RALI 2006-QS2	761118UQ9	\$29,500,000.00	\$7,869,950.30
RALI 2006-QS2	761118UL0	\$6,962,750.00	\$3,966,907.64
RALI 2006-QS3	761118XL7	\$44,229,000.00	\$10,354,862.86
RALI 2006-QS4	749228AA0	\$25,553,000.00	\$18,810,760.70
RALI 2006-QS4	749228AJ1	\$22,950,000.00	\$7,606,457.33
RALI 2006-QS4	749228AF9	\$10,000,000.00	\$2,887,863.25
RALI 2006-QS5	75114TAC5	\$40,000,000.00	\$22,359,144.40
RALI 2006-QS5	75114TAG6	\$40,000,000.00	\$11,252,254.86
RALI 2006-QS5	75114TAE1	\$33,909,000.00	\$24,211,856.97
RALI 2006-QS5	75114TAD3	\$20,000,000.00	\$14,280,490.12
RALI 2006-QS6	74922EAV1	\$687,937,102.00	\$251,254,688.86
RALI 2006-QS6	74922EAA7	\$80,000,000.00	\$27,441,141.52
RALI 2006-QS6	74922EAN9	\$16,669,000.00	\$5,377,690.43
RALI 2006-QS6	74922EAQ2	\$3,550,000.00	\$1,706,248.26
RALI 2006-QS6	74922EAB5	\$450,000.00	\$141,254.22

EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RALI 2006-QS7	748940AG8	\$537,508,457.00	\$183,210,935.57
RALI 2006-QS7	748940AA1	\$139,600,000.00	\$61,272,396.90
RALI 2006-QS7	748940AD5	\$21,600,000.00	\$2,342,135.29
RALI 2006-QS8	75115AAG6	\$966,346,145.00	\$358,507,110.84
RALI 2006-QS8	75115AAA9	\$116,485,000.00	\$53,072,729.63
RALI 2006-QS8	75115AAD3	\$46,230,000.00	\$6,454,293.07
RALI 2006-QS8	75115AAC5	\$20,244,000.00	\$14,211,605.10
RALI 2006-QS8	75115AAB7	\$11,095,000.00	\$7,788,863.79
RALI 2006-QS9	75115CAV9	\$430,619,725.00	\$159,083,945.73
RALI 2006-QS9	75115CAX5	\$109,497,733.00	\$29,470,634.42
RALI 2006-QS9	75115CAL1	\$12,000,000.00	\$4,012,813.55
RALI 2006-QS9	75115CAG2	\$10,755,650.00	\$7,918,511.54
RALI 2007-QA1	74923GAA1	\$72,495,000.00	\$23,605,918.30
RALI 2007-QA1	74923GAB9	\$13,670,000.00	\$11,076,037.14
RALI 2007-QA2	74922PAA2	\$40,000,000.00	\$11,737,116.63
RALI 2007-QA2	74922PAC8	\$990,054.00	\$372,967.93
RALI 2007-QA3	74923XAA4	\$69,000,000.00	\$32,903,829.06
RALI 2007-QA3	74923XAE6	\$24,709,272.00	\$0.00
RALI 2007-QA3	74923XAD8	\$21,064,872.00	\$0.00
RALI 2007-QA4	74923YAA2	\$92,000,000.00	\$30,567,648.30
RALI 2007-QA5	749236AE5	\$36,360,960.00	\$21,863,737.98
RALI 2007-QH1	74922HAA0	\$136,734,000.00	\$81,136,342.92
RALI 2007-QH1	74922HAB8	\$17,551,200.00	\$10,414,675.08
RALI 2007-QH2	74922JAA6	\$65,079,200.00	\$37,688,507.76
RALI 2007-QH2	74922JAB4	\$27,937,600.00	\$16,179,154.86
RALI 2007-QH3	74922WAA7	\$112,327,000.00	\$66,914,307.75
RALI 2007-QH4	74922TAA4	\$105,200,000.00	\$65,686,066.71
RALI 2007-QH4	74922TAB2	\$44,982,400.00	\$28,086,662.80

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Deal Name	Cusip	Original Face	Current Face
RALI 2007-QH5	75116EAB8	\$49,048,800.00	\$29,934,676.82
RALI 2007-QH5	75116EAA0	\$30,000,000.00	\$18,662,898.88
RALI 2007-QH6	74922AAA5	\$146,600,000.00	\$93,053,705.84
RALI 2007-QH6	74922AAB3	\$56,000,000.00	\$35,545,753.94
RALI 2007-QH7	75115LAA5	\$45,957,480.00	\$30,250,782.69
RALI 2007-QH9	749241AA3	\$85,785,000.00	\$61,010,370.87
RALI 2007-QO1	75115YAA7	\$109,273,000.00	\$61,665,205.06
RALI 2007-QO2	75116AAA8	\$177,011,685.00	\$99,865,247.34
RALI 2007-QO2	75116AAB6	\$15,110,400.00	\$134,649.89
RALI 2007-QO2	75116AAC4	\$9,763,000.00	\$0.00
RALI 2007-QO3	74923TAA3	\$83,540,000.00	\$48,570,397.65
RALI 2007-QO4	74923LAB8	\$53,700,000.00	\$31,685,344.20
RALI 2007-QO4	74923LAC6	\$11,325,000.00	\$6,682,244.38
RALI 2007-QO4	74923LAD4	\$4,950,000.00	\$559,886.85
RALI 2007-QO4	74923LAA0	\$2,550,000.00	\$1,504,611.32
RALI 2007-QS1	74922KAW5	\$430,044,970.00	\$218,241,569.70
RALI 2007-QS1	74922KAY1	\$399,322,306.00	\$176,584,747.73
RALI 2007-QS1	74922KAH8	\$176,973,000.00	\$91,127,727.12
RALI 2007-QS1	74922KAB1	\$34,499,000.00	\$24,735,401.37
RALI 2007-QS1	74922KAQ8	\$28,309,600.00	\$12,559,903.46
RALI 2007-QS1	74922KAA3	\$15,000,000.00	\$4,615,688.06
RALI 2007-QS1	74922KAX3	\$12,521,309.00	\$5,501,832.67
RALI 2007-QS1	74922KAD7	\$5,000,000.00	\$3,742,650.74
RALI 2007-QS1	74922KAV7	\$1,462,542.00	\$678,091.50
RALI 2007-QS10	74924DAJ8	\$435,758,536.00	\$208,657,003.37
RALI 2007-QS10	74924DAA7	\$1,385,000.00	\$781,082.81
RALI 2007-QS11	74925GAA9	\$48,925,000.00	\$25,435,553.60
RALI 2007-QS2	74923CAJ1	\$527,443,546.00	\$245,235,300.67

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RALI 2007-QS2	74923CAC6	\$3,200,000.00	\$2,336,597.97
RALI 2007-QS3	75116BAH1	\$880,350,722.00	\$417,086,874.75
RALI 2007-QS3	75116BAB4	\$240,000,000.00	\$113,715,576.24
RALI 2007-QS3	75116BAE8	\$39,000,000.00	\$29,214,681.16
RALI 2007-QS4	74923HBG5	\$324,427,824.00	\$168,343,325.65
RALI 2007-QS4	74923HBC4	\$54,261,538.00	\$27,960,214.73
RALI 2007-QS4	74923HAX9	\$49,758,800.00	\$21,785,863.16
RALI 2007-QS4	74923HAE1	\$39,661,000.00	\$19,615,217.63
RALI 2007-QS4	74923HAM3	\$39,390,000.00	\$18,407,689.97
RALI 2007-QS4	74923HAT8	\$23,203,000.00	\$17,733,050.51
RALI 2007-QS4	74923HBA8	\$6,476,000.00	\$1,806,585.90
RALI 2007-QS4	74923HAL5	\$6,262,000.00	\$4,668,439.82
RALI 2007-QS5	74923JAR8	\$432,705,069.00	\$216,716,952.74
RALI 2007-QS5	74923JAH0	\$60,132,000.00	\$32,325,554.98
RALI 2007-QS5	74923JAB3	\$50,000,000.00	\$31,174,619.11
RALI 2007-QS6	75116CEX0	\$808,301,218.00	\$380,748,625.74
RALI 2007-QS6	75116CAA4	\$136,574,000.00	\$68,852,866.68
RALI 2007-QS6	75116CAM8	\$26,229,464.00	\$16,053,630.02
RALI 2007-QS6	75116CAF3	\$20,000,000.00	\$14,118,071.48
RALI 2007-QS6	75116CBW5	\$20,000,000.00	\$8,689,388.40
RALI 2007-QS6	75116CCP9	\$12,000,000.00	\$2,201,511.74
RALI 2007-QS7	74923WAQ1	\$272,791,973.00	\$110,798,856.26
RALI 2007-QS7	74923WAD0	\$43,289,000.00	\$34,178,110.29
RALI 2007-QS7	74923WAK4	\$13,127,000.00	\$6,630,867.56
RALI 2007-QS8	74922UAU7	\$651,756,520.00	\$339,202,596.54
RALI 2007-QS8	74922UAG8	\$149,706,000.00	\$79,462,008.05
RALI 2007-QS8	74922UAB9	\$80,869,000.00	\$45,123,122.09
RALI 2007-QS8	74922UAD5	\$67,500,000.00	\$50,600,873.81

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RALI 2007-QS8	74922UAC7	\$48,500,000.00	\$36,357,664.89
RALI 2007-QS8	74922UAK9	\$13,398,000.00	\$6,198,497.30
RALI 2007-QS8	74922UAH6	\$9,000,000.00	\$4,580,867.16
RALI 2007-QS8	74922UAF0	\$2,000,000.00	\$1,139,863.16
RALI 2007-QS9	75116FBH1	\$124,938,462.00	\$69,396,893.15
RAMP 2004-RS1	760985N98	\$25,000,000.00	\$4,250,937.45
RAMP 2004-RS1	760985M81	\$18,787,000.00	\$10,234,615.98
RAMP 2004-RS1	760985M73	\$15,620,000.00	\$8,509,326.81
RAMP 2004-RS1	760985N49	\$8,125,000.00	\$4,049,657.12
RAMP 2004-RS10	76112BDS6	\$10,285,000.00	\$52,457.16
RAMP 2004-RS10	76112BDT4	\$7,100,000.00	\$7,100,000.00
RAMP 2004-RS11	76112BFJ4	\$1,000,000.00	\$534,232.03
RAMP 2004-RS12	76112BFS4	\$24,000,000.00	\$0.00
RAMP 2004-RS12	76112BFV7	\$6,000,000.00	\$6,000,000.00
RAMP 2004-RS12	76112BGD6	\$5,000,000.00	\$1,753,214.39
RAMP 2004-RS12	76112BGG9	\$4,500,000.00	\$4,500,000.00
RAMP 2004-RS12	76112BGF1	\$2,500,000.00	\$2,500,000.00
RAMP 2004-RS12	76112BGH7	\$1,000,000.00	\$691,053.22
RAMP 2004-RS2	760985Q38	\$37,636,000.00	\$27,464,180.05
RAMP 2004-RS2	760985Q46	\$8,000,000.00	\$2,794,027.52
RAMP 2004-RS2	760985R78	\$5,000,000.00	\$0.00
RAMP 2004-RS2	760985Q79	\$1,813,000.00	\$669,480.57
RAMP 2004-RS3	760985V32	\$31,030,000.00	\$22,819,704.28
RAMP 2004-RS4	7609853H2	\$45,200,000.00	\$11,871,960.89
RAMP 2004-RS4	7609852X8	\$39,042,000.00	\$27,219,888.92
RAMP 2004-RS4	7609852Y6	\$17,450,000.00	\$5,791,429.35
RAMP 2004-RS4	7609853J8	\$16,100,000.00	\$7,964,181.29
RAMP 2004-RS5	7609854A6	\$35,000,000.00	\$31,584,433.18

EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RAMP 2004-RS5	7609854G3	\$15,000,000.00	\$7,253,472.10
RAMP 2004-RS5	7609854H1	\$12,000,000.00	\$3,336,677.48
RAMP 2004-RS5	7609854K4	\$5,000,000.00	\$1,257,281.63
RAMP 2004-RS6	7609855L1	\$15,000,000.00	\$6,986,297.86
RAMP 2004-RS6	7609855M9	\$10,000,000.00	\$2,573,677.31
RAMP 2004-RS6	7609855B3	\$9,600,000.00	\$9,600,000.00
RAMP 2004-RS6	7609855A5	\$498,000.00	\$60,983.42
RAMP 2004-RS7	7609857K1	\$23,500,000.00	\$5,080,559.56
RAMP 2004-RS7	7609857E5	\$7,000,000.00	\$6,905,504.30
RAMP 2004-RS7	7609857D7	\$6,300,000.00	\$1,762,537.14
RAMP 2004-RS7	7609857F2	\$2,000,000.00	\$733,946.90
RAMP 2004-RS8	76112BAM2	\$15,000,000.00	\$10,667,161.62
RAMP 2004-RS8	76112BAE0	\$12,558,000.00	\$12,558,000.00
RAMP 2004-RS9	76112BCN8	\$24,000,000.00	\$6,748,169.67
RAMP 2004-RS9	76112BCM0	\$12,250,000.00	\$8,692,842.05
RAMP 2004-RS9	76112BCG3	\$5,000,000.00	\$4,983,526.55
RAMP 2004-RS9	76112BCQ1	\$4,200,000.00	\$869,627.56
RAMP 2004-RZ1	760985U25	\$69,100,000.00	\$6,711,476.93
RAMP 2004-RZ1	760985T92	\$18,208,000.00	\$4,464,317.45
RAMP 2004-RZ1	760985T84	\$8,304,000.00	\$5,611,962.62
RAMP 2004-RZ1	760985U58	\$6,487,000.00	\$2,272,796.22
RAMP 2004-RZ1	760985U33	\$2,000,000.00	\$671,187.13
RAMP 2004-RZ1	760985U66	\$2,000,000.00	\$584,166.15
RAMP 2004-RZ2	7609854S7	\$7,500,000.00	\$2,607,031.88
RAMP 2004-RZ3	76112BBK5	\$7,125,000.00	\$7,125,000.00
RAMP 2004-RZ3	76112BAZ3	\$6,500,000.00	\$6,500,000.00
RAMP 2004-RZ3	76112BAY6	\$6,000,000.00	\$1,360,675.10
RAMP 2004-RZ4	76112BHF0	\$209,980.00	\$1,232.59

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Deal Name	Cusip	Original Face	Current Face
RAMP 2004-SL1	760985W98	\$59,393,000.00	\$3,798,887.10
RAMP 2004-SL1	760985W80	\$26,100,000.00	\$2,276,795.10
RAMP 2004-SL1	760985W72	\$19,207,000.00	\$4,038,457.76
RAMP 2004-SL1	760985W49	\$12,240,000.00	\$40,715.35
RAMP 2004-SL1	760985X30	\$7,537,000.00	\$3,884,725.97
RAMP 2004-SL1	760985W31	\$4,456,000.00	\$317,310.04
RAMP 2004-SL1	760985Z53	\$3,913,200.00	\$1,434,146.17
RAMP 2004-SL1	760985W56	\$3,800,000.00	\$86,596.30
RAMP 2004-SL1	760985Z61	\$1,750,000.00	\$641,356.48
RAMP 2004-SL1	760985Z79	\$1,206,600.00	\$442,206.18
RAMP 2004-SL2	7609856D8	\$70,387,665.00	\$10,997,043.59
RAMP 2004-SL2	7609856A4	\$37,152,866.00	\$345,479.93
RAMP 2004-SL2	7609856L0	\$10,585,236.00	\$5,525,040.91
RAMP 2004-SL3	76112BBQ2	\$67,265,000.00	\$8,217,605.29
RAMP 2004-SL3	76112BBS8	\$31,580,000.00	\$5,936,182.68
RAMP 2004-SL3	76112BBR0	\$26,396,000.00	\$3,000,422.20
RAMP 2004-SL3	76112BBP4	\$12,967,000.00	\$373,729.03
RAMP 2004-SL3	76112BBZ2	\$2,449,000.00	\$1,632,565.29
RAMP 2004-SL4	76112BGP9	\$22,140,000.00	\$5,298,944.25
RAMP 2004-SL4	76112BGM6	\$16,560,000.00	\$2,052,293.95
RAMP 2004-SL4	76112BGK0	\$9,000,000.00	\$205,866.16
RAMP 2004-SL4	76112BGU8	\$2,065,900.00	\$1,289,642.08
RAMP 2005-EFC1	76112BRU6	\$10,000,000.00	\$0.00
RAMP 2005-EFC1	76112BRN2	\$7,000,000.00	\$7,000,000.00
RAMP 2005-EFC1	76112BRL6	\$7,000,000.00	\$964,545.46
RAMP 2005-EFC1	76112BRM4	\$6,000,000.00	\$6,000,000.00
RAMP 2005-EFC2	76112BVP2	\$8,423,000.00	\$399,997.32
RAMP 2005-EFC2	76112BVW7	\$2,686,000.00	\$1,083,394.76



EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RAMP 2005-EFC2	76112BVQ0	\$1,331,000.00	\$1,331,000.00
RAMP 2005-EFC3	76112BZB9	\$22,125,000.00	\$690,888.33
RAMP 2005-EFC3	76112BYU8	\$10,347,000.00	\$10,347,000.00
RAMP 2005-EFC3	76112BYT1	\$9,626,000.00	\$2,267,116.70
RAMP 2005-EFC3	76112BYY0	\$6,000,000.00	\$6,000,000.00
RAMP 2005-EFC3	76112BYV6	\$4,069,272.00	\$4,069,272.00
RAMP 2005-EFC3	76112BZA1	\$2,708,000.00	\$2,708,000.00
RAMP 2005-EFC4	76112BD49	\$10,000,000.00	\$0.00
RAMP 2005-EFC4	76112BC40	\$7,000,000.00	\$7,000,000.00
RAMP 2005-EFC4	76112BC99	\$4,000,000.00	\$4,000,000.00
RAMP 2005-EFC5	76112BH29	\$43,812,500.00	\$1,694,703.72
RAMP 2005-EFC5	76112BJ43	\$15,000,000.00	\$0.00
RAMP 2005-EFC5	76112BH94	\$10,000,000.00	\$10,000,000.00
RAMP 2005-EFC5	76112BH86	\$5,000,000.00	\$5,000,000.00
RAMP 2005-EFC5	76112BH45	\$1,150,000.00	\$1,150,000.00
RAMP 2005-EFC5	76112BH52	\$215,000.00	\$215,000.00
RAMP 2005-EFC6	76112BK25	\$8,000,000.00	\$8,000,000.00
RAMP 2005-EFC6	76112BJ84	\$2,000,000.00	\$74,415.91
RAMP 2005-EFC7	76112BR69	\$35,000,000.00	\$10,865,648.22
RAMP 2005-RS1	76112BHX1	\$10,000,000.00	\$10,000,000.00
RAMP 2005-RS1	76112BJG6	\$9,690,000.00	\$5,592,509.34
RAMP 2005-RS1	76112BHW3	\$8,139,000.00	\$2,191,038.86
RAMP 2005-RS1	76112BHY9	\$4,165,000.00	\$2,171,564.87
RAMP 2005-RS1	76112BHZ6	\$2,300,000.00	\$2,167,784.09
RAMP 2005-RS1	76112BJB7	\$1,500,000.00	\$303,925.00
RAMP 2005-RS2	76112BKC3	\$390,000.00	\$390,000.00
RAMP 2005-RS2	76112BKE9	\$250,000.00	\$250,000.00
RAMP 2005-RS3	76112BLH1	\$10,487,000.00	\$10,487,000.00

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RAMP 2005-RS3	76112BLP3	\$5,587,000.00	\$5,587,000.00
RAMP 2005-RS3	76112BLK4	\$4,906,000.00	\$4,906,000.00
RAMP 2005-RS3	76112BLN8	\$2,000,000.00	\$2,000,000.00
RAMP 2005-RS4	76112BPC8	\$10,163,000.00	\$10,163,000.00
RAMP 2005-RS4	76112BPE4	\$4,875,000.00	\$4,875,000.00
RAMP 2005-RS5	76112BPT1	\$68,487,000.00	\$0.00
RAMP 2005-RS5	76112BPU8	\$20,289,000.00	\$9,743,425.98
RAMP 2005-RS5	76112BPX2	\$11,500,000.00	\$11,500,000.00
RAMP 2005-RS5	76112BPY0	\$8,750,000.00	\$8,750,000.00
RAMP 2005-RS5	76112BPW4	\$3,000,000.00	\$3,000,000.00
RAMP 2005-RS6	76112BTT7	\$16,331,672.00	\$16,331,672.00
RAMP 2005-RS6	76112BTS9	\$4,300,000.00	\$4,300,000.00
RAMP 2005-RS6	76112BTU4	\$1,154,024.00	\$1,154,024.00
RAMP 2005-RS7	76112BWV8	\$40,000,000.00	\$38,259,748.80
RAMP 2005-RS8	76112BZF0	\$178,300,000.00	\$14,305,744.67
RAMP 2005-RS8	76112BZK9	\$10,000,000.00	\$10,000,000.00
RAMP 2005-RS8	76112BZL7	\$3,983,000.00	\$3,983,000.00
RAMP 2005-RS8	76112BZM5	\$3,650,000.00	\$3,291,310.31
RAMP 2005-RS8	76112BZJ2	\$283,000.00	\$283,000.00
RAMP 2005-RS9	76112BL81	\$10,000,000.00	\$8,059,257.28
RAMP 2005-RZ1	76112BMC1	\$3,075,000.00	\$2,098,810.64
RAMP 2005-RZ3	76112BA42	\$7,350,000.00	\$7,350,000.00
RAMP 2005-RZ3	76112BZY9	\$7,026,430.00	\$703,995.75
RAMP 2005-RZ3	76112BZZ6	\$5,613,000.00	\$5,613,000.00
RAMP 2005-RZ3	76112BA26	\$5,000,000.00	\$5,000,000.00
RAMP 2005-RZ4	76112BM72	\$26,754,000.00	\$4,692,449.07
RAMP 2005-RZ4	76112BM98	\$14,875,000.00	\$14,875,000.00
RAMP 2005-RZ4	76112BN48	\$10,000,000.00	\$8,983,103.67

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RAMP 2005-SL1	76112BMS6	\$75,776,000.00	\$19,885,673.00
RAMP 2005-SL1	76112BMQ0	\$31,744,200.00	\$4,887,379.83
RAMP 2005-SL1	76112BMR8	\$19,354,700.00	\$3,443,455.02
RAMP 2005-SL1	76112BMX5	\$4,076,800.00	\$2,772,231.49
RAMP 2005-SL1	76112BMY3	\$3,520,100.00	\$1,387,971.71
RAMP 2005-SL1	76112BMM9	\$2,475,000.00	\$124,972.77
RAMP 2005-SL2	76112BUW8	\$24,780,000.00	\$3,625,312.73
RAMP 2005-SL2	76112BUZ1	\$22,145,000.00	\$6,150,778.47
RAMP 2005-SL2	76112BUX6	\$7,350,000.00	\$1,820,921.93
RAMP 2005-SL2	76112BUV0	\$7,000,000.00	\$225,530.58
RAMP 2005-SL2	76112BVE7	\$3,802,100.00	\$2,339,862.75
RAMP 2005-SL2	76112BVF4	\$3,039,400.00	\$1,879,059.71
RAMP 2005-SL2	76112BUY4	\$2,519,000.00	\$630,889.68
RAMP 2005-SL2	76112BVB3	\$1,390,306.00	\$165,401.78
RAMP 2006-EFC1	76112BW63	\$37,500,000.00	\$0.00
RAMP 2006-EFC1	76112BW71	\$12,000,000.00	\$0.00
RAMP 2006-EFC1	76112BW22	\$5,490,000.00	\$5,490,000.00
RAMP 2006-EFC1	76112BW30	\$4,941,000.00	\$905,766.99
RAMP 2006-EFC2	749238AC5	\$18,602,000.00	\$17,988,378.45
RAMP 2006-EFC2	749238AN1	\$15,000,000.00	\$0.00
RAMP 2006-EFC2	749238AM3	\$5,000,000.00	\$0.00
RAMP 2006-NC1	76112BW97	\$50,250,000.00	\$8,776,894.05
RAMP 2006-NC1	76112BX39	\$5,640,000.00	\$5,640,000.00
RAMP 2006-NC1	76112BX88	\$3,000,000.00	\$0.00
RAMP 2006-NC2	75156TAB6	\$171,575,000.00	\$48,833,327.80
RAMP 2006-NC2	75156TAC4	\$4,650,000.00	\$4,650,000.00
RAMP 2006-NC2	75156TAF7	\$3,000,000.00	\$1,111,675.97
RAMP 2006-NC2	75156TAE0	\$2,930,000.00	\$2,930,000.00

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RAMP 2006-NC3	76112B4M9	\$67,650,000.00	\$22,832,994.66
RAMP 2006-RS1	76112BT83	\$142,400,000.00	\$36,539,890.17
RAMP 2006-RS1	76112BU32	\$15,600,000.00	\$11,737,559.27
RAMP 2006-RS1	76112BU65	\$5,500,000.00	\$0.00
RAMP 2006-RS1	76112BU73	\$2,700,000.00	\$0.00
RAMP 2006-RS2	76112B2C3	\$134,820,000.00	\$31,687,030.73
RAMP 2006-RS2	76112B2D1	\$60,007,000.00	\$60,007,000.00
RAMP 2006-RS2	76112B2E9	\$4,588,982.00	\$4,588,982.00
RAMP 2006-RS2	76112B2F6	\$3,800,000.00	\$2,042,152.39
RAMP 2006-RS3	75156VAC9	\$96,683,000.00	\$51,649,918.42
RAMP 2006-RS4	75156WAC7	\$49,300,000.00	\$31,390,699.96
RAMP 2006-RS4	75156WAH6	\$3,000,000.00	\$0.00
RAMP 2006-RS5	75156YAC3	\$60,000,000.00	\$28,985,681.95
RAMP 2006-RS6	75156QAD8	\$30,000,000.00	\$24,641,532.69
RAMP 2006-RS6	75156QAC0	\$29,896,749.00	\$21,652,198.23
RAMP 2006-RZ1	76112BY87	\$131,402,000.00	\$12,358,474.17
RAMP 2006-RZ1	76112BZ29	\$8,000,000.00	\$8,000,000.00
RAMP 2006-RZ1	76112BZ78	\$4,000,000.00	\$790,133.61
RAMP 2006-RZ2	75156UAC1	\$17,155,000.00	\$17,155,000.00
RAMP 2006-RZ2	75156UAB3	\$8,044,000.00	\$2,651,464.94
RAMP 2006-RZ2	75156UAD9	\$2,688,000.00	\$2,688,000.00
RAMP 2006-RZ3	75156MAD7	\$28,200,000.00	\$28,200,000.00
RAMP 2006-RZ3	75156MAB1	\$15,000,000.00	\$6,964,323.19
RAMP 2006-RZ3	75156MAE5	\$8,300,000.00	\$2,000,000.00
RAMP 2006-RZ3	75156MAF2	\$7,000,000.00	\$648,304.96
RAMP 2006-RZ3	75156MAJ4	\$6,425,000.00	\$0.00
RAMP 2006-RZ3	75156MAH8	\$6,300,000.00	\$0.00
RAMP 2006-RZ3	75156MAG0	\$4,845,000.00	\$0.00

EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RAMP 2006-RZ4	75156XAD3	\$46,910,000.00	\$46,910,000.00
RAMP 2006-RZ4	75156XAE1	\$30,080,000.00	\$30,080,000.00
RAMP 2006-RZ4	75156XAF8	\$18,480,000.00	\$3,358,082.81
RAMP 2006-RZ4	75156XAG6	\$16,720,000.00	\$0.00
RAMP 2006-RZ4	75156XAH4	\$15,840,000.00	\$0.00
RAMP 2006-RZ4	75156XAJ0	\$14,520,000.00	\$0.00
RAMP 2006-RZ4	75156XAK7	\$12,276,000.00	\$0.00
RAMP 2006-RZ4	75156XAB7	\$11,789,318.55	\$6,131,176.89
RAMP 2006-RZ4	75156XAC5	\$4,340,620.00	\$4,340,620.00
RAMP 2007-RS1	74923RAC3	\$124,951,000.00	\$115,619,555.84
RAMP 2007-RS1	74923RAD1	\$35,287,000.00	\$35,287,000.00
RAMP 2007-RS2	75157DAB0	\$41,000,000.00	\$39,311,086.50
RAMP 2007-RZ1	74923PAB9	\$21,095,000.00	\$17,633,169.86
RASC 2004-KS1	74924PAM4	\$35,000,000.00	\$12,974,124.62
RASC 2004-KS1	74924PAJ1	\$5,600,000.00	\$2,170,170.60
RASC 2004-KS1	74924PAE2	\$5,600,000.00	\$5,600,000.00
RASC 2004-KS1	74924PAP7	\$2,000,000.00	\$175,688.65
RASC 2004-KS1	74924PAH5	\$1,200,000.00	\$408,896.22
RASC 2004-KS1	74924PAN2	\$250,000.00	\$25,974.26
RASC 2004-KS10	76110WG42	\$9,900,000.00	\$1,885,334.31
RASC 2004-KS10	76110WG26	\$9,000,000.00	\$248,459.25
RASC 2004-KS10	76110WG34	\$7,000,000.00	\$4,017,062.86
RASC 2004-KS12	76110WK88	\$6,080,000.00	\$4,100,825.15
RASC 2004-KS12	76110WK96	\$4,000,000.00	\$1,245,830.81
RASC 2004-KS2	76110WWN2	\$14,000,000.00	\$5,165,401.79
RASC 2004-KS2	76110WWF9	\$7,500,000.00	\$7,500,000.00
RASC 2004-KS2	76110WWJ1	\$5,375,000.00	\$2,156,614.40
RASC 2004-KS2	76110WWP7	\$5,000,000.00	\$621,133.75

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2004-KS2	76110WWK8	\$4,925,000.00	\$1,976,060.57
RASC 2004-KS2	76110WWG7	\$4,650,000.00	\$2,211,633.14
RASC 2004-KS2	76110WWH5	\$4,000,000.00	\$1,585,883.38
RASC 2004-KS2	76110WWE2	\$2,500,000.00	\$488,314.34
RASC 2004-KS3	76110WXG6	\$10,000,000.00	\$1,246,623.21
RASC 2004-KS3	76110WWY8	\$8,750,000.00	\$8,750,000.00
RASC 2004-KS3	76110WXF8	\$8,375,000.00	\$4,333,577.19
RASC 2004-KS4	76110WXR2	\$9,700,000.00	\$9,700,000.00
RASC 2004-KS5	76110WYM2	\$22,000,000.00	\$12,612,981.40
RASC 2004-KS5	76110WYP5	\$10,500,000.00	\$2,011.47
RASC 2004-KS5	76110WYN0	\$10,000,000.00	\$1,744,124.42
RASC 2004-KS5	76110WYD2	\$6,500,000.00	\$6,500,000.00
RASC 2004-KS5	76110WYC4	\$3,000,000.00	\$1,193,005.49
RASC 2004-KS6	76110WZX7	\$30,000,000.00	\$16,829,922.95
RASC 2004-KS6	76110WZY5	\$10,000,000.00	\$1,831,497.43
RASC 2004-KS6	76110WZN9	\$6,617,000.00	\$6,617,000.00
RASC 2004-KS6	76110WZP4	\$3,000,000.00	\$1,450,954.21
RASC 2004-KS7	76110WA89	\$21,400,000.00	\$12,385,721.03
RASC 2004-KS8	76110WD52	\$3,700,000.00	\$2,018,663.02
RASC 2004-KS8	76110WC79	\$3,000,000.00	\$1,460,155.29
RASC 2004-KS8	76110WC95	\$2,300,000.00	\$1,461,157.45
RASC 2004-KS9	76110WF35	\$55,700,000.00	\$3,457,637.87
RASC 2004-KS9	76110WE69	\$11,000,000.00	\$11,000,000.00
RASC 2004-KS9	76110WE51	\$9,000,000.00	\$2,649,471.57
RASC 2005-AHL1	76110W4E3	\$3,000,000.00	\$2,718,787.55
RASC 2005-AHL1	76110W4J2	\$500,000.00	\$500,000.00
RASC 2005-AHL1	76110W4G8	\$62,994.00	\$62,994.00
RASC 2005-AHL2	76110W5G7	\$12,150,000.00	\$12,150,000.00

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2005-AHL2	76110W5J1	\$2,200,000.00	\$2,200,000.00
RASC 2005-AHL2	76110W5K8	\$1,500,000.00	\$1,500,000.00
RASC 2005-AHL3	76110W6P6	\$128,579.00	\$128,579.00
RASC 2005-EMX1	76110WQ82	\$3,000,000.00	\$658,760.28
RASC 2005-EMX1	76110WQ90	\$3,000,000.00	\$658,760.28
RASC 2005-EMX1	76110WR24	\$3,000,000.00	\$0.00
RASC 2005-EMX2	76110W2G0	\$8,472,869.00	\$8,472,869.00
RASC 2005-EMX2	76110W2P0	\$7,500,000.00	\$0.00
RASC 2005-EMX2	76110W2J4	\$6,450,000.00	\$6,450,000.00
RASC 2005-EMX3	75405MAG9	\$12,285,000.00	\$12,285,000.00
RASC 2005-EMX3	75405MAK0	\$5,000,000.00	\$5,000,000.00
RASC 2005-EMX3	75405MAF1	\$1,000,000.00	\$787,080.49
RASC 2005-EMX4	76110W5X0	\$89,140,000.00	\$47,097.08
RASC 2005-EMX4	76110W6A9	\$13,540,000.00	\$13,540,000.00
RASC 2005-EMX4	76110W5Z5	\$13,300,000.00	\$13,300,000.00
RASC 2005-EMX4	76110W6E1	\$10,000,000.00	\$6,085,765.73
RASC 2005-KS1	76110WM37	\$8,000,000.00	\$6,643,118.40
RASC 2005-KS10	75405WAC6	\$12,372,000.00	\$12,372,000.00
RASC 2005-KS10	75405WAB8	\$5,000,000.00	\$215,212.70
RASC 2005-KS10	75405WAF9	\$5,000,000.00	\$5,000,000.00
RASC 2005-KS10	75405WAG7	\$4,000,000.00	\$4,000,000.00
RASC 2005-KS10	75405WAJ1	\$3,500,000.00	\$2,149,073.44
RASC 2005-KS10	75405WAE2	\$1,340,000.00	\$1,340,000.00
RASC 2005-KS11	76110W7A8	\$16,019,000.00	\$0.00
RASC 2005-KS11	76110W7D2	\$16,000,000.00	\$16,000,000.00
RASC 2005-KS11	76110W7E0	\$5,750,000.00	\$5,750,000.00
RASC 2005-KS11	76110W7F7	\$3,000,000.00	\$3,000,000.00
RASC 2005-KS12	753910AB4	\$167,090,000.00	\$17,556,283.74

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2005-KS12	753910AL2	\$20,000,000.00	\$0.00
RASC 2005-KS12	753910AD0	\$5,535,000.00	\$5,535,000.00
RASC 2005-KS12	753910AC2	\$5,087,000.00	\$5,087,000.00
RASC 2005-KS12	753910AK4	\$1,500,000.00	\$0.00
RASC 2005-KS2	76110WN69	\$10,000,000.00	\$8,517,521.30
RASC 2005-KS3	76110WS31	\$3,000,000.00	\$2,526,840.01
RASC 2005-KS3	76110WS72	\$1,600,000.00	\$1,107,505.79
RASC 2005-KS3	76110WS98	\$1,000,000.00	\$215,051.64
RASC 2005-KS4	76110WU61	\$11,427,000.00	\$7,496,139.14
RASC 2005-KS4	76110WV37	\$7,500,000.00	\$0.00
RASC 2005-KS4	76110WU87	\$500,000.00	\$500,000.00
RASC 2005-KS5	76110WW69	\$5,406,000.00	\$1,974,207.99
RASC 2005-KS5	76110WW77	\$2,762,000.00	\$2,762,000.00
RASC 2005-KS5	76110WX50	\$1,702,000.00	\$571,060.72
RASC 2005-KS6	76110WZ58	\$32,000,000.00	\$0.00
RASC 2005-KS6	76110WZ66	\$7,500,000.00	\$2,657,940.71
RASC 2005-KS6	76110WY75	\$4,000,000.00	\$4,000,000.00
RASC 2005-KS6	76110WY67	\$3,292,000.00	\$650,130.62
RASC 2005-KS6	76110WY91	\$2,500,000.00	\$2,500,000.00
RASC 2005-KS6	76110WY83	\$1,750,000.00	\$1,750,000.00
RASC 2005-KS7	76110W2V7	\$10,000,000.00	\$0.00
RASC 2005-KS7	76110W3F1	\$7,500,000.00	\$2,120,843.66
RASC 2005-KS7	76110W2Z8	\$4,001,000.00	\$4,001,000.00
RASC 2005-KS7	76110W2X3	\$3,402,000.00	\$2,692,926.21
RASC 2005-KS7	76110W3C8	\$2,000,000.00	\$2,000,000.00
RASC 2005-KS7	76110W3B0	\$2,000,000.00	\$2,000,000.00
RASC 2005-KS7	76110W2Y1	\$1,202,000.00	\$1,202,000.00
RASC 2005-KS8	76110W3X2	\$11,800,000.00	\$11,800,000.00



~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2005-KS8	76110W3T1	\$7,000,000.00	\$7,000,000.00
RASC 2005-KS8	76110W3S3	\$3,000,000.00	\$3,000,000.00
RASC 2005-KS8	76110W3Y0	\$2,000,000.00	\$593,521.53
RASC 2005-KS9	754058AB1	\$28,000,000.00	\$0.00
RASC 2005-KS9	754058AL9	\$3,250,000.00	\$3,250,000.00
RASC 2005-KS9	754058AG0	\$3,000,000.00	\$3,000,000.00
RASC 2005-KS9	754058AF2	\$1,779,941.00	\$1,779,941.00
RASC 2006-EMX1	75405KAB4	\$14,030,000.00	\$1,616,111.92
RASC 2006-EMX1	75405KAL2	\$12,500,000.00	\$0.00
RASC 2006-EMX1	75405KAG3	\$3,140,000.00	\$2,093,861.13
RASC 2006-EMX1	75405KAF5	\$3,020,000.00	\$3,020,000.00
RASC 2006-EMX2	75406AAD1	\$6,000,000.00	\$6,000,000.00
RASC 2006-EMX3	76113ABZ3	\$240,966,000.00	\$75,932,650.56
RASC 2006-EMX3	76113ACA7	\$5,502,500.00	\$5,502,500.00
RASC 2006-EMX3	76113ACK5	\$2,500,000.00	\$0.00
RASC 2006-EMX4	75406DAB9	\$58,534,000.00	\$0.00
RASC 2006-EMX4	75406DAC7	\$24,350,000.00	\$16,180,658.09
RASC 2006-EMX4	75406DAN3	\$12,500,000.00	\$0.00
RASC 2006-EMX4	75406DAD5	\$6,000,000.00	\$6,000,000.00
RASC 2006-EMX4	75406DAK9	\$6,000,000.00	\$0.00
RASC 2006-EMX4	75406DAL7	\$3,145,000.00	\$0.00
RASC 2006-EMX5	74924QAB6	\$59,202,000.00	\$0.00
RASC 2006-EMX5	74924QAD2	\$10,000,000.00	\$10,000,000.00
RASC 2006-EMX6	754065AB6	\$67,037,000.00	\$0.00
RASC 2006-EMX6	754065AC4	\$49,343,000.00	\$45,555,445.04
RASC 2006-EMX6	754065AD2	\$15,000,000.00	\$15,000,000.00
RASC 2006-EMX6	754065AM2	\$15,000,000.00	\$0.00
RASC 2006-EMX6	754065AE0	\$11,800,000.00	\$11,800,000.00

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2006-EMX6	754065AF7	\$5,250,000.00	\$1,131,017.83
RASC 2006-EMX6	754065AG5	\$5,190,000.00	\$0.00
RASC 2006-EMX7	74924TAC8	\$20,637,000.00	\$19,937,332.19
RASC 2006-EMX8	74924UAC5	\$62,625,000.00	\$62,625,000.00
RASC 2006-EMX8	74924UAB7	\$62,403,000.00	\$12,827,894.05
RASC 2006-EMX9	74924VAP4	\$25,000,000.00	\$0.00
RASC 2006-EMX9	74924VAC3	\$17,650,000.00	\$17,650,000.00
RASC 2006-EMX9	74924VAD1	\$10,000,000.00	\$10,000,000.00
RASC 2006-KS1	76113AAE1	\$66,000,000.00	\$13,637,028.25
RASC 2006-KS1	76113AAF8	\$25,903,000.00	\$25,903,000.00
RASC 2006-KS1	76113AAG6	\$12,581,240.00	\$12,581,240.00
RASC 2006-KS1	76113AAH4	\$5,000,000.00	\$5,000,000.00
RASC 2006-KS1	76113AAK7	\$4,500,000.00	\$4,500,000.00
RASC 2006-KS1	76113AAL5	\$1,800,000.00	\$0.00
RASC 2006-KS2	75406BAC1	\$145,996,000.00	\$17,774,224.09
RASC 2006-KS2	75406BAF4	\$23,500,000.00	\$23,500,000.00
RASC 2006-KS2	75406BAM9	\$20,000,000.00	\$0.00
RASC 2006-KS2	75406BAE7	\$14,230,000.00	\$14,230,000.00
RASC 2006-KS2	75406BAG2	\$7,000,000.00	\$7,000,000.00
RASC 2006-KS2	75406BAJ6	\$2,500,000.00	\$369,659.25
RASC 2006-KS3	76113ABH3	\$25,860,000.00	\$5,817,588.96
RASC 2006-KS3	76113ABJ9	\$13,000,000.00	\$13,000,000.00
RASC 2006-KS3	76113ABL4	\$12,700,000.00	\$12,700,000.00
RASC 2006-KS3	76113ABM2	\$7,500,000.00	\$7,500,000.00
RASC 2006-KS4	75406EAC5	\$32,000,000.00	\$14,997,549.10
RASC 2006-KS4	75406EAM3	\$32,000,000.00	\$0.00
RASC 2006-KS4	75406EAD3	\$17,038,000.00	\$17,038,000.00
RASC 2006-KS4	75406EAN1	\$10,000,000.00	\$0.00

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RASC 2006-KS4	75406EAL5	\$4,506,000.00	\$0.00
RASC 2006-KS4	75406EAK7	\$4,500,000.00	\$0.00
RASC 2006-KS5	75406VAC7	\$112,480,000.00	\$85,334,703.13
RASC 2006-KS5	75406VAD5	\$20,328,000.00	\$20,328,000.00
RASC 2006-KS5	75406VAE3	\$12,300,000.00	\$12,300,000.00
RASC 2006-KS5	75406VAM5	\$10,000,000.00	\$0.00
RASC 2006-KS6	75406WAD3	\$44,198,000.00	\$44,198,000.00
RASC 2006-KS6	75406WAC5	\$36,634,000.00	\$28,645,927.34
RASC 2006-KS6	75406WAE1	\$9,000,000.00	\$9,000,000.00
RASC 2006-KS6	75406WAN1	\$7,500,000.00	\$0.00
RASC 2006-KS6	75406WAF8	\$5,857,200.00	\$0.00
RASC 2006-KS6	75406WAG6	\$5,000,000.00	\$2,554,982.64
RASC 2006-KS7	75406XAC3	\$59,482,000.00	\$45,981,407.94
RASC 2006-KS8	74924RAC2	\$83,565,000.00	\$83,565,000.00
RASC 2006-KS8	74924RAD0	\$66,063,000.00	\$66,063,000.00
RASC 2006-KS8	74924RAE8	\$20,112,000.00	\$20,112,000.00
RASC 2006-KS8	74924RAF5	\$18,183,000.00	\$5,786,351.72
RASC 2006-KS8	74924RAH1	\$9,918,000.00	\$0.00
RASC 2006-KS8	74924RAJ7	\$9,643,000.00	\$0.00
RASC 2006-KS8	74924RAL2	\$6,888,000.00	\$0.00
RASC 2006-KS9	75406YAC1	\$55,000,000.00	\$55,000,000.00
RASC 2006-KS9	75406YAN7	\$16,000,000.00	\$0.00
RASC 2006-KS9	75406YAB3	\$15,000,000.00	\$4,416,184.11
RASC 2007-KS1	74924SAC0	\$49,055,000.00	\$49,055,000.00
RASC 2007-KS1	74924SAM8	\$7,500,000.00	\$0.00
RASC 2007-KS1	74924SAF3	\$2,200,000.00	\$892,457.77
RASC 2007-KS2	74924WAC1	\$20,515,000.00	\$20,515,000.00
RASC 2007-KS2	74924WAN7	\$10,000,000.00	\$0.00

EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RASC 2007-KS2	74924WAB3	\$2,500,000.00	\$1,767,024.92
RASC 2007-KS3	74924YAC7	\$59,000,000.00	\$59,000,000.00
RASC 2007-KS3	74924YAB9	\$50,082,000.00	\$40,089,756.05
RASC 2007-KS3	74924YAN3	\$7,500,000.00	\$0.00
RASC 2007-KS3	74924YAD5	\$1,300,000.00	\$1,300,000.00
RASC 2007-KS4	74924NAB3	\$17,500,000.00	\$17,069,776.48
RASC 2007-KS4	74924NAF4	\$800,000.00	\$520,957.22
RFMS2 2004-HI1	76110VPR3	\$12,774,000.00	\$4,751,831.60
RFMS2 2004-HI1	76110VPT9	\$5,450,000.00	\$1,064,924.17
RFMS2 2004-HI1	76110VPU6	\$3,400,000.00	\$664,356.35
RFMS2 2004-HI1	76110VPV4	\$2,350,000.00	\$459,187.47
RFMS2 2004-HI1	76110VPW2	\$1,125,000.00	\$219,823.78
RFMS2 2004-HI2	76110VQS0	\$20,161,000.00	\$9,075,943.11
RFMS2 2004-HS1	76110VQC5	\$15,000,000.00	\$2,755,832.82
RFMS2 2004-HS1	76110VQA9	\$13,000,000.00	\$1,993,461.67
RFMS2 2004-HS2	76110VQM3	\$76,000,000.00	\$3,907,872.57
RFMS2 2004-HS2	76110VQJ0	\$20,000,000.00	\$1,701,635.17
RFMS2 2005-HI1	76110VRC4	\$10,000,000.00	\$0.00
RFMS2 2005-HI1	76110VRD2	\$8,000,000.00	\$4,684,516.07
RFMS2 2005-HI2	76110VRJ9	\$10,154,000.00	\$8,942,174.33
RFMS2 2005-HI2	76110VRH3	\$7,000,000.00	\$0.00
RFMS2 2005-HI3	76110VSG4	\$12,425,000.00	\$12,425,000.00
RFMS2 2005-HI3	76110VSF6	\$2,325,000.00	\$2,271,137.38
RFMS2 2005-HI3	76110VSK5	\$1,649,900.00	\$1,649,900.00
RFMS2 2005-HS1	76110VRV2	\$25,000,000.00	\$0.00
RFMS2 2005-HS1	76110VRX8	\$75,000.00	\$75,000.00
RFMS2 2006-HI1	76110VTY4	\$8,150,000.00	\$8,150,000.00
RFMS2 2006-HI1	76110VTV0	\$6,614,000.00	\$0.07

~~EXHIBIT D~~

Deal Name	Cusip	Original Face	Current Face
RFMS2 2006-HI1	76110VUE6	\$2,850,000.00	\$1,088,434.73
RFMS2 2006-HI2	437185AC5	\$13,200,000.00	\$676,849.37
RFMS2 2006-HI2	437185AB7	\$1,000,000.00	\$0.00
RFMS2 2006-HI3	43718NAC6	\$28,586,000.00	\$7,896,366.81
RFMS2 2006-HI4	43718MAD6	\$15,000,000.00	\$15,000,000.00
RFMS2 2006-HSA1	76110VTC2	\$141,919,000.00	\$0.00
RFMS2 2006-HSA1	76110VTD0	\$21,000,000.00	\$0.00
RFMS2 2006-HSA1	76110VTF5	\$167,000.00	\$133,537.22
RFMS2 2006-HSA1	76110VTE8	\$155,000.00	\$100,955.24
RFMS2 2006-HSA2	76110VTM0	\$51,175,000.00	\$0.00
RFMS2 2006-HSA2	76110VTR9	\$14,715,000.00	\$11,050,206.92
RFMS2 2006-HSA2	76110VTN8	\$9,000,000.00	\$0.00
RFMS2 2006-HSA2	76110VTQ1	\$7,095,000.00	\$7,095,000.00
RFMS2 2006-HSA2	76110VTS7	\$982,000.00	\$183,046.86
RFMS2 2006-HSA2	76110VTP3	\$125,000.00	\$98,607.09
RFMS2 2006-HSA3	76113JAA0	\$28,340,000.00	\$3,794,398.22
RFMS2 2007-HI1	43718WAA0	\$44,889,001.00	\$0.00
RFMS2 2007-HI1	43718WAC6	\$5,980,000.00	\$5,980,000.00
RFMS2 2007-HSA2	43710RAG6	\$44,000,000.00	\$40,496,137.59
RFMS2 2007-HSA2	43710RAF8	\$35,478,000.00	\$35,478,000.00
RFMS2 2007-HSA3	43710WAF7	\$31,124,000.00	\$29,001,862.14
RFMS2 2007-HSA3	43710WAE0	\$15,000,000.00	\$15,000,000.00
RFMSI 2004-S1	76111XFD0	\$18,000,000.00	\$22,473,117.36
RFMSI 2004-S1	76111XFP3	\$923,100.00	\$454,463.80
RFMSI 2004-S2	76111XFT5	\$38,116,146.00	\$0.00
RFMSI 2004-S4	76111XHA4	\$21,141,000.00	\$19,759,000.00
RFMSI 2004-S4	76111XHD8	\$19,898,000.00	\$5,859,179.43
RFMSI 2004-S4	76111XHZ9	\$4,314,300.00	\$2,174,004.42

~~EXHIBIT D~~  
EXHIBIT D

Deal Name	Cusip	Original Face	Current Face
RFMSI 2004-S4	76111XJB0	\$616,400.00	\$313,426.53
RFMSI 2004-S5	76111XJR5	\$20,700,000.00	\$0.00
RFMSI 2004-S5	76111XJW4	\$16,913,000.00	\$26,170,381.86
RFMSI 2004-S5	76111XJZ7	\$784,000.00	\$436,611.67
RFMSI 2004-S5	76111XJX2	\$184,000.00	\$284,712.96
RFMSI 2004-S5	76111XKT9	\$101,200.00	\$32,761.02
RFMSI 2004-S6	76111XNB5	\$155,008,185.00	\$20,344,185.28
RFMSI 2004-S6	76111XLX9	\$17,415,332.00	\$11,356,460.48
RFMSI 2004-S6	76111XLZ4	\$10,553,000.00	\$10,553,000.00
RFMSI 2004-S6	76111XLR2	\$2,025,000.00	\$1,584,967.05
RFMSI 2004-S7	76111XNQ2	\$105,288.00	\$37,571.49
RFMSI 2004-S8	76111XNZ2	\$15,300,000.00	\$20,107,246.52
RFMSI 2004-S9	76111XRL9	\$127,000,000.00	\$15,980,771.71

**Exhibit 3**

**THIRD AMENDED AND RESTATED RMBS TRUST SETTLEMENT AGREEMENT**

This THIRD Amended and Restated RMBS Trust Settlement Agreement is entered into as of September 20, 2012, by and between Residential Capital, LLC (“ResCap LLC”) and its direct and indirect subsidiaries (collectively, “ResCap” or the “Debtors”), on the one hand, and the Institutional Investors (as defined below), on the other hand (the “Settlement Agreement”), and amends and restates in its entirety the Second Amended RMBS Trust Settlement Agreement entered into as of September 17, 2012, by and between ResCap, on the one hand, and the Institutional Investors, on the other hand. Each of ResCap and the Institutional Investors may be referred to herein as a “Party” and collectively as the “Parties.”

**RECITALS**

WHEREAS, certain ResCap entities were the Seller, Depositor, Servicer and/or Master Servicer for the securitizations identified on the attached Exhibit A (the “Settlement Trusts”);

WHEREAS, certain ResCap entities are parties to certain applicable Pooling and Servicing Agreements, Assignment and Assumption Agreements, Indentures, Mortgage Loan Purchase Agreements and/or other agreements governing the Settlement Trusts (the “Governing Agreements”), and certain ResCap entities have, at times, acted as Master Servicer and/or Servicer for the Settlement Trusts pursuant to certain of the Governing Agreements;

WHEREAS, pursuant to the Governing Agreements, certain ResCap entities have contributed or sold loans into the Settlement Trusts (the “Mortgage Loans”);

WHEREAS, the Institutional Investors have alleged that certain loans held by the Settlement Trusts were originally contributed in breach of representations and warranties contained in the Governing Agreements, allowing the Investors in such Settlement Trusts to seek to compel the trustee or indenture trustee (each, a “Trustee”) to take certain actions with respect to those loans, and further have asserted past and continuing covenant breaches and defaults by various ResCap entities under the Governing Agreements;

WHEREAS, the Institutional Investors have indicated their intent under the Governing Agreements for each Settlement Trust in which the Institutional Investors collectively hold or are authorized investment managers for holders of at least 25% of a particular tranche of the Securities (as defined below) held by such Settlement Trust either to seek action by the Trustee for such Settlement Trust or to pursue claims, including but not limited to claims to compel ResCap to cure the alleged breaches of representations and warranties, and ResCap disputes such claims and allegations of breach and waives no rights, and preserves all of its defenses, with respect to such allegations and putative cure requirements;

WHEREAS, the Institutional Investors are jointly represented by Talcott Franklin P.C. (“Talcott Franklin”); Miller, Johnson, Snell & Cumiskey, P.L.C. (“Miller Johnson”); and Carter Ledyard & Milburn LLP (“Carter Ledyard”) and have, through counsel, engaged in arm’s length settlement negotiations with ResCap that included the exchange of confidential materials;



WHEREAS, ResCap filed petitions for relief under chapter 11 of the Bankruptcy Code (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”);

WHEREAS, ResCap and the Institutional Investors have reached agreement concerning all claims of the Settlement Trusts under the Governing Agreements; and

WHEREAS, the Parties therefore enter into this Settlement Agreement to set forth their mutual understandings and agreements for terms for resolving the disputes regarding the Governing Agreements:

### **AGREEMENT**

NOW, THEREFORE, after good faith, arm’s length negotiations without collusion, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to the following terms:

#### **ARTICLE I. DEFINITIONS.**

As used in this Settlement Agreement, in addition to the terms otherwise defined herein, the following terms shall have the meanings set forth below (the definitions to be applicable to both the singular and the plural forms of each term defined if both forms of such term are used in this Settlement Agreement). Any capitalized terms not defined in this Settlement Agreement shall have the definition given to them in the Governing Agreements.

Section 1.01 “Bankruptcy Code” shall mean title 11 of the United States Code.

Section 1.02 “Covered Trusts” means the Settlement Trusts listed in Exhibit D hereto and any other Settlement Trusts for which the Institutional Investors in the aggregate hold, and/or are authorized investment managers for holders of, 25% or more of the voting rights in one or more classes of notes, bonds and/or certificates backed by mortgage loans held by the Trusts.

Section 1.03 “Depositor Entity” means, for each individual Settlement Trust, the entity from the following list that the Governing Agreements define as the “Company” for that Settlement Trust, including but not limited to: Residential Funding Mortgage Securities I, Inc., Residential Funding Mortgage Securities II, Inc., Residential Asset Securities Corp., Residential Accredited Loans, Inc., and Residential Asset Mortgage Products, Inc.

Section 1.04 “Direction” shall mean the direction by the Institutional Investors, to the extent permitted by the Governing Agreements, directing any Trustee to take or refrain from taking any action; *provided, however*, that in no event shall the Institutional Investors be required to provide a Trustee with any security or indemnity for action or inaction taken at the direction of the Institutional Investors and the Institutional Investors shall not be required to directly or indirectly incur any costs, fees, or expenses to compel any action or inaction by a Trustee, except that the Institutional Investors shall continue to retain contingency counsel.

Section 1.05 “Effective Date” shall have the meaning ascribed in Section 2.01.

Section 1.06 “Governmental Authority” shall mean any United States or foreign government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to the foregoing, or any other authority, agency, department, board, commission, or instrumentality of the United States, any State of the United States or any political subdivision thereof or any foreign jurisdiction, and any court, tribunal, or arbitrator(s) of competent jurisdiction, and any United States or foreign governmental or non-governmental self-regulatory organization, agency, or authority (including the New York Stock Exchange, Nasdaq, and the Financial Industry Regulatory Authority).

Section 1.07 “Institutional Investors” shall mean the authorized investment managers and Investors identified in the attached signature pages.

Section 1.08 “Investors” shall mean all certificateholders, bondholders and noteholders in the Settlement Trusts, and their successors in interest, assigns, pledgees, and/or transferees.

Section 1.09 “Net Losses” means, with respect to any Settlement Trust, the amount of net losses for such Settlement Trust that have been or are estimated to be borne by that trust from its inception date to its expected date of termination, as determined by the Expert (as defined in Exhibit B) in accordance with the methodology described in Exhibit B. For the avoidance of doubt, a loss on a mortgage loan that has been reimbursed or indemnified by reason of applicable policies of mortgage or bond insurance shall be considered a loss on a mortgage loan and included within the calculation of “Net Losses.”

Section 1.10 “Person” shall mean any individual, corporation, company, partnership, limited liability company, joint venture, association, trust, or other entity, including a Governmental Authority.

Section 1.11 “Petition Date” means the date on which ResCap files petitions under chapter 11 of the Bankruptcy Code.

Section 1.12 “Plan” shall mean a chapter 11 plan of reorganization for the Debtors.

Section 1.13 “Purchaser” means Nationstar Mortgage LLC or any other successful bidder for any or all of the Debtors’ mortgage loan origination and servicing platform.

Section 1.14 “Scheduling Order” shall mean the Revised Joint Omnibus Scheduling Order and Provisions for Other Relief Regarding (I) Debtors’ Motion Pursuant to Fed. R. Bankr. P. 9019 for Approval of RMBS Trust Settlement Agreements, and (II) the Trustees’ Limited Objection to the Sale Motion, entered by the Bankruptcy Court on July 31, 2012.

Section 1.15 “Securities” shall mean securities, notes, bonds, certificates, and/or other instruments backed by mortgage loans held by Settlement Trusts.

Section 1.16 “Seller Entity” means, for each Settlement Trust, the entity from the following list that the Governing Agreements define as the “Seller” for that Trust, including but

not limited to: Residential Funding Company LLC (f/k/a Residential Funding Corporation) and GMAC Mortgage LLC (f/k/a GMAC Mortgage Corporation).

## ARTICLE II. SETTLEMENT PROCESS.

Section 2.01 Effective Date. This Settlement Agreement shall be effective immediately except as to the granting of allowed claims to the Accepting Trusts (as defined below in Section 5.01) and the releases set forth herein. The claims allowance and releases shall only be effective, with respect to a specific Accepting Trust on the date on which a Trustee accepts the settlement with respect to such Settlement Trust (the “Effective Date”). However, for the sake of clarity, the Debtors’ obligations hereunder are subject to the approval of this Settlement Agreement by the Court.

Section 2.02 Bankruptcy Court Approval. The Debtors (a) orally presented this Settlement Agreement in court on the Petition Date, including the agreed amount of the Total Allowed Claim (as defined below in Section 5.01), and (b) shall comply with the schedule for the approval of this Settlement Agreement set forth in the Scheduling Order. The Trustee for each Settlement Trust may accept the offer of a compromise contemplated by this Settlement Agreement on behalf of such Settlement Trust, within the time set forth in the Scheduling Order, by a writing substantially in the form of acceptance included in the proposed order for approval of this Settlement Agreement to be submitted to the Bankruptcy Court.

Section 2.03 Standing. The Debtors agree that the Institutional Investors are parties in interest in the chapter 11 cases of ResCap for the purposes of enforcing rights and complying with obligations under this Settlement Agreement. The Parties further agree that they will not oppose any effort of the Institutional Investors or any other Investor(s) in seeking status as a party in interest in the Chapter 11 Cases.

## ARTICLE III. REPRESENTATIONS AND WARRANTIES.

Section 3.01 Holdings and Authority. As of August 15, 2012, lead counsel to the Institutional Investors has represented to ResCap that the Institutional Investors hold Securities representing in aggregate 25% of the voting rights in one or more classes of the Securities issued by each of the Settlement Trusts identified on the attached Exhibit D. Each Institutional Investor represents that (i) it has the authority to take the actions contemplated by this Settlement Agreement, to the extent that it has the authority with respect to any other entities, account holders, or accounts for which or on behalf of which it is signing this Settlement Agreement, and (ii) it holds, or is the authorized investment manager for the holders of, the Securities listed in Exhibit D hereto, in the respective amounts set forth therein by CUSIP number, that such schedule was accurate as of the date set forth for the respective institution, and that since the date set forth for the Institutional Investor, the Institutional Investor has not, in the aggregate, materially decreased the Institutional Investor’s holdings in the Securities. The Parties agree that the aggregate amounts of Securities collectively held by the Institutional Investors for each Settlement Trust may be disclosed publicly, but that the individual holdings of the Institutional Investors shall remain confidential, subject to review only by ResCap, the Bankruptcy Court, the Office of the United States Trustee, the Trustees, and the official committee of unsecured creditors appointed in the Chapter 11 Cases.

Section 3.02 Holdings Retention. As of August 15, 2012, the Institutional Investors hold Securities representing in aggregate 25% of the voting rights in one or more classes of the Securities issued by each of the Settlement Trusts identified on the attached Exhibit D. The Institutional Investors, collectively, shall maintain holdings aggregating 25% of the voting rights in one or more classes of Securities of not less than 80% of the Covered Trusts (“Requisite Holdings”) until the earliest of: (i) confirmation of a plan of reorganization, (ii) December 31, 2012, (iii) a Consenting Claimant Termination Event, or (iv) a Debtor Termination Event (as the terms in subsections (iii) and (iv) were defined in the plan support agreement agreed to by the Parties); *provided, however*, that any reduction in Requisite Holdings caused by exclusion of one or more trusts due to the exercise of voting rights by a third party guarantor or financial guaranty provider, shall not be considered in determining whether the Requisite Holdings threshold has been met. If the Requisite Holdings are not maintained, ResCap shall have the right to terminate the Settlement Agreement, but ResCap shall not terminate the Settlement Agreement before it has conferred in good faith with the Institutional Investors concerning whether termination is warranted. For the avoidance of doubt, other than as set forth above, this Settlement Agreement shall not restrict the right of any Institutional Investor to sell or exchange any Securities issued by a Settlement Trust free and clear of any encumbrance. The Institutional Investors will not sell any of the Securities for the purpose of avoiding their obligations under this Settlement Agreement, and each Institutional Investor commits to maintain at least one position in one of the Securities in one of the Settlement Trusts until the earliest of the dates set forth above. If the Debtor reaches a similar agreement to this with another bondholder group, the Debtor will include a substantially similar proportionate holdings requirement in that agreement as contained herein.

#### ARTICLE IV. DIRECTION TO TRUSTEES AND INDENTURE TRUSTEES.

Section 4.01 Direction to Trustees and Indenture Trustees. The relevant Institutional Investors for each Settlement Trust shall, by the time of the filing of a motion to approve this Settlement Agreement, provide the relevant Trustee with Direction to accept the settlement and compromises set forth herein. The Institutional Investors hereby agree to confer in good faith with ResCap as to any further or other Direction that may be reasonably necessary to effectuate the settlement contemplated herein, including filing motions and pleadings with the Bankruptcy Court and making statements in open court in support of the Debtors’ restructuring.

Section 4.02 No Inconsistent Directions. Except for providing Directions in accordance with Section 4.01, the Institutional Investors agree that (i) between the date hereof and the Effective Date, with respect to the Securities issued by the Settlement Trusts, they will not, individually or collectively, direct, vote for, or take any other action that they may have the right or the option to take under the Governing Agreements or to join with any other Investors or the Trustee of any note, bond or other security issued by the Settlement Trusts, to cause the Trustees to enforce (or seek derivatively to enforce) any representations and warranties regarding the Mortgage Loans or the servicing of the Mortgage Loans, and (ii) to the extent that any of the Institutional Investors have already taken any such action, the applicable Institutional Investor will promptly rescind or terminate such action. Nothing in the foregoing shall restrict the ability of the Institutional Investors to demand that any Investor who seeks to direct the Trustee for a Settlement Trust post any indemnity or bond required by the Governing Agreements for the applicable Settlement Trust.

Section 4.03 Amendments to Governing Agreements Regarding Financing of Advances. The Institutional Investors agree to use commercially reasonable efforts (which shall not require the giving of any indemnity or other payment obligation or expenditure of out-of-pocket funds) to negotiate any request by the Debtors or the Trustees for any Settlement Trusts with respect to which the servicing rights are being assumed and assigned to the Purchaser, and if any Trustee shall require a vote of the certificate or note holders with respect thereto, shall vote in favor of (to the extent agreement is reached) any amendment to the relevant Governing Agreements and related documents requested by the Debtors in order to permit "Advances" (as it or any similar term may be defined in the Governing Agreements) to be financeable and to make such other amendments thereto as may be reasonably requested by the Debtors in accordance with any agreement to acquire all or substantially all of the Debtors' servicing assets, so long as such changes would not cause material financial detriment to the Settlement Trusts, their respective trustees, certificate or note holders, or the Institutional Investors.

#### ARTICLE V. ALLOWANCE OF CLAIM.

Section 5.01 The Allowed Claim. ResCap hereby makes an irrevocable offer to settle, expiring at 5:00 p.m. prevailing New York time on the date that is set forth in the Scheduling Order, with each of the Settlement Trusts (the Settlement Trusts that timely agree to the terms of this Settlement Agreement being the "Accepting Trusts"). In consideration for such agreement, ResCap will provide a general unsecured claim of \$8,700,000,000 in the aggregate against the Seller Entities and the Depositor Entities (as the Depositor Entities are jointly liable for such claim) (the "Total Allowed Claim"), all of which shall be allocated and implemented as provided in Section 6.01. For the avoidance of doubt, the Total Allowed Claim shall be allocated among the Accepting Trusts, subject to the provisions of this Settlement Agreement. Subject to the provisions of this Settlement Agreement, the Accepting Trusts shall be allowed an aggregate claim in an amount calculated as set forth below (the "Allowed Claim"), which aggregate claim shall be allocated to each Accepting Trust pursuant to Article VI herein. The amount of the Allowed Claim shall equal (i) \$8,700,000,000, less (ii) \$8,700,000,000 multiplied by the percentage represented by (a) the total dollar amount of original principal balance for the Settlement Trusts not accepting the offer outlined above, divided by (b) the total dollar amount of original principal balance for all Settlement Trusts.

Section 5.02 Waiver of Setoff and Recoupment. By accepting the offer to settle contained in Section 5.01, each Accepting Trust irrevocably waives any right to setoff and/or recoupment such Accepting Trust may have against ResCap, except that such right, if any, shall be preserved with respect to claims, described in Section 8.02 hereof, that are not released or waived under Article VII hereof.

#### ARTICLE VI. ALLOCATION OF ALLOWED CLAIM.

Section 6.01 The Allocation of the Allowed Claim. Each Accepting Trust shall be allocated a share of the Allowed Claim against its Seller Entity and its Depositor Entity (the "Allocated Claim"), calculated as set forth on Exhibit B hereto, for which such Seller Entity and Depositor Entity are jointly liable.

Section 6.02 In the event the Bankruptcy Court does not approve the Allowed Claim as to a particular Seller Entity or Depositor Entity, the settlement shall remain in full force with respect to any other Seller Entity or Depositor Entity, as applicable; *provided, however*, that if the Allowed Claim in the amounts proposed herein is not approved as to any of the Seller Entities or Depositor Entities, the Institutional Investors shall have the right to terminate this Settlement Agreement upon written notice to the Debtors; *provided, further*, that in the event that the Bankruptcy Court does not approve the Allowed Claim as to a particular Seller Entity or Depositor Entity, that particular Seller Entity or Depositor Entity shall not receive any release, waiver, or discharge of any Released Claims pursuant to Article VII.

Section 6.03 Legal Fees.

- (a) ResCap and the Institutional Investors agree that Talcott Franklin, Miller Johnson, and Carter Leydard shall, on the Effective Date, be allocated legal fees as follows, as an integrated and nonseverable part of this Settlement Agreement. First, Talcott Franklin, Miller Johnson, and Carter Leydard, as counsel to the Institutional Investors, shall be allocated by ResCap without conveyance to the Trustees the percentages of the Allowed Claim set forth on the fee schedule attached hereto as Exhibit C, without requirement of submitting any form of estate retention or fee application, for their work relating to these cases and the settlement. Second, the Debtors and Institutional Investors may further agree at any time, that the Debtors may pay Talcott Franklin, Miller Johnson, and Carter Leydard in cash, in an amount that Talcott Franklin, Miller Johnson, and Carter Leydard respectively agree is equal to the cash value of their respective portions of the Allowed Claim, and in any such event, no estate retention application, fee application or further order of the Bankruptcy Court shall be required as a condition of the Debtors making such agreed allocation. Third, the Debtors agree and the settlement approval order shall provide that the amount of the Allowed Claim payable to Talcott Franklin, Miller Johnson, and Carter Leydard may be reduced to a separate claim stipulation for convenience of the parties.
- (b) In the event that, prior to acceptance of this compromise by a Trustee for a Settlement Trust other than a Covered Trust, counsel to Investors in such Settlement Trust cause a direction to be given by more than 25% of the holders of a tranche of such Settlement Trust to accept this compromise, then the same provisions as contained in Section 6.02(a) shall apply to such counsel, solely as to the amounts allocated to such Settlement Trust. Such counsel shall be entitled to a share of the fee for such trust equal to the ratio of (a) 25% minus the percentage of such tranche held by Institutional Investors divided by (b) 25%. Counsel would be required to identify itself and satisfy the Debtors and Institutional Investors as to the holdings of client-investors and that counsel caused such directions.

ARTICLE VII. RELEASES.

Section 7.01 Releases. Except as set forth in Article VIII, as of the Effective Date, with respect to each and every Accepting Trust, and in exchange for the Allowed Claim, the Institutional Investors, Accepting Trusts, Trustees in respect of such trusts, and any Persons claiming by, through or on behalf of such Accepting Trust or the Trustees of such trusts

(including Investors claiming derivatively) (collectively, the “Releasors”), irrevocably and unconditionally grant a full, final, and complete release, waiver, and discharge of all alleged or actual claims, demands to repurchase, demands to cure, demands to substitute, counterclaims, defenses, rights of setoff, rights of rescission, liens, disputes, liabilities, losses, debts, costs, expenses, obligations, demands, claims for accountings or audits, alleged events of default, damages, rights, and causes of action of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, suspected or unsuspected, fixed or contingent, in contract, tort, or otherwise, secured or unsecured, accrued or unaccrued, whether direct or derivative, arising under law or equity (collectively, “Claims”), against the Debtors (with the exception of ResCap LLC as set forth in the last sentence of this Section 7.01) and their current and former officers, directors, and employees (but in no case does this section apply to Ally Financial Inc. (“AFI”) or any person who is an officer or director of AFI) that arise under the Governing Agreements. Such released claims include, but are not limited to, claims arising out of and/or relating to (i) the origination and sale of mortgage loans to the Accepting Trusts (including, without limitation, the liability of any Debtors that are party to a Pooling and Servicing Agreement with respect to representations and warranties made in connection with such sale or with respect to the noticing and enforcement of any remedies in respect of alleged breaches of such representations and warranties) (collectively, the “Origination-Related Provisions”), (ii) the documentation of the Mortgage Loans held by the Accepting Trusts including with respect to allegedly defective, incomplete, or non-existent documentation, as well as issues arising out of or relating to recordation, title, assignment, or any other matter relating to legal enforceability of a Mortgage or Mortgage Note, or any alleged failure to provide notice of such defective, incomplete or non-existent documentation, (iii) the servicing of the Mortgage Loans held by the Accepting Trusts (including any claim relating to the timing of collection efforts or foreclosure efforts, loss mitigation, transfers to subservicers, advances or servicing advances) (the “Servicing Claims”), but only to the extent assumed pursuant to Section 365 of the Bankruptcy Code by an assignee to the applicable Debtor in its capacity as Master Servicer or Servicer under any Governing Agreement (the “Assumed Servicing Claims”), (iv) any duty of a debtor as master servicer, servicer or sub-servicer to notice and enforce remedies in respect of alleged breaches of representations and warranties (together with the Assumed Servicing Claims, the “Released Servicing Claims”), (v) setoff or recoupment under the Governing Agreements against ResCap with respect to the Origination-Related Provisions or the Released Servicing Claims, and (vi) any loan seller that either sold loans to ResCap or AFI that were sold and transferred to such Accepting Trust or sold loans directly to such Accepting Trust, in all cases prior to the Petition Date (collectively, all such claims being defined as the “Released Claims”). For the avoidance of doubt, this release does not include individual direct claims for securities fraud or other disclosure-related claims arising from the purchase or sale of Securities. Notwithstanding any provision of this Section 7.01, the Releasors do not release, waive, or discharge any Claims against ResCap LLC.

Section 7.02 Release of Claims Against Investors, Accepting Trusts, and Trustees. Except as set forth in Article VIII, as of the Effective Date, ResCap irrevocably and unconditionally grants to the Accepting Trusts, Trustees in respect of such trusts, and Investors in such trusts, as well as such Accepting Trusts’, Trustees’ and Investors’ respective officers, directors, and employees, a full final, and complete release, waiver, and discharge of all alleged or actual claims from any claim it may have under or arising out of the Governing Agreements.

Section 7.03 Agreement Not to Pursue Relief from the Stay. The Institutional Investors agree that neither they nor their successors in interest, assigns, pledges, delegates, affiliates, subsidiaries, and/or transferees, will seek relief from the automatic stay imposed by section 362 of the Bankruptcy Code in order to institute, continue or otherwise prosecute any action relating to the Released Claims; provided, however, nothing contained herein shall preclude the Institutional Investors or their advised clients from seeking any such relief with respect to direct claims for securities fraud or other disclosure-related claims arising from the purchase or sale of Securities. ResCap reserves its rights and defenses therewith.

Section 7.04 Inclusion of Accepting Trusts and Trustees in Plan Release and Exculpation Provisions. The Accepting Trusts and the Trustees in respect of any such Accepting Trust and their respective counsel shall be entitled to the benefit of any releases and plan exculpation provisions, if any, included in the Plan, which provisions shall be no less favorable than the releases and plan exculpation provisions extended to similarly situated creditors or parties in interest who are parties to any plan support agreement with ResCap.

#### ARTICLE VIII. CLAIMS NOT RELEASED

Section 8.01 ResCap LLC Claim. ResCap LLC does not concede or admit fault for any liability under the Governing Agreements. Without any limitation on the foregoing, each Accepting Trust shall be entitled to file a proof of claim against ResCap LLC for claims, if any, arising under the Governing Agreements (any such claim is hereinafter referred to as a “ResCap LLC Claim”). Nothing contained herein shall be deemed to establish the validity or amount of any ResCap LLC Claim, which shall remain subject to objections in all respects in accordance with the Federal Rules of Bankruptcy Procedure. Notwithstanding the foregoing, the allowed amount of any ResCap LLC Claim shall not exceed such Accepting Trust’s Allocated Claim; provided that any recovery on any such allowed ResCap LLC Claim shall be reduced by any amount paid by any Seller Entity or Depositor Entity on account of the Accepting Trust’s Allocated Claim. Subject to the provisions of this Agreement, the Accepting Trusts expressly reserve all rights regarding the validity and amount of any ResCap LLC Claim.

Section 8.02 Administration of the Mortgage Loans. The releases and waivers in Article VII herein do not include: (i) claims that first arise after the Effective Date and are based in whole or in part on any actions, inactions, or practices of the Master Servicer, Servicer, or Subservicer as to the servicing of the Mortgage Loans held by the Accepting Trusts, and (ii) any Servicing Claim that is not an Assumed Servicing Claim and for which the Court finds a cure or rejection claim exists pursuant to Section 365 of the Bankruptcy Code (it being understood that such cure or rejection claims, if any, are not intended to be affected by such releases and waivers).

Section 8.03 Financial-Guaranty Provider Rights and Obligations. To the extent that any third party guarantor or financial-guaranty provider with respect to any Settlement Trust has rights or obligations independent of the rights or obligations of the Investors, the Trustees, or the Settlement Trusts, the releases and waivers in Article VII are not intended to and shall not release such rights.



Section 8.04 Settlement Agreement Rights. The Parties do not release or waive any rights or claims against each other to enforce the terms of this Settlement Agreement or the Allowed Claim.

Section 8.05 Disclosure Claims. The releases and waivers in Article VII do not include any claims based on improper disclosures under federal or state securities law.

Section 8.06 Reservation of Rights. Notwithstanding anything in this Settlement Agreement to the contrary, the Institutional Investors have not waived their right to file an objection to a motion of the holders of the ResCap 9 5/8% bonds requesting payment of any interest on account of their ResCap 9 5/8% bond claims that may be due and owing after the Petition Date.

#### ARTICLE IX. RELEASE OF UNKNOWN CLAIMS.

Each of the Parties acknowledges that it has been advised by its attorneys concerning, and is familiar with, California Civil Code Section 1542 and expressly waives any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to the provisions of the California Civil Code Section 1542, including that provision itself, which reads as follows:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

The Parties acknowledge that inclusion of the provisions of this Article IX to this Settlement Agreement was a material and separately bargained for element of this Settlement Agreement.

#### ARTICLE X. OTHER PROVISIONS

Section 10.01 Voluntary Agreement. Each Party acknowledges that it has read all of the terms of this Settlement Agreement, has had an opportunity to consult with counsel of its own choosing or voluntarily waived such right and enters into this Settlement Agreement voluntarily and without duress.

Section 10.02 No Admission of Breach or Wrongdoing. ResCap has denied and continues to deny any breach, fault, liability, or wrongdoing. This denial includes, but is not limited to, breaches of representations and warranties, violations of state or federal securities laws, and other claims sounding in contract or tort in connection with any securitizations, including those for which ResCap was the Seller, Servicer and/or Master Servicer. Neither this Settlement Agreement, whether or not consummated, any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, whether or not consummated, shall be construed as, or deemed to be evidence of, an admission or concession on the part of ResCap with respect to any claim or of any breach, liability, fault, wrongdoing, or damage

whatsoever, or with respect to any infirmity in any defense that ResCap has or could have asserted.

Section 10.03 No Admission Regarding Claim Status. ResCap expressly states that in the event this Settlement Agreement is not consummated or is terminated prior to the Effective Date, then neither this Settlement Agreement, nor any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, shall be construed as, or deemed to be evidence of, an admission or concession on the part of ResCap that any claims asserted by the Institutional Investors are not contingent, unliquidated or disputed. The Institutional Investors expressly state that in the event this Settlement Agreement is not consummated or is terminated prior to the Effective Date, neither this Settlement Agreement, nor any proceedings relating to this Settlement Agreement, nor any of the terms of the Settlement Agreement, shall be construed as, or deemed to be evidence of, an admission or concession on the part of the Institutional Investors that any claims asserted by the Institutional Investors and Trustees are not limited to the amounts set forth in this Settlement Agreement or are of any particular priority.

Section 10.04 Counterparts. This Settlement Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Settlement Agreement. Delivery of a signature page to this Settlement Agreement by facsimile or other electronic means shall be effective as delivery of the original signature page to this Settlement Agreement.

Section 10.05 Joint Drafting. This Settlement Agreement shall be deemed to have been jointly drafted by the Parties, and in construing and interpreting this Settlement Agreement, no provision shall be construed and interpreted for or against any of the Parties because such provision or any other provision of the Settlement Agreement as a whole is purportedly prepared or requested by such Party.

Section 10.06 Entire Agreement. This document contains the entire agreement between the Parties, and may only be modified, altered, amended, or supplemented in writing signed by the Parties or their duly appointed agents. All prior agreements and understandings between the Parties concerning the subject matter hereof are superseded by the terms of this Settlement Agreement.

Section 10.07 Specific Performance. It is understood that money damages are not a sufficient remedy for any breach of this Settlement Agreement, and the Parties shall have the right, in addition to any other rights and remedies contained herein, to seek specific performance, injunctive, or other equitable relief from the Bankruptcy Court as a remedy for any such breach. The Parties hereby agree that specific performance shall be their only remedy for any violation of this Agreement.

Section 10.08 Authority. Each Party represents and warrants that each Person who executes this Settlement Agreement on its behalf is duly authorized to execute this Settlement Agreement on behalf of the respective Party, and that such Party has full knowledge of and has consented to this Settlement Agreement.

Section 10.09 No Third Party Beneficiaries. There are no third party beneficiaries of this Settlement Agreement.

Section 10.10 Headings. The headings of all sections of this Settlement Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

Section 10.11 Notices. All notices or demands given or made by one Party to the other relating to this Settlement Agreement shall be in writing and either personally served or sent by registered or certified mail, postage paid, return receipt requested, overnight delivery service, or by electronic mail transmission, and shall be deemed to be given for purposes of this Settlement Agreement on the earlier of the date of actual receipt or three days after the deposit thereof in the mail or the electronic transmission of the message. Unless a different or additional address for subsequent notices is specified in a notice sent or delivered in accordance with this Section, such notices or demands shall be sent as follows:

To: Institutional Investors  
c/o Talcott Franklin P.C.  
208 N. Market Street  
Suite 200  
Dallas, TX 75202  
Tel: 214-736-8730  
Email: tal@talcottfranklin.com  
-and-  
Miller, Johnson, Snell & Cumiskey, P.L.C.  
250 Monroe Avenue NW  
Suite 800  
P.O. Box 306  
Grand Rapids, MI 49501-0306  
Tel: 618-831-1748  
Email: sarbt@millerjohnson.com  
-and-  
Carter Ledyard & Milburn LLP  
2 Wall Street  
New York, New York 10005  
Tel: 212-238-8607  
Email: gadsden@clm.com

To: ResCap  
c/o Gary S. Lee  
Jamie A. Levitt  
Morrison & Foerster LLP  
1290 Avenue of the Americas  
New York, NY 10104  
Tel: 212-468-8000

Email: glee@mofo.com  
jlevitt@mofo.com

Section 10.12 Disputes. This Settlement Agreement, and any disputes arising under or in connection with this Settlement Agreement, are to be governed by and construed in accordance with the laws of the State of New York, without giving effect to the choice of laws principles thereof. Further, by its execution and delivery of this Settlement Agreement, each of the Parties hereto hereby irrevocably and unconditionally agrees that the United States District Court for the Southern District of New York shall have jurisdiction to enforce this Settlement Agreement, *provided, however*, that, upon commencement of the Chapter 11 Cases, the Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of or in connection with this Settlement Agreement.

Section 10.13 The Parties have agreed to include the following statement in the proposed order attached to the Debtors' motion to approve this Settlement Agreement: "Nothing contained in the RMBS Trust Settlement Agreement, the order approving the RMBS Trust Settlement Agreement, and any associated expert reports, including exhibits, schedules, declarations, and other documents attached thereto or referenced therein, or in any declarations, pleadings, or other documents or evidence submitted to, or filed in, the Bankruptcy Court in connection therewith, shall be construed as an admission of, or to prejudice in any way, Ally Financial Inc. and its non-Debtor direct and indirect subsidiaries and affiliates (collectively, "Ally") and may not be used as evidence against Ally in any court proceeding."

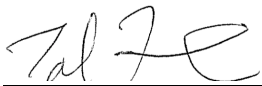
Section 10.14 Notwithstanding anything to the contrary in this Settlement Agreement, nothing herein is intended to or shall be deemed to amend any of the Governing Agreements for any Settlement Trust.

**[REST OF PAGE INTENTIONALLY LEFT BLANK]**

**EXECUTION COPY**

Dated the 21<sup>st</sup> day of September, 2012.

Talcott Franklin P.C. on behalf of the  
Institutional Investors

Signature: 

Name: Talcott F. Franklin

Title: Partner

**EXECUTION COPY**

Dated the 21<sup>st</sup> day of September, 2012.

Residential Capital, LLC  
for itself and its direct and indirect subsidiaries

Signature: Tammy Hamzelpour

Name: Tammy Hamzelpour

Title: General Counsel

**EXECUTION COPY**

**EXHIBIT A**

**TRUSTS**

**Exhibit A- Trusts**

<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>	<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>
2004-AR1	635.0	2004-QS12	424.3
2004-AR2	510.1	2004-QS13	129.2
2004-GH1	224.1	2004-QS14	212.9
2004-HE1	1,292.3	2004-QS15	213.7
2004-HE2	711.5	2004-QS16	534.7
2004-HE3	977.3	2004-QS2	292.3
2004-HE4	1,018.0	2004-QS3	207.8
2004-HE5	700.0	2004-QS4	320.6
2004-HI1	235.0	2004-QS5	293.7
2004-HI2	275.0	2004-QS6	156.5
2004-HI3	220.0	2004-QS7	449.2
2004-HLTV1	175.0	2004-QS8	271.0
2004-HS1	477.1	2004-QS9	105.1
2004-HS2	604.1	2004-RP1	199.5
2004-HS3	284.0	2004-RS1	1,400.0
2004-J1	401.0	2004-RS10	1,250.0
2004-J2	400.6	2004-RS11	925.0
2004-J3	350.0	2004-RS12	975.0
2004-J4	600.1	2004-RS2	875.0
2004-J5	551.9	2004-RS3	600.0
2004-J6	408.0	2004-RS4	1,100.0
2004-KR1	2,000.0	2004-RS5	1,050.0
2004-KR2	1,250.0	2004-RS6	1,000.0
2004-KS1	950.0	2004-RS7	1,183.7
2004-KS10	986.0	2004-RS8	900.0
2004-KS11	692.7	2004-RS9	950.0
2004-KS12	541.8	2004-RZ1	485.0
2004-KS2	990.0	2004-RZ2	475.0
2004-KS3	675.0	2004-RZ3	360.0
2004-KS4	1,000.0	2004-RZ4	276.6
2004-KS5	1,175.0	2004-S1	307.7
2004-KS6	1,000.0	2004-S2	362.0
2004-KS7	850.0	2004-S3	228.3
2004-KS8	600.0	2004-S4	460.3
2004-KS9	600.0	2004-S5	423.5
2004-PS1	100.1	2004-S6	527.2
2004-QA1	201.3	2004-S7	105.3
2004-QA2	365.1	2004-S8	311.0
2004-QA3	320.1	2004-S9	645.9
2004-QA4	290.2	2004-SA1	250.1
2004-QA5	325.1	2004-SL1	632.9
2004-QA6	720.3	2004-SL2	499.0
2004-QS1	319.9	2004-SL3	222.5
2004-QS10	216.6	2004-SL4	206.5
2004-QS11	217.5	2004-SP1	233.7



Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2004-SP2	145.1	2005-KS8	1,165.8
2004-SP3	306.9	2005-KS9	487.0
2004-VFT	820.7	2005-NC1	870.8
2005-AA1	265.6	2005-QA1	296.7
2005-AF1	235.5	2005-QA10	621.8
2005-AF2	296.9	2005-QA11	525.1
2005-AHL1	463.7	2005-QA12	285.2
2005-AHL2	434.2	2005-QA13	560.2
2005-AHL3	488.8	2005-QA2	501.0
2005-AR1	399.8	2005-QA3	500.0
2005-AR2	458.4	2005-QA4	525.2
2005-AR3	523.7	2005-QA5	241.8
2005-AR4	386.1	2005-QA6	575.5
2005-AR5	597.2	2005-QA7	575.0
2005-AR6	592.0	2005-QA8	519.5
2005-EFC1	1,101.5	2005-QA9	650.5
2005-EFC2	679.3	2005-QO1	711.1
2005-EFC3	731.9	2005-QO2	425.1
2005-EFC4	707.8	2005-QO3	500.6
2005-EFC5	693.3	2005-QO4	797.0
2005-EFC6	672.7	2005-QO5	1,275.1
2005-EFC7	698.2	2005-QS1	214.6
2005-EMX1	792.8	2005-QS10	265.7
2005-EMX2	620.4	2005-QS11	213.6
2005-EMX3	674.5	2005-QS12	528.9
2005-EMX4	492.6	2005-QS13	639.2
2005-EMX5	380.0	2005-QS14	615.8
2005-HE1	991.1	2005-QS15	431.5
2005-HE2	1,113.5	2005-QS16	428.0
2005-HE3	988.0	2005-QS17	540.1
2005-HI1	240.0	2005-QS2	213.0
2005-HI2	240.0	2005-QS3	475.6
2005-HI3	224.9	2005-QS4	211.7
2005-HS1	853.8	2005-QS5	214.0
2005-HS2	577.5	2005-QS6	265.1
2005-HSA1	278.8	2005-QS7	370.0
2005-J1	525.5	2005-QS8	104.1
2005-KS1	708.8	2005-QS9	371.0
2005-KS10	1,299.2	2005-RP1	343.1
2005-KS11	1,339.3	2005-RP2	301.1
2005-KS12	1,117.2	2005-RP3	282.5
2005-KS2	543.4	2005-RS1	975.0
2005-KS3	413.5	2005-RS2	725.0
2005-KS4	411.1	2005-RS3	741.3
2005-KS5	401.8	2005-RS4	522.4
2005-KS6	596.2	2005-RS5	497.5
2005-KS7	387.6	2005-RS6	1,183.2

Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2005-RS7	493.0	2006-HI4	272.7
2005-RS8	660.0	2006-HI5	247.5
2005-RS9	1,179.0	2006-HLTV1	229.9
2005-RZ1	203.8	2006-HSA1	461.4
2005-RZ2	333.7	2006-HSA2	447.9
2005-RZ3	340.0	2006-HSA3	201.0
2005-RZ4	411.2	2006-HSA4	402.1
2005-S1	463.1	2006-HSA5	295.6
2005-S2	260.9	2006-J1	550.0
2005-S3	183.1	2006-KS1	840.1
2005-S4	259.4	2006-KS2	977.5
2005-S5	258.2	2006-KS3	1,125.9
2005-S6	412.9	2006-KS4	687.8
2005-S7	311.7	2006-KS5	687.1
2005-S8	312.3	2006-KS6	529.1
2005-S9	366.6	2006-KS7	532.7
2005-SA1	295.2	2006-KS8	535.9
2005-SA2	500.8	2006-KS9	1,197.1
2005-SA3	675.2	2006-NC1	536.8
2005-SA4	850.5	2006-NC2	745.2
2005-SA5	355.3	2006-NC3	504.9
2005-SL1	370.5	2006-QA1	603.9
2005-SL2	168.9	2006-QA10	375.5
2005-SP1	831.0	2006-QA11	372.4
2005-SP2	490.2	2006-QA2	394.0
2005-SP3	285.7	2006-QA3	398.5
2006-AR1	508.7	2006-QA4	304.4
2006-AR2	373.0	2006-QA5	695.6
2006-EFC1	593.2	2006-QA6	625.8
2006-EFC2	387.6	2006-QA7	588.2
2006-EMX1	424.6	2006-QA8	795.1
2006-EMX2	550.1	2006-QA9	369.2
2006-EMX3	773.6	2006-QH1	337.9
2006-EMX4	661.7	2006-QO1	901.2
2006-EMX5	580.2	2006-QO10	895.7
2006-EMX6	620.5	2006-QO2	665.5
2006-EMX7	495.3	2006-QO3	644.8
2006-EMX8	698.6	2006-QO4	843.2
2006-EMX9	728.8	2006-QO5	1,071.6
2006-HE1	1,274.2	2006-QO6	1,290.3
2006-HE2	626.2	2006-QO7	1,542.4
2006-HE3	1,142.3	2006-QO8	1,288.1
2006-HE4	1,159.1	2006-QO9	895.6
2006-HE5	1,244.5	2006-QS1	323.8
2006-HI1	214.2	2006-QS10	533.6
2006-HI2	237.4	2006-QS11	751.5
2006-HI3	223.2	2006-QS12	541.3

Deal Name	Original Issue Balance (in Thousands)	Deal Name	Original Issue Balance (in Thousands)
2006-QS13	641.0	2006-SP3	291.9
2006-QS14	753.7	2006-SP4	303.9
2006-QS15	538.6	2007-EMX1	692.9
2006-QS16	752.1	2007-HE1	1,185.9
2006-QS17	537.0	2007-HE2	1,240.9
2006-QS18	1,181.9	2007-HE3	350.6
2006-QS2	881.7	2007-HI1	255.0
2006-QS3	969.8	2007-HSA1	546.8
2006-QS4	752.3	2007-HSA2	1,231.4
2006-QS5	698.0	2007-HSA3	796.4
2006-QS6	858.8	2007-KS1	415.6
2006-QS7	537.5	2007-KS2	961.5
2006-QS8	966.3	2007-KS3	1,270.3
2006-QS9	540.1	2007-KS4	235.9
2006-RP1	293.0	2007-QA1	410.1
2006-RP2	317.0	2007-QA2	367.0
2006-RP3	290.4	2007-QA3	882.4
2006-RP4	357.4	2007-QA4	243.5
2006-RS1	1,173.6	2007-QA5	504.1
2006-RS2	785.6	2007-QH1	522.3
2006-RS3	741.6	2007-QH2	348.4
2006-RS4	887.5	2007-QH3	349.5
2006-RS5	382.6	2007-QH4	401.0
2006-RS6	372.2	2007-QH5	497.5
2006-RZ1	483.8	2007-QH6	597.0
2006-RZ2	368.6	2007-QH7	347.0
2006-RZ3	688.3	2007-QH8	560.1
2006-RZ4	851.8	2007-QH9	594.4
2006-RZ5	505.1	2007-QO1	625.1
2006-S1	367.1	2007-QO2	529.3
2006-S10	1,087.7	2007-QO3	296.3
2006-S11	623.2	2007-QO4	502.8
2006-S12	1,204.3	2007-QO5	231.2
2006-S2	260.6	2007-QS1	1,297.4
2006-S3	337.8	2007-QS10	435.8
2006-S4	313.9	2007-QS11	305.8
2006-S5	678.1	2007-QS2	536.7
2006-S6	599.6	2007-QS3	971.6
2006-S7	469.7	2007-QS4	746.9
2006-S8	416.3	2007-QS5	432.7
2006-S9	442.3	2007-QS6	808.3
2006-SA1	275.1	2007-QS7	803.3
2006-SA2	791.3	2007-QS8	651.8
2006-SA3	350.9	2007-QS9	707.0
2006-SA4	282.3	2007-RP1	334.4
2006-SP1	275.9	2007-RP2	263.3
2006-SP2	348.1	2007-RP3	346.6

<b>Deal Name</b>	<b>Original Issue Balance (in Thousands)</b>
2007-RP4	239.2
2007-RS1	478.3
2007-RS2	376.8
2007-RZ1	329.3
2007-S1	522.5
2007-S2	472.2
2007-S3	575.3
2007-S4	314.5
2007-S5	524.8
2007-S6	707.7
2007-S7	419.1
2007-S8	488.8
2007-S9	172.4
2007-SA1	310.8
2007-SA2	385.1
2007-SA3	363.8
2007-SA4	414.9
2007-SP1	346.6
2007-SP2	279.3
2007-SP3	298.1
<b>Grand Total</b>	<b>220,987.7</b>

## **EXHIBIT B**

### **ALLOCATION OF ALLOWED CLAIM**

1. The Allowed Claim shall be allocated amongst the Accepting Trusts by the Trustees pursuant to the determination of a qualified financial advisor (the “Expert”) who will make any determinations and perform any calculations required in connection with the allocation of the Allowed Claim among the Accepting Trusts. To the extent that the collateral in any Accepting Trust is divided by the Governing Agreements into groups of loans (“Loan Groups”) so that ordinarily only certain classes of investors benefit from the proceeds of particular Loan Groups, those Loan Groups shall be deemed to be separate Accepting Trusts for purposes of the allocation and distribution methodologies set forth below. The Expert is to apply the following allocation formulas:

(i) *First*, the Expert shall calculate the amount of Net Losses for each Accepting Trust as a percentage of the sum of the Net Losses for all Accepting Trusts (such amount, the “Net Loss Percentage”);

(ii) *Second*, the Expert shall calculate the “Allocated Claim” for each Accepting Trust by multiplying (A) the amount of the Allowed Claim by (B) the Net Loss Percentage for such Accepting Trust, expressed as a decimal; provided that the Expert shall be entitled to make adjustments to the Allocated Claim of each Accepting Trust to ensure that the effects of rounding do not cause the sum of the Allocated Claims for all Accepting Trusts to exceed the amount of the Allowed Claim.

(iii) For the avoidance of doubt, the Seller Entity and Depositor Entity for each Accepting Trust are jointly liable for that Trust’s Allocated Claim.

(iv) If applicable, the Expert shall calculate the portion of the Allocated Claim that relates to principal-only certificates or notes and the portion of the Allocated Claim that relates to all other certificates or notes.

2. All distributions from the Estate to an Accepting Trust on account of any Allocated Claim shall be treated as Subsequent Recoveries, as that term is defined in the Governing Agreement for that trust; provided that if the Governing Agreement for a particular Accepting Trust does not include the term “Subsequent Recovery,” the distribution resulting from the Allocated Claim shall be distributed as though it was unscheduled principal available for distribution on that distribution date; *provided, however*, that should the Bankruptcy Court determine that a different treatment is required to conform the distributions to the requirements of the Governing Agreements, that determination shall govern and shall not constitute a material change to this Settlement Agreement.

3. Notwithstanding any other provision of any Governing Agreement, the Debtors and all Servicers agree that neither the Master Servicer nor any Subservicer shall be entitled to receive any portion of any distribution resulting from any Allocated Claim for any purpose, including without limitation the satisfaction of any Servicing Advances, it being understood that the Master Servicer’s other entitlements to payments, and to reimbursement or recovery, including of

Advances and Servicing Advances, under the terms of the Governing Agreements shall not be affected by this Settlement Agreement except as expressly provided here. To the extent that as a result of the distribution resulting from an Allocated Claim in a particular Accepting Trust a principal payment would become payable to a class of REMIC residual interests, whether on the distribution of the amount resulting from the Allocated Claim or on any subsequent distribution date that is not the final distribution date under the Governing Agreement for such Accepting Trust, such payment shall be maintained in the distribution account and the relevant Trustee shall distribute it on the next distribution date according to the provisions of this section.

4. In addition, after any distribution resulting from an Allocated Claim pursuant to section 3 above, the relevant Trustee will allocate the amount of the distribution for that Accepting Trust in the reverse order of previously allocated Realized Losses, to increase the Class Certificate Balance, Component Balance, Component Principal Balance, or Note Principal Balance, as applicable, of each class of Certificates or Notes (or Components thereof) (other than any class of REMIC residual interests) to which Realized Losses have been previously allocated, but in each case by not more than the amount of Realized Losses previously allocated to that class of Certificates or Notes (or Components thereof) pursuant to the Governing Agreements. For the avoidance of doubt, for Accepting Trusts for which the Credit Support Depletion Date shall have occurred prior to the allocation of the amount of the Allocable Share in accordance with the immediately preceding sentence, in no event shall the foregoing allocation be deemed to reverse the occurrence of the Credit Support Depletion Date in such Accepting Trusts. Holders of such Certificates or Notes (or Components thereof) will not be entitled to any payment in respect of interest on the amount of such increases for any interest accrual period relating to the distribution date on which such increase occurs or any prior distribution date. Any such increase shall be applied pro rata to the Certificate Balance, Component Balance, Component Principal Balance, or Note Principal Balance of each Certificate or Note of each class. For the avoidance of doubt, this section 4 is intended only to increase Class Certificate Balances, Component Balances, Component Principal Balances, and Note Principal Balances, as provided for herein, and shall not affect any distributions resulting from Allocated Claims provided for in section 3 above.

5. Nothing in this Settlement Agreement amends or modifies in any way any provisions of any Governing Agreement. To the extent any credit enhancer or financial guarantee insurer receives a distribution on account of the Allowed Claim, such distribution shall be credited at least dollar for dollar against the amount of any claim it files against the Debtor that does not arise under the Governing Agreements.

6. In no event shall the distribution to an Accepting Trust as a result of any Allocated Claim be deemed to reduce the collateral losses experienced by such Accepting Trust.

**EXHIBIT C**  
**FEE SCHEDULE**

Exhibit C -- Fee Schedule

Percentage of the Allowed Claim (being the sum of the Allocated Allowed Claims) allocable to trusts that accept the settlement, subject to adjustment pursuant to section 6.02(b) for trusts other than original "Covered Trusts."

If Effective Date of Plan occurs on or before Sept. 2, 2012, 5.225%

If Effective Date of Plan occurs after Sept. 2, 2012 and on or before Dec. 2, 2012, 5.4625%

If Effective Date of Plan occurs after Dec. 3, 2012 and on or before May 2, 2013, 5.605%

If Effective Date of Plan occurs after May 2, 2013, 5.7%

All fees shall be allocated between: (i) Talcott Franklin P.C.; (ii) Miller, Johnson, Snell & Cumiskey, P.L.C.; and (iii) Carter Ledyard & Milburn LLP, based on lodestar as calculated per agreement between co-counsel.



**EXHIBIT D**  
**SCHEDULE OF INSTITUTIONAL INVESTOR HOLDINGS**

EX-101-40

## Holdings as of October 18, 2012

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
1	RASC 2005-KS10	75405WAB8	1A2	140,000	140,000	242,971,000	0.1%
2	RFMS2 2006-HSA4	43709WAA1	A	250,000	250,000	402,118,000	0.1%
3	RALI 2007-QS1	74922KAH8	2A2	390,000	390,000	400,296,500	0.1%
4	GMACM 2006-HE3	38012TAB8	A2	165,000	165,000	160,700,000	0.1%
5	RASC 2005-EMX4	76110W5X0	A2	210,000	210,000	196,158,000	0.1%
6	RFMS2 2006-HSA1	76110VTF5	A4	100,000	100,000	42,917,000	0.2%
7	RFMSI 2007-S6	762009AR9	1A16	400,000	400,000	96,413,000	0.4%
8	RFMSI 2006-S12	74958EAC0	2A2	1,325,000	1,325,000	267,085,000	0.5%
9	GMACM 2004-HE2	361856DD6	M1	220,000	220,000	37,356,000	0.6%
10	RAAC 2007-RP1	74977YAA7	A	1,700,000	1,700,000	281,521,000	0.6%
11	RALI 2007-QH1	74922HAB8	A2	800,000	800,000	123,939,000	0.6%
12	RALI 2006-QO1	761118RJ9	2A1	1,100,000	1,100,000	164,198,000	0.7%
13	RASC 2005-EMX3	75405MAF1	M1	215,000	215,000	26,950,000	0.8%
14	RALI 2006-QS13	75115DAH8	1A8	520,000	520,000	58,285,000	0.9%
15	RAAC 2005-SP2	76112BF54	2A	2,600,000	2,600,000	288,130,000	0.9%
16	RALI 2006-QA8	74922QAA0	A1	570,912	1,970,912	215,014,000	0.9%
17	RASC 2005-EMX3	75405MAG9	M2	240,000	240,000	24,150,000	1.0%
18	RAAC 2007-RP2	74919WAA2	A	2,480,000	2,480,000	215,883,000	1.1%
19	RALI 2006-QA1	761118TB4	A21	355,000	3,692,000	318,919,000	1.2%
20	RFMSI 2005-SA2	76111XVJ9	3A2	275,000	275,000	22,500,000	1.2%
21	RALI 2006-QO2	761118VZ8	A2	2,125,000	2,125,000	154,392,000	1.4%
22	RALI 2006-QO5	75114HAE7	2A2	1,975,000	1,975,000	118,628,000	1.7%
23	RAAC 2007-RP4	74919LAD0	A	3,000,000	3,000,000	177,410,000	1.7%
24	RALI 2007-QH5	75116EAA0	AI1	3,478,590	3,478,590	195,147,000	1.8%
25	RFMSI 2007-S9	74958VAA6	1A1	2,500,000	2,500,000	128,850,000	1.9%
26	RALI 2007-QH1	74922HAC6	A3	1,500,000	1,500,000	74,364,000	2.0%
27	RALI 2005-QA7	76110H7D5	A22	4,000,000	4,000,000	195,652,000	2.0%
28	RFMSI 2006-S2	76111XL76	A1	2,500,000	2,500,000	113,005,000	2.2%
29	RALI 2006-QA10	74922NAB5	A2	5,161,941	5,161,941	230,607,000	2.2%
30	RASC 2005-KS3	76110WS56	M5	250,000	250,000	9,974,000	2.5%
31	RALI 2007-QS6	75116CBE5	A29	2,300,000	4,800,000	187,421,000	2.6%
32	RALI 2007-QS2	74923CAF9	A6	2,600,000	2,600,000	100,000,000	2.6%
33	GMACM 2004-AR2	36185N3T5	3A	5,794,000	5,794,000	200,236,000	2.9%
34	RFMSI 2007-S4	74958YAB8	A2	2,159,643	2,159,643	74,404,000	2.9%
35	GMACM 2006-AR1	36185MDQ2	2A1	3,500,000	3,500,000	118,307,000	3.0%
36	RALI 2006-QA9	75115VAA3	A1	9,425,000	9,425,000	314,545,000	3.0%
37	RALI 2006-QS6	74922EAT6	2A1	3,230,000	3,230,000	99,917,000	3.2%
38	RAMP 2004-SL4	76112BGN4	A4	1,280,000	1,280,000	39,137,000	3.3%
39	GMACM 2005-HE3	361856EH6	A2	9,815,647	9,815,647	296,703,000	3.3%
40	RALI 2006-QO3	761118WQ7	A2	5,000,000	5,000,000	149,747,000	3.3%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
41	RALI 2007-QS6	75116CBD7	A28	3,300,000	6,300,000	187,421,000	3.4%
42	RAMP 2005-SL1	76112BMP2	A4	2,250,000	2,250,000	65,353,000	3.4%
43	RALI 2005-QS15	761118KG2	1A	3,000,000	3,000,000	86,099,000	3.5%
44	RALI 2006-QS9	75115CAC1	1A3	3,000,000	3,000,000	86,000,000	3.5%
45	RALI 2005-QA8	761118BW7	NB3	1,250,000	1,250,000	35,255,000	3.5%
46	GMACM 2005-HE1	361856EC7	A3	8,869,000	8,869,000	248,425,000	3.6%
47	RAMP 2004-RS7	7609857E5	AI5	2,000,000	2,000,000	55,330,000	3.6%
48	GMACM 2005-HE1	361856EB9	A2	10,500,000	10,500,000	290,100,000	3.6%
49	RFMSI 2005-S9	76111XE58	A5	2,975,000	2,975,000	81,289,900	3.7%
50	RALI 2007-QS9	75116FBH1	A33	23,000,000	23,000,000	627,984,000	3.7%
51	RALI 2004-QS1	76110HPQ6	A1	4,000,000	8,000,000	215,000,000	3.7%
52	RALI 2004-QS5	76110HSV2	A5	5,000,000	5,000,000	127,754,111	3.9%
53	RASC 2006-EMX4	75406DAJ2	M5	500,000	500,000	12,672,000	3.9%
54	RAMP 2006-NC2	75156TAG5	M4	500,000	500,000	12,540,000	4.0%
55	GMACM 2006-HE5	38012EAC9	2A2	10,000,000	10,000,000	239,558,000	4.2%
56	RAMP 2006-RS2	76112B2C3	A2	12,000,000	12,000,000	282,070,000	4.3%
57	RASC 2006-KS8	74924RAD0	A4	3,000,000	3,000,000	69,063,000	4.3%
58	RALI 2007-QO1	75115YAA7	A1	15,000,000	15,000,000	343,670,000	4.4%
59	RASC 2004-KS6	76110WZX7	MII1	2,300,000	2,300,000	50,000,000	4.6%
60	RALI 2005-QS7	761118AA6	A1	7,000,000	7,000,000	148,100,000	4.7%
61	RAAC 2005-RP2	76112BXP0	M1	1,100,000	1,100,000	23,103,000	4.8%
62	RFMSI 2006-S5	74957EAQ0	A15	4,362,000	4,362,000	89,735,000	4.9%
63	RASC 2006-KS4	75406EAC5	A3	5,100,000	5,100,000	104,883,000	4.9%
64	RALI 2006-QA3	75114RAD7	A1	15,000,000	15,000,000	304,755,000	4.9%
65	RASC 2005-KS1	76110WM37	M1	2,500,000	2,500,000	48,600,000	5.1%
66	RALI 2006-QA8	74922QAB8	A2	25,800,000	25,800,000	484,943,000	5.3%
67	RAMP 2006-RS1	76112BT83	AI2	13,000,000	15,000,000	272,199,000	5.5%
68	RALI 2006-QO3	761118WP9	A1	20,000,000	20,000,000	359,391,000	5.6%
69	RAMP 2004-RS8	76112BAF7	AI6	1,750,000	1,750,000	31,325,000	5.6%
70	RALI 2006-QS6	74922EAN9	1A13	1,895,000	1,895,000	33,564,000	5.6%
71	RASC 2004-KS8	76110WC61	AI6	195,000	985,000	17,300,000	5.7%
72	RALI 2006-QS15	74922YAA3	A1	20,000,000	20,000,000	350,192,000	5.7%
73	RASC 2005-KS10	75405WAF9	M2	2,500,000	2,500,000	43,659,000	5.7%
74	RFMSI 2006-S9	749577AA0	A1	2,500,000	2,500,000	42,573,000	5.9%
75	RALI 2006-QS4	749228AJ1	A9	12,000,000	12,000,000	199,950,000	6.0%
76	RALI 2006-QS1	761118SB5	A3	2,500,000	6,500,000	108,134,000	6.0%
77	GMACM 2005-HE3	361856EK9	A1VN	1,486,000	1,486,000	24,335,000	6.1%
78	RALI 2006-QO1	761118RN0	3A2	8,000,000	8,000,000	128,851,000	6.2%
79	RALI 2004-QS1	76110HPT0	A4	1,000,000	1,000,000	15,724,000	6.4%
80	RASC 2005-EMX3	75405MAQ7	M10	500,000	500,000	7,700,000	6.5%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
81	RAMP 2004-RS9	76112BCM0	MII1	3,100,000	3,100,000	47,300,000	6.6%
82	RAMP 2005-SL2	76112BUX6	A3	2,000,000	2,000,000	29,811,000	6.7%
83	RALI 2006-QO2	761118VY1	A1	25,000,000	25,000,000	370,542,000	6.7%
84	RALI 2004-QS4	76110HSB6	A7	3,500,000	3,500,000	50,000,000	7.0%
85	RALI 2005-QS10	761118CX4	3A1	7,500,000	7,500,000	105,149,000	7.1%
86	RALI 2005-QS10	761118CY2	3A2	7,500,000	7,500,000	105,149,000	7.1%
87	RAMP 2005-SL1	76112BMN7	A3	2,500,000	2,500,000	34,870,100	7.2%
88	RAMP 2005-EFC5	76112BH60	M3	1,200,404	1,200,404	16,714,000	7.2%
89	RALI 2007-QO1	75115YAC3	A3	6,200,000	6,200,000	85,910,000	7.2%
90	RALI 2007-QH6	74922AAA5	A1	25,000,000	25,000,000	336,244,000	7.4%
91	RALI 2006-QS12	751151AG6	2A3	3,000,000	3,000,000	40,000,000	7.5%
92	RAMP 2004-RS4	7609852Y6	AI6	2,800,000	2,800,000	37,300,000	7.5%
93	RALI 2006-QS8	75115AAD3	A4	15,175,000	26,405,000	348,750,000	7.6%
94	RFMSI 2007-S4	74958YAN2	A14	2,000,000	2,000,000	26,184,000	7.6%
95	RFMSI 2006-S6	74957VAM1	A12	7,866,700	7,866,700	102,866,700	7.6%
96	RFMSI 2005-S8	76111XC68	A2	4,200,000	4,200,000	53,873,000	7.8%
97	RASC 2006-EMX3	76113ACE9	M4	1,200,000	1,200,000	15,200,000	7.9%
98	RAMP 2004-RS3	760985V57	AI1	7,000,000	7,000,000	88,500,000	7.9%
99	RALI 2005-QS14	761118JL3	3A3	8,500,000	8,500,000	104,601,000	8.1%
100	RALI 2005-QS9	761118AW8	A3	6,124,750	6,124,750	75,233,360	8.1%
101	RASC 2006-EMX2	75406AAF6	M3	1,000,000	1,000,000	12,255,000	8.2%
102	RASC 2005-KS8	76110W3P9	A3	16,000,000	16,000,000	195,700,000	8.2%
103	RASC 2005-KS8	76110W3T1	M3	1,923,272	1,923,272	23,400,000	8.2%
104	RALI 2006-QS11	75115EAD5	1A4	2,100,000	5,600,000	67,838,000	8.3%
105	RAAC 2005-RP3	76112BP95	M2	1,500,000	1,500,000	18,099,000	8.3%
106	RALI 2006-QO5	75114HAD9	2A1	20,000,000	20,000,000	237,255,000	8.4%
107	RAMP 2004-RZ1	760985U25	AI1	13,500,000	13,500,000	160,000,000	8.4%
108	RFMSI 2007-SA1	74958WAB2	2A1	8,575,000	8,575,000	100,000,000	8.6%
109	RALI 2006-QA2	761118TU2	3A1	2,600,000	2,600,000	30,306,000	8.6%
110	RALI 2005-QO4	761118NN4	2A1	25,000,000	25,000,000	290,287,000	8.6%
111	RAMP 2006-NC2	75156TAE0	M2	2,000,000	2,000,000	23,180,000	8.6%
112	RALI 2006-QS9	75115CAL1	1A11	1,750,000	2,900,000	33,477,650	8.7%
113	RAMP 2005-EFC6	76112BK82	M7	1,000,000	1,000,000	11,449,000	8.7%
114	RASC 2006-KS2	75406BAD9	A4	5,000,000	5,000,000	56,557,000	8.8%
115	RASC 2006-KS1	76113AAE1	A3	85,000	15,085,000	170,300,000	8.9%
116	RALI 2005-QS2	76110HQ69	A1	2,000,000	15,300,000	171,752,000	8.9%
117	RFMSI 2007-S6	762009AL2	1A11	5,285,000	5,285,000	59,285,000	8.9%
118	RALI 2004-QS2	76110HQM4	CB	7,425,000	19,440,000	216,837,000	9.0%
119	RAMP 2005-RS1	76112BHY9	AI6	2,000,000	2,000,000	22,000,000	9.1%
120	RASC 2004-KS2	76110WWN2	M21	23,000,000	23,000,000	49,000,000	9.2%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
121	RALI 2005-QS15	761118KJ6	3A	25,000,000	25,000,000	269,638,000	9.3%
122	RALI 2005-QO1	761118EN4	A1	31,250,000	31,800,000	338,917,000	9.4%
123	RALI 2005-QA2	76110HT90	NB2	7,150,000	7,150,000	74,851,000	9.6%
124	RASC 2005-AHL2	76110W5F9	A2	15,000,000	15,000,000	156,469,000	9.6%
125	RASC 2004-KS8	76110WD60	MII2	2,000,000	2,000,000	20,400,000	9.8%
126	RALI 2006-QS4	749228AE2	A5	3,940,000	3,940,000	40,000,000	9.9%
127	RALI 2007-QS11	74925GAA9	A1	34,224,000	34,224,000	347,046,000	9.9%
128	RASC 2006-KS3	76113ABJ9	AI4	7,903,000	7,903,000	79,903,000	9.9%
129	RASC 2006-KS3	76113ABQ3	M5	2,000,000	2,000,000	20,125,000	9.9%
130	RAMP 2006-EFC1	76112BV98	M3	1,435,905	1,435,905	14,335,000	10.0%
131	RASC 2006-EMX2	75406AAJ8	M6	1,000,000	1,000,000	9,975,000	10.0%
132	RFMSI 2006-S7	74958AAC8	A3	28,000,000	28,000,000	277,250,000	10.1%
133	RALI 2006-QO6	75114NAA2	A1	74,053,000	74,053,000	725,353,000	10.2%
134	RASC 2004-KS5	76110WYD2	AI5	2,642,000	2,642,000	25,450,000	10.4%
135	RASC 2004-KS9	76110WE69	AI5	1,900,000	1,900,000	18,300,000	10.4%
136	RASC 2004-KS7	76110WA89	AI4	2,500,000	2,500,000	23,900,000	10.5%
137	RFMSI 2007-S2	749583AJ9	A9	4,688,000	4,688,000	44,688,000	10.5%
138	RALI 2005-QS9	761118AZ1	A6	3,038,000	3,938,000	37,098,000	10.6%
139	RFMSI 2007-S9	74958VAB4	1A2	575,000	575,000	5,400,000	10.6%
140	RALI 2005-QS13	761118GS1	1A1	2,000,000	6,400,000	60,000,000	10.7%
141	RALI 2006-QS4	749228AD4	A4	7,500,000	7,500,000	70,011,000	10.7%
142	GMACM 2004-AR2	36185N3U2	4A	6,825,000	6,825,000	63,485,000	10.8%
143	RALI 2005-QA12	761118MY1	CB1	7,865,000	7,865,000	72,839,000	10.8%
144	RASC 2004-KS11	76110WJ49	M2	4,000,000	4,000,000	36,750,000	10.9%
145	RASC 2007-EMX1	74924XAD7	A14	5,120,000	5,120,000	46,505,000	11.0%
146	GMACM 2006-HE2	38011AAC8	A3	16,485,000	16,485,000	149,300,000	11.0%
147	RAMP 2006-RZ3	75156MAE5	M2	3,000,000	3,000,000	26,980,000	11.1%
148	RASC 2005-KS12	753910AF5	M3	2,500,000	2,500,000	22,425,000	11.1%
149	RAMP 2007-RS2	75157DAC8	A3	5,602,000	5,602,000	49,602,000	11.3%
150	RASC 2005-EMX1	76110WQ58	M1	7,000,000	7,000,000	61,600,000	11.4%
151	RALI 2005-QS11	761118CF3	A2	16,500,000	16,500,000	145,078,000	11.4%
152	RAAC 2007-SP3	74978FAH2	A2	4,000,000	4,000,000	35,087,000	11.4%
153	RFMSI 2006-S10	74958DAB4	1A2	11,582,000	11,582,000	101,582,000	11.4%
154	RALI 2006-QS3	761118XN3	1A10	2,000,000	10,680,000	92,341,000	11.6%
155	RAMP 2005-EFC3	76112BYY0	M6	1,362,728	1,362,728	11,774,000	11.6%
156	RAMP 2006-RS2	76112B2F6	M2	2,000,000	2,000,000	16,800,000	11.9%
157	RFMSI 2006-SA3	749575AG1	3A1	11,075,000	11,075,000	92,538,000	12.0%
158	RALI 2007-QS5	74923JAE7	A5	6,609,000	12,049,000	100,132,000	12.0%
159	RAMP 2004-RS7	7609857D7	AI4	10,500,000	10,500,000	87,155,000	12.0%
160	RASC 2006-KS2	75406BAE7	M1	4,621,786	4,621,786	38,000,000	12.2%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
161	RFMSI 2006-SA3	749575AA4	1A	2,900,000	2,900,000	23,588,000	12.3%
162	RAMP 2004-RS8	76112BAN0	MII2	3,750,000	3,750,000	30,250,000	12.4%
163	RAMP 2006-RS2	76112B2G4	M3	1,500,000	1,500,000	12,000,000	12.5%
164	RAMP 2005-RS1	76112BJH4	MII2	5,000,000	5,000,000	39,875,000	12.5%
165	RASC 2004-KS12	76110WK96	M2	3,500,000	3,500,000	27,500,000	12.7%
166	RAAC 2006-RP1	76112B2V1	M1	2,588,000	2,588,000	20,088,000	12.9%
167	RAMP 2006-RZ2	75156UAF4	M3	2,200,000	2,200,000	16,800,000	13.1%
168	RASC 2007-KS3	74924YAD5	AI4	13,000,000	13,000,000	99,000,000	13.1%
169	RFMSI 2006-S11	74958FAA1	A1	75,000,000	75,000,000	563,000,000	13.3%
170	RASC 2006-EMX7	74924TAD6	A4	4,000,000	4,000,000	30,000,000	13.3%
171	RALI 2006-QS10	751155AA0	A1	20,030,000	20,100,000	150,000,000	13.4%
172	RASC 2005-AHL1	76110W4G8	M2	2,632,225	2,632,225	19,564,000	13.5%
173	RASC 2006-EMX4	75406DAE3	M1	3,743,000	3,743,000	27,743,000	13.5%
174	RALI 2007-QA3	74923XAA4	A1	50,000,000	50,000,000	368,210,000	13.6%
175	RALI 2007-QS6	75116CAA4	A1	20,500,000	23,800,000	175,000,000	13.6%
176	RALI 2006-QS16	74922LAG8	A7	2,500,000	18,563,000	130,735,000	14.2%
177	RFMSI 2005-SA3	76111XVZ3	1A	24,010,000	24,010,000	167,651,000	14.3%
178	RAMP 2005-EFC1	76112BRM4	M2	6,000,000	6,000,000	41,765,000	14.4%
179	RAMP 2004-SL4	76112BGM6	A3	9,040,000	9,040,000	62,893,000	14.4%
180	RALI 2005-QS13	761118HA9	2A1	20,000,000	20,000,000	139,000,000	14.4%
181	RALI 2007-QS1	74922KAM7	2A6	12,746,000	16,496,000	113,238,400	14.6%
182	RAAC 2007-SP2	74919XAF9	A3	2,828,640	2,828,640	19,286,000	14.7%
183	RASC 2006-EMX3	76113ACD1	M3	2,500,000	2,500,000	16,800,000	14.9%
184	RFMSI 2006-S3	76111XP56	A7	17,500,000	17,500,000	117,000,000	15.0%
185	RASC 2004-KS7	76110WB54	A2B3	5,000,000	5,000,000	33,400,000	15.0%
186	RALI 2006-QS12	751151AA9	1A1	15,000,000	15,000,000	100,000,000	15.0%
187	RFMSI 2007-S4	74958YAA0	A1	4,500,000	4,500,000	30,000,000	15.0%
188	RAMP 2005-EFC3	76112BYX2	M5	2,000,000	2,000,000	13,293,000	15.0%
189	RASC 2005-KS8	76110W3V6	M5	2,993,634	2,993,634	19,800,000	15.1%
190	RALI 2006-QO5	75114HAK3	3A4	5,649,000	5,649,000	36,385,000	15.5%
191	RFMSI 2007-S8	76200QAA8	1A1	61,148,400	61,148,400	393,148,400	15.6%
192	RALI 2006-QH1	75115GAB4	A2	12,500,000	12,500,000	80,014,000	15.6%
193	RFMSI 2006-S5	74957EAP2	A14	9,500,000	9,500,000	60,000,000	15.8%
194	RAAC 2006-RP3	74919RAF2	M2	3,000,000	3,000,000	18,760,000	16.0%
195	RALI 2007-QS1	74922KAA3	1A1	5,000,000	23,992,135	147,627,000	16.3%
196	RALI 2006-QS16	74922LAK9	A10	8,223,000	29,373,000	180,140,000	16.3%
197	RALI 2004-QA1	76110HRL5	A1	22,000,000	22,000,000	134,525,000	16.4%
198	RALI 2006-QO3	761118WR5	A3	14,848,000	14,848,000	89,848,000	16.5%
199	RALI 2006-QO8	75115FAF7	M1	4,000,000	4,000,000	24,058,000	16.6%
200	RAMP 2005-SL1	76112BMQ0	A5	10,000,000	10,000,000	60,089,200	16.6%

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201	RAMP 2005-EFC1	76112BRL6	M1	9,000,000	9,000,000	54,016,000	16.7%
202	RAAC 2007-SP2	74919XAE2	A2	8,000,000	8,000,000	47,983,000	16.7%
203	RALI 2006-QS14	74922GAA2	A1	2,350,000	8,350,000	50,000,000	16.7%
204	RASC 2005-AHL1	76110W4D5	A2	100,000	30,100,000	179,926,000	16.7%
205	RFMSI 2006-S1	76111XJ38	1A2	2,000,000	2,000,000	11,928,000	16.8%
206	RAMP 2006-NC2	75156TAF7	M3	2,500,000	2,500,000	14,820,000	16.9%
207	RALI 2006-QS4	749228AB8	A2	1,200,000	33,505,000	198,487,000	16.9%
208	RASC 2006-KS4	75406EAD3	A4	10,000,000	10,000,000	59,038,000	16.9%
209	RALI 2006-QS4	749228AM4	A12	12,380,000	12,380,000	72,867,000	17.0%
210	RAMP 2006-RS2	76112B2H2	M4	1,500,000	1,500,000	8,800,000	17.0%
211	RAMP 2006-RS3	75156VAD7	A4	10,000,000	25,000,000	146,622,000	17.1%
212	RAMP 2004-RS9	76112BCN8	MII2	6,329,377	6,329,377	37,100,000	17.1%
213	RALI 2005-QO1	761118EP9	A2	8,542,500	8,542,500	50,000,000	17.1%
214	RALI 2006-QO8	75115FAG5	M2	4,000,000	4,000,000	23,408,000	17.1%
215	RAMP 2004-SL1	760985W80	A7	30,552,000	30,552,000	178,552,000	17.1%
216	RFMS2 2005-HI1	76110VRD2	A5	4,500,000	10,080,000	58,080,000	17.4%
217	RAMP 2004-RZ1	760985U33	M1	4,037,000	4,037,000	23,037,000	17.5%
218	RASC 2007-KS3	74924YAG8	M2S	7,000,000	10,000,000	56,739,000	17.6%
219	RASC 2006-EMX3	76113ACB5	M1	5,500,000	5,500,000	31,200,000	17.6%
220	RASC 2005-EMX1	76110WQ66	M2	8,000,000	8,000,000	45,200,000	17.7%
221	RASC 2006-EMX9	74924VAK5	M5	2,700,000	2,700,000	14,440,000	18.7%
222	RAMP 2006-RS4	75156WAD5	A4	8,800,000	13,867,120	73,839,000	18.8%
223	RALI 2006-QS16	74922LAJ2	A9	2,015,000	2,015,000	10,550,000	19.1%
224	RALI 2006-QS12	751151AH4	2A4	12,000,000	12,000,000	62,800,000	19.1%
225	RASC 2006-KS3	76113ABM2	M2	4,825,000	7,825,000	40,825,000	19.2%
226	RFMSI 2007-S6	762009BK3	2A12	11,115,000	11,115,000	57,750,000	19.2%
227	RALI 2007-QS6	75116CEF9	A102	20,000,000	20,000,000	103,569,000	19.3%
228	RAMP 2004-RS12	76112BGE4	MII3	2,200,000	2,200,000	11,200,000	19.6%
229	GMACM 2006-HE1	361856ER4	A	4,275,000	252,101,385	1,274,156,000	19.8%
230	RALI 2004-QS7	76110HTY5	A4	2,500,000	5,000,000	25,000,000	20.0%
231	RAMP 2004-RZ4	76112BHN3	M7	420,000	420,000	2,100,000	20.0%
232	RASC 2004-KS9	76110WF35	AII4	50,000,000	50,000,000	250,000,000	20.0%
233	RALI 2005-QS17	761118PQ5	A1	10,000,000	10,000,000	49,665,000	20.1%
234	RASC 2005-EMX3	75405MAK0	M5	2,400,000	2,400,000	11,900,000	20.2%
235	RALI 2006-QS7	748940AD5	A4	25,350,000	39,115,000	193,750,000	20.2%
236	RAMP 2006-RZ3	75156MAD7	M1	10,900,000	10,900,000	53,960,000	20.2%
237	RASC 2005-KS10	75405WAH5	M4	4,976,000	4,976,000	24,476,000	20.3%
238	RAAC 2006-RP1	76112B2U3	A2	10,000,000	15,000,000	73,280,000	20.5%
239	RAAC 2006-RP4	74919TAC5	M2	3,627,000	3,627,000	17,627,000	20.6%
240	RAAC 2007-SP1	74978AAF7	M3	1,400,000	1,400,000	6,788,000	20.6%

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241	RASC 2005-AHL1	76110W4H6	M3	2,184,024	2,184,024	10,498,000	20.8%
242	RALI 2006-QH1	75115GAC2	A3	10,000,000	10,000,000	48,009,000	20.8%
243	RASC 2006-KS4	75406EAG6	M3	3,000,000	3,000,000	14,358,000	20.9%
244	RASC 2005-EMX3	75405MAL8	M6	2,360,110	2,360,110	11,200,000	21.1%
245	RALI 2007-QH2	74922JAB4	A2	17,500,000	17,500,000	82,422,000	21.2%
246	RASC 2006-EMX8	74924UAD3	1A4	5,406,000	5,406,000	25,406,000	21.3%
247	RALI 2006-QS10	751155AJ1	A9	13,520,615	13,520,615	63,520,615	21.3%
248	RASC 2004-KS10	76110WG34	M1	12,500,000	12,500,000	58,500,000	21.4%
249	RAAC 2005-SP3	76112BS35	A2	15,000,000	15,000,000	69,984,000	21.4%
250	RASC 2005-KS7	76110W3D6	M7	1,250,000	1,250,000	5,801,000	21.5%
251	RALI 2007-QS6	75116CCP9	A62	8,377,000	8,377,000	38,377,000	21.8%
252	RAMP 2006-NC2	75156TAC4	A3	9,600,000	9,600,000	43,831,000	21.9%
253	RALI 2005-QS16	761118MB1	A2	50,000,000	50,000,000	228,000,000	21.9%
254	RAMP 2005-EFC5	76112BH45	M1	6,050,000	6,050,000	27,383,000	22.1%
255	RAMP 2004-RS1	760985N98	MII2	12,000,000	12,000,000	54,000,000	22.2%
256	RALI 2007-QS6	75116CAB2	A2	4,672,000	4,672,000	21,000,000	22.2%
257	RASC 2005-KS3	76110WS80	M8	1,500,000	1,500,000	6,649,000	22.6%
258	RALI 2005-QS14	761118JJ8	3A1	50,000,000	50,000,000	220,000,000	22.7%
259	RASC 2007-KS4	74924NAD9	A4	3,500,000	3,500,000	15,275,000	22.9%
260	RALI 2006-QO10	751153AA5	A1	4,258,900	113,214,920	492,055,000	23.0%
261	RFMSI 2007-S4	74958YAE2	A5	11,460,000	14,056,991	60,860,000	23.1%
262	RAMP 2006-NC1	76112BX39	M1	4,360,000	4,360,000	18,700,000	23.3%
263	RALI 2006-QS10	751155AD4	A4	14,350,000	14,350,000	61,400,000	23.4%
264	RASC 2004-KS3	76110WXG6	MII2	3,125,000	6,125,000	26,125,000	23.4%
265	RASC 2005-EMX2	76110W2H8	M2	5,000,000	5,000,000	21,184,000	23.6%
266	RFMSI 2004-S4	76111XHD8	1A3	2,500,000	5,000,000	21,144,000	23.6%
267	RALI 2007-QA2	74922PAC8	A3	4,900,000	38,900,000	162,808,000	23.9%
268	RAMP 2005-EFC1	76112BRQ5	M5	2,000,000	4,000,000	16,706,000	23.9%
269	RAMP 2006-NC2	75156TAD2	M1	6,314,799	6,314,799	26,220,000	24.1%
270	RALI 2007-QH3	74922WAB5	A2	20,000,000	20,000,000	82,803,000	24.2%
271	RASC 2006-KS6	75406WAE1	M1	5,000,000	5,000,000	20,685,000	24.2%
272	RASC 2005-KS1	76110WM45	M2	9,000,000	9,000,000	37,080,000	24.3%
273	RASC 2007-KS4	74924NAE7	M1S	2,750,000	2,750,000	11,250,000	24.4%
274	RASC 2004-KS12	76110WK88	M1	11,860,000	11,860,000	48,400,000	24.5%
275	RASC 2004-KS5	76110WYN0	MII2	10,750,000	10,750,000	43,750,000	24.6%
276	RASC 2006-EMX5	74924QAD2	A4	9,802,000	9,802,000	39,802,000	24.6%
277	RASC 2006-KS1	76113AAJ0	M3	1,932,327	4,131,457	16,768,000	24.6%
278	RALI 2006-QS8	75115AAA9	A1	2,100,000	78,130,000	315,600,000	24.8%
279	RALI 2007-QH7	75115LAA5	1A1	30,000,000	30,000,000	120,952,000	24.8%
280	RALI 2004-QS7	76110HTX7	A3	6,100,000	6,100,000	24,521,000	24.9%



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281	RAAC 2005-RP1	76112BJQ4	M1	7,000,000	7,000,000	28,000,000	25.0%
282	RASC 2004-KS6	76110WZW9	MI3	1,000,000	1,000,000	4,000,000	25.0%
283	RASC 2006-KS2	75406BAG2	M3	5,000,000	5,000,000	20,000,000	25.0%
284	RASC 2006-EMX2	75406AAB5	A2	28,000,000	51,000,000	203,139,000	25.1%
285	RALI 2007-QH3	74922WAA7	A1	30,000,000	50,000,000	198,727,000	25.2%
286	RASC 2005-AHL2	76110W5J1	M2	3,526,000	3,526,000	13,626,000	25.9%
287	RAMP 2004-RS1	760985P54	MII6	3,500,000	3,500,000	13,500,000	25.9%
288	RASC 2006-KS7	75406XAM1	M8	2,000,000	2,000,000	7,700,000	26.0%
289	RALI 2006-QS13	75115DAJ4	1A9	10,000,000	10,000,000	38,339,000	26.1%
290	RALI 2004-QS12	76110HYY9	M1	750,000	2,500,000	9,546,300	26.2%
291	RALI 2005-QS9	761118AU2	A1	35,000,000	35,000,000	133,249,500	26.3%
292	RAMP 2004-RS9	76112BCQ1	MII4	4,000,000	4,000,000	15,200,000	26.3%
293	RALI 2007-QO2	75116AAA8	A1	102,221,000	102,221,000	388,219,000	26.3%
294	RAMP 2004-RZ2	7609854S7	AI4	11,530,000	11,530,000	43,700,000	26.4%
295	RALI 2007-QH9	749241AA3	A1	120,220,000	120,220,000	452,924,200	26.5%
296	RALI 2006-QS6	74922EAR0	1A16	1,500,000	12,623,750	47,495,000	26.6%
297	RASC 2004-KS9	76110WE77	AI6	2,000,000	4,000,000	15,000,000	26.7%
298	RALI 2006-QO1	761118RM2	3A1	12,256,620	82,758,000	309,242,000	26.8%
299	RFMSI 2007-S1	749581AL8	A7	22,000,000	22,000,000	82,000,000	26.8%
300	RASC 2005-EMX4	76110W6A9	M2	5,000,000	5,000,000	18,540,000	27.0%
301	RASC 2005-AHL2	76110W5K8	M3	100,000	2,605,000	9,605,000	27.1%
302	RAMP 2006-RS2	76112B2E9	M1	5,000,000	5,000,000	18,400,000	27.2%
303	RAAC 2005-SP2	76112BF62	2M1	2,000,000	2,000,000	7,356,000	27.2%
304	RASC 2006-EMX9	74924VAL3	M6	3,000,000	3,000,000	11,020,000	27.2%
305	RAMP 2004-RS5	7609854B4	AI6	11,000,000	11,000,000	40,000,000	27.5%
306	RASC 2005-EMX1	76110WQ90	M5	3,000,000	3,000,000	10,800,000	27.8%
307	RAAC 2007-SP2	74919XAH5	M2	5,000,000	5,000,000	17,961,000	27.8%
308	RASC 2006-KS5	75406VAG8	M3	4,000,000	4,000,000	14,350,000	27.9%
309	RASC 2005-KS11	76110W7G5	M4	6,161,000	6,161,000	22,080,000	27.9%
310	RFMSI 2005-S9	76111XE82	A8	4,486,000	4,486,000	15,986,000	28.1%
311	RASC 2005-AHL3	76110W6L5	A2	52,995,000	52,995,000	187,495,000	28.3%
312	RAMP 2004-RS9	76112BCF5	AI4	16,300,000	16,300,000	56,800,000	28.7%
313	RASC 2006-EMX8	74924UAL5	M6	3,500,000	3,500,000	12,045,000	29.1%
314	RAMP 2005-RS1	76112BHX1	AI5	8,100,000	8,100,000	27,843,000	29.1%
315	RASC 2004-KS6	76110WZN9	AI5	6,000,000	6,000,000	20,617,000	29.1%
316	RAMP 2005-EFC2	76112BVW7	M8	3,000,000	3,000,000	10,186,000	29.5%
317	RASC 2005-KS10	75405WAG7	M3	3,614,931	7,614,931	25,799,000	29.5%
318	RFMSI 2006-S4	762010AE6	A5	12,000,000	12,000,000	40,487,000	29.6%
319	RAMP 2004-RS11	76112BFL9	M4	1,000,000	5,500,000	18,500,000	29.7%
320	RASC 2006-EMX2	75406AAE9	M2	6,375,000	6,375,000	21,375,000	29.8%

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321	RASC 2006-EMX4	75406DAF0	M2	7,500,000	7,500,000	25,002,000	30.0%
322	RAMP 2004-RS2	760985R37	MII1	14,000,000	14,000,000	46,500,000	30.1%
323	RALI 2007-QS7	74923WAK4	2A1	72,000,000	72,000,000	238,127,000	30.2%
324	RALI 2007-QO4	74923LAB8	A1A	14,098,000	44,479,000	146,700,000	30.3%
325	RASC 2004-KS8	76110WD52	MII1	7,800,000	7,800,000	25,600,000	30.5%
326	RAMP 2005-EFC1	76112BRR3	M6	5,262,000	5,262,000	17,262,000	30.5%
327	RAMP 2005-RS7	76112BWX4	M2	3,750,000	3,750,000	12,250,000	30.6%
328	RALI 2005-QS13	761118HC5	2A3	40,050,000	40,050,000	130,000,000	30.8%
329	RASC 2006-KS5	75406VAH6	M4	4,000,000	4,000,000	12,950,000	30.9%
330	RAMP 2005-RZ3	76112BZY9	A2	100,000	36,100,000	116,001,000	31.1%
331	RAMP 2004-RS2	760985Q79	MI3	1,500,000	1,500,000	4,813,000	31.2%
332	RFMSI 2007-S6	762009AK4	1A10	13,500,000	13,500,000	43,184,000	31.3%
333	RAMP 2004-RS8	76112BAD2	AI4	15,000,000	15,000,000	47,894,000	31.3%
334	RAAC 2006-SP4	74919VAC0	A3	15,000,000	15,000,000	47,545,000	31.5%
335	RALI 2007-QS1	74922KAD7	1A4	19,978,000	19,978,000	63,255,000	31.6%
336	RASC 2004-KS6	76110WZY5	MII2	13,500,000	13,500,000	42,000,000	32.1%
337	RASC 2006-KS2	75406BAK3	M6	5,000,000	5,000,000	15,500,000	32.3%
338	RALI 2005-QS17	761118PZ5	A10	12,901,450	52,520,024	162,694,000	32.3%
339	RASC 2005-EMX3	75405MAJ3	M4	4,000,000	4,000,000	12,250,000	32.7%
340	RAAC 2007-SP3	74978FAB5	M1	8,000,000	8,000,000	24,496,000	32.7%
341	RAMP 2004-RS10	76112BEF3	MII4	7,000,000	7,000,000	21,400,000	32.7%
342	RALI 2005-QS1	76110HP45	A5	25,378,000	25,378,000	76,378,000	33.2%
343	RASC 2007-KS1	74924SAK2	M6	2,250,000	2,250,000	6,768,000	33.2%
344	RAAC 2006-RP2	74919MAB2	M1	2,660,000	2,660,000	8,000,000	33.3%
345	RAMP 2004-RZ4	76112BHM5	M6	700,000	700,000	2,100,000	33.3%
346	RASC 2005-KS11	76110W7D2	M1	940,000	16,680,000	49,680,000	33.6%
347	RAMP 2004-RS6	7609855M9	MII2	11,250,000	11,250,000	33,250,000	33.8%
348	RAMP 2006-RZ2	75156UAE7	M2	4,000,000	4,000,000	11,812,000	33.9%
349	RAMP 2004-RS5	7609854H1	MII2	10,500,000	10,500,000	30,875,000	34.0%
350	RASC 2007-KS2	74924WAF4	M1	7,006,672	14,374,990	42,000,000	34.2%
351	RASC 2006-KS3	76113ABL4	M1	3,000,000	15,000,000	43,700,000	34.3%
352	RAMP 2006-NC3	76112B4R8	M3	3,500,000	3,500,000	10,140,000	34.5%
353	RASC 2005-KS2	76110WN77	M2	10,000,000	10,000,000	28,875,000	34.6%
354	RASC 2006-KS6	75406WAF8	M2	6,508,000	6,508,000	18,508,000	35.2%
355	RAAC 2007-RP4	74919LAE8	M1	9,000,000	9,000,000	25,513,000	35.3%
356	RASC 2006-EMX6	754065AC4	A3	37,752,000	37,752,000	106,095,000	35.6%
357	RASC 2005-KS8	76110W3U8	M4	7,500,000	7,500,000	21,000,000	35.7%
358	RALI 2005-QA7	76110H7J2	M1	5,300,000	5,300,000	14,664,000	36.1%
359	RFMS2 2004-HS1	76110VQE1	All	63,000,000	63,000,000	172,125,000	36.6%
360	RASC 2007-KS4	74924NAB3	A2	10,775,000	10,775,000	29,400,000	36.6%

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361	RASC 2006-EMX3	76113ACG4	M6	5,000,000	5,000,000	13,600,000	36.8%
362	RASC 2005-KS4	76110WU61	M1	7,740,000	7,740,000	20,927,000	37.0%
363	RALI 2007-QS6	75116CAF3	A6	38,569,000	38,569,000	103,569,000	37.2%
364	RALI 2005-QS16	761118MA3	A1	50,000,000	50,000,000	132,500,000	37.7%
365	RALI 2005-QS14	761118JH2	2A1	43,918,000	43,918,000	115,613,000	38.0%
366	RALI 2005-QA12	761118NC8	NB5	9,469,000	15,959,000	41,969,000	38.0%
367	RFMSI 2006-S7	74958AAM6	AV	180,000,000	180,000,000	469,651,185	38.3%
368	RASC 2007-KS2	74924WAD9	AI4	25,000,000	25,000,000	65,200,000	38.3%
369	RASC 2006-KS3	76113ABP5	M4	5,000,000	8,000,000	20,700,000	38.6%
370	RALI 2006-QH1	75115GAA6	A1	54,315,000	74,315,000	192,035,000	38.7%
371	RAMP 2006-RZ5	749239AE9	A3	12,760,000	12,760,000	32,720,000	39.0%
372	RALI 2006-QS7	748940AE3	A5	76,050,000	76,050,000	193,750,000	39.3%
373	RASC 2006-EMX2	75406AAD1	M1	9,085,000	9,085,000	23,085,000	39.4%
374	RASC 2005-EMX2	76110W2L9	M5	2,500,000	4,175,000	10,592,000	39.4%
375	RAMP 2004-RS9	76112BCG3	AI5	15,000,000	15,000,000	37,700,000	39.8%
376	RALI 2007-QS5	74923JAH0	A8	21,950,000	40,000,000	100,132,000	39.9%
377	RALI 2005-QS17	761118PS1	A3	10,000,000	10,000,000	25,000,000	40.0%
378	RALI 2007-QS8	74922UAH6	A8	19,375,000	19,375,000	48,375,000	40.1%
379	RALI 2007-QH3	74922WAC3	A3	20,000,000	20,000,000	49,682,000	40.3%
380	RALI 2005-QS13	761118GX0	1A6	3,500,000	29,500,000	73,261,000	40.3%
381	RALI 2006-QS5	75114TAC5	A3	39,129,000	39,129,000	96,590,000	40.5%
382	RASC 2005-EMX2	76110W2N5	M7	3,800,000	3,800,000	9,308,000	40.8%
383	RAMP 2006-NC1	76112BX47	M2	6,800,000	6,800,000	16,500,000	41.2%
384	RAMP 2006-RS4	75156WAE3	M1	14,875,000	14,875,000	35,613,000	41.8%
385	RASC 2005-EMX2	76110W2P0	M8	3,500,000	3,500,000	8,345,000	41.9%
386	RAMP 2006-RZ3	75156MAF2	M3	2,000,000	6,620,000	15,620,000	42.4%
387	RASC 2004-KS12	76110WL20	M3	3,500,000	3,500,000	8,200,000	42.7%
388	RAMP 2006-RS5	75156YAC3	A3	44,776,000	44,776,000	104,776,000	42.7%
389	RASC 2004-KS2	76110WWP7	M22	4,500,000	4,500,000	38,500,000	42.9%
390	RAAC 2006-SP1	76112B3F5	M1	5,069,000	9,069,000	21,069,000	43.0%
391	RAMP 2004-RS11	76112BFJ4	M2	21,000,000	21,000,000	48,563,000	43.2%
392	RASC 2005-KS11	76110W7F7	M3	13,186,098	13,186,098	30,360,000	43.4%
393	RAMP 2004-RS10	76112BEC0	MI11	30,000,000	30,000,000	68,900,000	43.5%
394	RAMP 2006-RZ2	75156UAD9	M1	6,000,000	6,000,000	13,688,000	43.8%
395	RALI 2007-QS5	74923JAA5	A1	5,750,000	32,782,000	73,592,000	44.5%
396	RALI 2004-QS1	76110HQA0	M2	1,568,600	1,568,600	3,518,600	44.6%
397	RASC 2007-KS1	74924SAC0	A3	35,455,000	35,455,000	79,455,000	44.6%
398	RFMSI 2005-S6	76111XXJ7	A1	48,700,000	48,700,000	108,900,000	44.7%
399	RASC 2004-KS10	76110WG67	M4	4,500,000	4,500,000	10,000,000	45.0%
400	RASC 2005-KS12	753910AG3	M4	671,000	9,208,000	20,125,000	45.8%

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401	RAAC 2006-RP1	76112B2W9	M2	6,914,000	6,914,000	14,914,000	46.4%
402	RASC 2005-KS3	76110WS64	M6	3,481,000	3,481,000	7,481,000	46.5%
403	RFSC 2001-RM2	760985FR7	A1	35,249,800	35,249,800	75,249,800	46.8%
404	RAMP 2005-EFC4	76112BC73	M4	6,196,000	6,196,000	13,196,000	47.0%
405	RAMP 2004-RS3	760985V81	M3	5,000,000	5,000,000	10,500,000	47.6%
406	RALI 2007-QO3	74923TAA3	A1	1,368,000	77,329,000	162,302,000	47.6%
407	RALI 2006-QS17	74922SAD0	A4	20,000,000	21,500,000	45,000,000	47.8%
408	RASC 2004-KS1	74924PAN2	MII2	17,250,000	17,250,000	35,750,000	48.3%
409	RASC 2005-KS9	754058AJ4	M6	3,750,000	3,750,000	7,750,000	48.4%
410	RALI 2006-QS5	75114TAF8	A6	15,793,500	21,193,500	43,630,000	48.6%
411	RFMSI 2006-S4	762010AM8	AV	153,917,718	153,917,718	313,917,718	49.0%
412	RAMP 2004-RS5	7609854J7	MII3	4,000,000	4,000,000	8,125,000	49.2%
413	RALI 2006-QO5	75114HAJ6	3A3	16,094,000	16,094,000	32,687,000	49.2%
414	RFMSI 2005-S2	76111XTV5	A6	11,600,000	11,600,000	23,484,000	49.4%
415	RFMSI 2007-S6	762009BB3	2A4	25,000,000	25,000,000	50,233,000	49.8%
416	RASC 2006-EMX8	74924UAH4	M3	8,000,000	8,000,000	16,060,000	49.8%
417	RASC 2007-KS1	74924SAH9	M4	3,900,000	3,900,000	7,826,000	49.8%
418	RALI 2004-QS16	76110HJ67	1A2	7,500,000	7,500,000	15,000,000	50.0%
419	RAMP 2004-RS6	7609855N7	MII3	4,375,000	4,375,000	8,750,000	50.0%
420	RAMP 2005-RS7	76112BXA3	M5	2,500,000	2,500,000	5,000,000	50.0%
421	RAMP 2006-EFC1	76112BV80	M2	10,980,000	10,980,000	21,960,000	50.0%
422	RAMP 2006-EFC2	749238AF8	M2	6,600,000	6,600,000	13,200,000	50.0%
423	RASC 2004-KS6	76110WZV1	MI2	2,750,000	2,750,000	5,500,000	50.0%
424	RFMS2 2006-HI1	76110VUE6	M8	2,877,000	2,877,000	5,727,000	50.2%
425	RAMP 2005-RZ2	76112BWJ5	M3	3,800,000	3,800,000	7,547,000	50.4%
426	RFMSI 2006-S11	74958FAC7	A3	2,360,000	2,360,000	4,643,000	50.8%
427	RALI 2005-QS9	761118AX6	A4	93,624,750	93,624,750	183,249,500	51.1%
428	RAMP 2006-NC3	76112B4P2	M1	10,000,000	10,000,000	19,500,000	51.3%
429	RAMP 2006-RZ1	76112BZ45	M3	5,000,000	5,000,000	9,750,000	51.3%
430	RALI 2005-QS17	761118PU6	A5	3,000,000	20,057,500	38,457,500	52.2%
431	RASC 2004-KS10	76110WG59	M3	8,000,000	8,000,000	15,000,000	53.3%
432	RAMP 2006-RS5	75156YAE9	M1	5,725,000	5,725,000	10,725,000	53.4%
433	RASC 2004-KS3	76110WXF8	MII1	16,500,000	16,500,000	30,875,000	53.4%
434	RASC 2005-EMX1	76110WQ82	M4	5,800,000	5,800,000	10,800,000	53.7%
435	RAMP 2005-RZ2	76112BWG1	M1	10,000,000	10,000,000	18,615,000	53.7%
436	RFMSI 2007-S2	749583AD2	A4	35,000,000	35,000,000	65,000,000	53.8%
437	RASC 2006-EMX3	76113ACA7	A3	4,260,000	16,260,000	29,750,000	54.7%
438	RAMP 2004-RS2	760985R45	MII2	10,000,000	20,000,000	36,000,000	55.6%
439	RASC 2004-KS9	76110WE51	AI4	11,750,000	11,750,000	21,100,000	55.7%
440	RALI 2005-QA9	761118FG8	CBI1	46,241,000	46,241,000	82,941,000	55.8%

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441	RAMP 2004-RS9	76112BCH1	AI6	12,831,000	15,357,000	27,500,000	55.8%
442	RAMP 2004-RS7	7609857F2	AI6	22,500,000	22,500,000	40,000,000	56.3%
443	RASC 2006-KS4	75406EAE1	M1	15,000,000	15,000,000	26,614,000	56.4%
444	RAMP 2005-RS6	76112BTX8	M6	9,500,000	9,500,000	16,800,000	56.5%
445	RAMP 2006-NC3	76112B4Q0	M2	10,000,000	10,000,000	17,680,000	56.6%
446	RAMP 2004-RS4	7609853J8	MII2	21,000,000	21,000,000	37,100,000	56.6%
447	RALI 2006-QS2	761118UR7	1A10	60,000,000	60,000,000	105,672,000	56.8%
448	RALI 2007-QS6	75116CBW5	A45	32,105,874	32,105,874	56,475,000	56.8%
449	RALI 2005-QS15	761118KH0	2A	25,000,000	25,000,000	43,296,000	57.7%
450	RALI 2005-QS3	76110HX61	1A21	98,000,000	98,000,000	167,418,000	58.5%
451	RALI 2006-QS9	75115CAD9	1A4	9,000,000	9,000,000	15,354,000	58.6%
452	RALI 2005-QS13	761118HB7	2A2	82,000,000	82,000,000	139,000,000	59.0%
453	GMACM 2005-HE1	361856ED5	A1VN	16,970,000	16,970,000	28,762,000	59.0%
454	RALI 2007-QO4	74923LAA0	A1	3,065,000	74,176,000	125,568,000	59.1%
455	RALI 2007-QH2	74922JAC2	A3	30,000,000	30,000,000	49,454,000	60.7%
456	GMACM 2004-J1	36185MCL4	A14	31,325,066	31,325,066	51,325,066	61.0%
457	RASC 2006-KS2	75406BAH0	M4	6,000,000	11,000,000	18,000,000	61.1%
458	RASC 2006-EMX6	754065AD2	A4	24,011,000	24,011,000	39,011,000	61.5%
459	RAMP 2005-RS4	76112BPF1	M5	4,875,000	4,875,000	7,875,000	61.9%
460	RALI 2006-QO8	75115FAC4	1A2A	82,653,000	82,653,000	132,653,000	62.3%
461	RALI 2008-QR1	74925FAD5	1A4	9,300,000	9,300,000	14,920,000	62.3%
462	RALI 2007-QS1	74922KAB1	1A2	104,191,250	104,191,250	166,706,000	62.5%
463	RASC 2006-KS4	75406EAF8	M2	11,000,000	16,000,000	24,863,000	64.4%
464	RASC 2007-KS3	74924YAF0	M1S	36,181,000	37,181,000	56,069,000	66.3%
465	RFMSI 2006-S4	762010AG1	A7	20,200,000	20,200,000	30,300,000	66.7%
466	RAAC 2006-SP1	76112B3G3	M2	11,449,000	11,449,000	17,173,000	66.7%
467	RAAC 2005-RP3	76112BP87	M1	15,289,000	15,289,000	22,839,000	66.9%
468	RAMP 2004-RS8	76112BAP5	MII3	8,375,000	8,375,000	12,375,000	67.7%
469	RALI 2007-QS1	74922KAR6	2A10	60,194,000	60,194,000	88,250,000	68.2%
470	RAMP 2004-RS4	7609853H2	MII1	45,200,000	45,200,000	64,400,000	70.2%
471	RALI 2005-QS12	761118DY1	A11	3,034,741	3,034,741	4,294,741	70.7%
472	GMACM 2005-AF1	36185MAS1	M1	4,946,000	4,946,000	6,946,000	71.2%
473	RAMP 2005-EFC2	76112BVU1	M6	7,889,000	7,889,000	10,889,000	72.4%
474	RASC 2006-EMX2	75406AAG4	M4	2,500,000	8,115,000	11,115,000	73.0%
475	RALI 2007-QA2	74922PAA2	A1	110,000,000	110,000,000	150,000,000	73.3%
476	RAMP 2005-EFC6	76112BK41	M3	12,500,000	12,500,000	17,000,000	73.5%
477	RAAC 2007-SP2	74919XAG7	M1	17,049,000	17,049,000	23,049,000	74.0%
478	RAMP 2005-RS6	76112BTV2	M4	16,000,000	16,000,000	21,000,000	76.2%
479	RFMSI 2006-SA3	749575AJ5	4A1	16,000,000	16,000,000	21,000,000	76.2%
480	RALI 2006-QS6	74922EAQ2	1A15	12,819,000	12,819,000	16,769,000	76.4%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
481	RALI 2006-QA5	75115BAY5	1A3	23,489,766	23,489,766	30,720,000	76.5%
482	RAMP 2005-RS7	76112BWY2	M3	5,000,000	5,000,000	6,500,000	76.9%
483	RALI 2006-QS4	749228AH5	A8	32,000,000	32,000,000	41,010,000	78.0%
484	RALI 2007-QS1	74922KAN5	2A7	2,000,000	2,000,000	2,558,600	78.2%
485	RFMSI 2007-S2	749583AE0	A5	30,000,000	30,000,000	38,348,000	78.2%
486	RAMP 2004-RS11	76112BFK1	M3	14,500,000	14,500,000	18,500,000	78.4%
487	RAMP 2004-RS11	76112BFM7	M5	10,875,000	10,875,000	13,875,000	78.4%
488	RFMSI 2006-SA3	749575AD8	2A3	26,150,000	26,150,000	33,150,000	78.9%
489	RALI 2006-QS12	751151AX9	2A18	40,072,903	40,072,903	49,972,903	80.2%
490	RASC 2005-KS4	76110WU87	M3	6,363,000	6,363,000	7,873,000	80.8%
491	RASC 2006-KS7	75406XAE9	M1	17,175,000	17,175,000	21,175,000	81.1%
492	RALI 2006-QS13	75115DAK1	1A10	16,000,000	16,000,000	19,338,000	82.7%
493	RASC 2005-AHL3	76110W6P6	M2	13,025,786	13,025,786	15,500,000	84.0%
494	RALI 2004-QS10	76110HWF2	A4	17,000,000	58,278,444	69,278,444	84.1%
495	RALI 2007-QS8	74922UAE3	A5	30,000,000	30,000,000	35,643,000	84.2%
496	RALI 2007-QS3	75116BAA6	A1	254,000,000	254,000,000	300,000,000	84.7%
497	RFMSI 2006-S3	76111XN74	A1	66,950,000	66,950,000	76,950,000	87.0%
498	RALI 2007-QS2	74923CAA0	A1	17,775,000	17,775,000	20,000,000	88.9%
499	RALI 2006-QS7	748940AC7	A3	67,018,000	67,018,000	75,009,000	89.3%
500	RASC 2005-EMX2	76110W2M7	M6	8,950,000	8,950,000	9,950,000	89.9%
501	RALI 2005-QS17	761118QA9	A11	18,000,000	18,000,000	20,000,000	90.0%
502	RALI 2006-QS17	74922SAE8	A5	127,061,000	177,061,000	187,061,000	94.7%
503	RALI 2006-QS16	74922LAL7	A11	15,040,000	15,040,000	15,540,000	96.8%
504	RAMP 2005-RS8	76112BZJ2	M1	20,000,000	20,000,000	20,283,000	98.6%
505	RALI 2007-QS2	74923CAB8	A2	8,770,000	8,770,000	8,800,000	99.7%
506	RALI 2006-QS2	761118VF2	2AP	1,618,278	1,618,278	1,623,637	99.7%
507	RALI 2006-QS2	761118VD7	1AP	3,239,836	3,239,836	3,240,432	100.0%
508	RFMSI 2005-S5	76111XWW9	AP	472,373	472,373	472,374	100.0%
509	RALI 2005-QS6	76110H5P0	AP	902,809	902,809	902,809	100.0%
510	RALI 2005-QS10	761118DB1	AP	1,864,997	1,864,997	1,864,997	100.0%
511	RASC 2005-EMX2	76110W2S4	SB	21,510,156	21,510,156	21,510,156	100.0%
512	RALI 2005-QS10	761118DC9	AV	265,747,521	265,747,521	265,747,522	100.0%
513	RFMSI 2005-S5	76111XWX7	AV	258,235,737	258,235,737	258,235,737	100.0%
514	GMACM 2004-J2	36185N2C3	A6	14,062,500	14,062,500	14,062,500	100.0%
515	GMACM 2005-AR3	36185N7J3	4A4	4,000,000	4,000,000	4,000,000	100.0%
516	RAAC 2004-SP3	76112BET3	MII1	3,485,000	3,485,000	3,485,000	100.0%
517	RAAC 2005-SP3	76112BS50	M1	12,590,000	12,590,000	12,590,000	100.0%
518	RALI 2004-QA1	76110HRN1	M1	4,226,000	4,226,000	4,226,000	100.0%
519	RALI 2004-QA3	76110HXU8	M1	6,401,000	6,401,000	6,401,000	100.0%
520	RALI 2004-QA6	76110HJ26	M1	14,408,900	14,408,900	14,408,900	100.0%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
521	RALI 2004-QR1	76110HB99	A5	20,054,123	20,054,123	20,054,123	100.0%
522	RALI 2004-QS14	76110HA41	AV	212,904,630	212,904,630	212,904,630	100.0%
523	RALI 2004-QS15	76110HE47	A1	122,235,023	122,235,023	122,235,023	100.0%
524	RALI 2004-QS15	76110HF46	AV	213,702,042	213,702,042	213,702,042	100.0%
525	RALI 2004-QS2	76110HQP7	AV	292,339,189	292,339,189	292,339,189	100.0%
526	RALI 2004-QS3	76110HRC5	AV	207,818,903	207,818,903	207,818,903	100.0%
527	RALI 2004-QS4	76110HSD2	AV	320,597,528	320,597,528	320,597,528	100.0%
528	RALI 2004-QS5	76110HSY6	A8	21,109,053	21,109,053	21,109,053	100.0%
529	RALI 2004-QS5	76110HTA7	AV	293,661,892	293,661,892	293,661,892	100.0%
530	RALI 2004-QS8	76110HUY3	AV	271,022,934	271,022,934	271,022,934	100.0%
531	RALI 2005-QS14	761118JM1	1AP	1,302,649	1,302,649	1,302,649	100.0%
532	RALI 2005-QS14	761118JP4	2AP	7,998,674	7,998,674	7,998,674	100.0%
533	RALI 2005-QS16	761118MF2	A6	14,504,565	14,504,565	14,504,565	100.0%
534	RALI 2005-QS16	761118MJ4	A9	94,233,000	94,233,000	94,233,000	100.0%
535	RALI 2005-QS17	761118PR3	A2	25,000,000	25,000,000	25,000,000	100.0%
536	RALI 2005-QS17	761118PT9	A4	25,000,000	25,000,000	25,000,000	100.0%
537	RALI 2005-QS17	761118PV4	A6	21,443,500	21,443,500	21,443,500	100.0%
538	RALI 2005-QS2	76110HR35	AV	212,988,702	212,988,702	212,988,702	100.0%
539	RALI 2005-QS3	76110HY60	1AV	371,599,754	371,599,754	371,599,754	100.0%
540	RALI 2005-QS4	76110H3V9	AV	211,687,240	211,687,240	211,687,240	100.0%
541	RALI 2005-QS5	76110H2Z1	A3	83,591,000	83,591,000	83,591,000	100.0%
542	RALI 2005-QS6	76110H5K1	A5	12,787,000	12,787,000	12,787,000	100.0%
543	RALI 2005-QS6	76110H5Q8	AV	265,144,243	265,144,243	265,144,243	100.0%
544	RALI 2005-QS8	76110H6S3	AV	104,071,255	104,071,255	104,071,255	100.0%
545	RALI 2006-QS1	761118SE9	A6	11,343,992	11,343,992	11,343,992	100.0%
546	RALI 2006-QS1	761118SJ8	AP	2,784,565	2,784,565	2,784,565	100.0%
547	RALI 2006-QS10	751155AG7	A7	24,638,000	24,638,000	24,638,000	100.0%
548	RALI 2006-QS14	74922GAT1	A18	30,113,677	30,113,677	30,113,677	100.0%
549	RALI 2006-QS16	74922LAD5	A4	43,131,000	43,131,000	43,131,000	100.0%
550	RALI 2006-QS16	74922LAH6	A8	6,092,000	6,092,000	6,092,000	100.0%
551	RALI 2006-QS17	74922SAH1	A8	28,792,000	28,792,000	28,792,000	100.0%
552	RALI 2006-QS18	74922RAX8	3AV	104,211,499	104,211,499	104,211,499	100.0%
553	RALI 2006-QS2	761118UK2	1A4	14,457,800	14,457,800	14,457,800	100.0%
554	RALI 2006-QS2	761118VG0	2AV	131,448,942	131,448,942	131,448,942	100.0%
555	RALI 2006-QS3	761118XP8	1A11	49,722,000	49,722,000	49,722,000	100.0%
556	RALI 2006-QS6	74922EAL3	1A11	53,101,000	53,101,000	53,101,000	100.0%
557	RALI 2006-QS6	74922EAX7	2AV	106,652,100	106,652,100	106,652,100	100.0%
558	RALI 2006-QS8	75115AAE1	A5	348,750,000	348,750,000	348,750,000	100.0%
559	RALI 2006-QS9	75115CAF4	1A6	25,000,000	25,000,000	25,000,000	100.0%
560	RALI 2007-QA1	74923GAB9	A2	13,670,000	13,670,000	13,670,000	100.0%

	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
561	RALI 2007-QH4	74922TAC0	A3	56,537,000	56,537,000	56,537,000	100.0%
562	RALI 2007-QO3	74923TAD7	M1	7,198,000	7,198,000	7,198,000	100.0%
563	RALI 2007-QS3	75116BAD0	A4	19,620,000	19,620,000	19,620,000	100.0%
564	RALI 2007-QS6	75116CAN6	A13	6,267,536	6,267,536	6,267,536	100.0%
565	RALI 2007-QS6	75116CDE3	A77	3,026,250	3,026,250	3,026,250	100.0%
566	RAMP 2004-RS9	76112BCP3	MII3	10,000,000	15,200,000	15,200,000	100.0%
567	RAMP 2004-RZ4	76112BHQ6	B	2,800,000	2,800,000	2,800,000	100.0%
568	RAMP 2005-RS7	76112BXB1	M6	4,750,000	4,750,000	4,750,000	100.0%
569	RAMP 2005-RZ1	76112BMA5	M3	4,100,000	4,100,000	4,100,000	100.0%
570	RAMP 2005-RZ1	76112BMB3	M4	4,100,000	4,100,000	4,100,000	100.0%
571	RAMP 2005-RZ2	76112BWL0	M5	8,050,000	8,050,000	8,050,000	100.0%
572	RAMP 2006-EFC2	749238AE1	M1	15,000,000	15,000,000	15,000,000	100.0%
573	RAMP 2006-RZ1	76112BZ52	M4	9,000,000	9,000,000	9,000,000	100.0%
574	RAMP 2006-RZ5	749239AH2	M3	10,960,000	10,960,000	10,960,000	100.0%
575	RASC 2004-KS12	76110WL79	SB	8,250,228	8,250,228	8,250,228	100.0%
576	RASC 2005-EMX1	76110WR24	M6	10,800,000	10,800,000	10,800,000	100.0%
577	RASC 2005-EMX1	76110WR40	SB	7,210,111	7,210,111	7,210,111	100.0%
578	RASC 2006-EMX1	75405KAC2	A3	17,073,000	17,073,000	17,073,000	100.0%
579	RFMSI 2004-S2	76111XFY4	IA6	17,500,000	17,500,000	17,500,000	100.0%
580	RFMSI 2004-S3	76111XGT4	M2	456,600	456,600	456,600	100.0%
581	RFMSI 2004-S5	76111XKC6	1AV	322,312,635	322,312,635	322,312,635	100.0%
582	RFMSI 2004-S6	76111XLY7	2A4	1,111,000	1,111,000	1,111,000	100.0%
583	RFMSI 2004-S6	76111XMX8	1AV	175,743,890	175,743,890	175,743,890	100.0%
584	RFMSI 2004-S6	76111XMZ3	2AV	196,429,039	196,429,039	196,429,039	100.0%
585	RFMSI 2004-S9	76111XQE6	1A2	35,700,000	35,700,000	35,700,000	100.0%
586	RFMSI 2004-S9	76111XRJ4	1AV	518,853,762	518,853,762	518,853,762	100.0%
587	RFMSI 2005-S1	76111XSH7	1AV	259,777,920	259,777,920	259,777,920	100.0%
588	RFMSI 2005-S6	76111XXT5	AV	412,859,719	412,859,719	412,859,719	100.0%
589	RFMSI 2005-S8	76111XC84	AP	1,370,905	1,370,905	1,370,905	100.0%
590	RFMSI 2005-S9	76111XE66	A6	32,000,000	32,000,000	32,000,000	100.0%
591	RFMSI 2006-S12	74958EAT3	3A10	11,625,000	11,625,000	11,625,000	100.0%
592	RFMSI 2006-S12	74958EAZ9	3AV	364,207,747	364,207,747	364,207,747	100.0%
593	RFMSI 2006-S8	74957XAC9	A3	25,000,000	25,000,000	25,000,000	100.0%
594	RFMSI 2006-S8	74957XAG0	A7	6,250,000	6,250,000	6,250,000	100.0%
595	RFMSI 2007-S2	749583AA8	A1	35,058,000	35,058,000	35,058,000	100.0%
596	RFMSI 2007-S3	74958BAK8	1A4	20,000,000	20,000,000	20,000,000	100.0%
597	RFMSI 2007-S5	749580AA4	A1	230,000,000	250,000,000	250,000,000	100.0%
598	RFMSI 2007-SA1	74958WAG1	4A	38,604,000	38,604,000	38,604,000	100.0%
599	RFMSI 2005-S4	76111XUW1	AV	259,355,464	259,355,464	259,355,464	100.0%
600	RFMSI 2004-S8	76111XPB3	AV	311,005,474	311,005,474	311,005,474	100.0%



	Deal Name	CUSIP	Class	Bond Original Face	Group Class Sum	Original Class Face	Percentage Interest
601	RFMSI 2006-S8	74957XAD7	A4	2,866,667	2,866,667	2,866,667	100.0%
602	RALI 2006-QS4	749228AN2	AP	1,376,144	1,376,144	1,376,144	100.0%
603	RALI 2005-QA4	76110H4N6	A5	23,362,000	23,362,000	23,262,000	100.0%

**Exhibit 4**

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

In re:	)	
	)	Case No. 12-12020 (MG)
RESIDENTIAL CAPITAL, LLC, <u>et al.</u> ,	)	
	)	Chapter 11
Debtors.	)	
	)	Jointly Administered

**SUPPLEMENTAL DECLARATION OF JEFFREY A. LIPPS**

I, Jeffrey A. Lipps, declare:

1. I am a partner with Carpenter Lipps & Leland LLP, 280 Plaza, Suite 1300, 280 North High Street, Columbus, Ohio 43215 (the "Firm").

2. I have over thirty years' experience as a trial lawyer representing and counseling clients in complex commercial litigation matters, including commercial disputes, class action litigation, securities litigation, procurement matters, and bankruptcy litigation. I have handled cases in state and federal courts in over a dozen states. I was a partner at Jones Day before becoming a founding partner in my current firm, which is a litigation boutique with a national practice.

3. I currently represent or have represented over the past several years a number of the debtor entities, four non-debtor affiliated entities, and several individual former directors and officers of debtor entities in over a dozen separate lawsuits involving the debtor entities' issuance of residential mortgage-backed securities. I have been representing various defendants in these matters since the spring of 2010.

4. In addition to the cases in which the Firm is involved, I am also aware that there are additional lawsuits regarding the debtor entities' issuance of residential mortgage-backed securities that also name several debtor entities, non-debtor affiliates, and/or former directors and

officers. Although the Firm does not represent the defendants in those actions, I am aware of the cases, the plaintiffs' allegations, and the causes of action asserted against the defendants.

5. A number of the lawsuits in which I represented the Debtors before the filing of the bankruptcy petition asserted various claims for breaches of representations and warranties made by various Debtor entities relating to the loans that form that collateral for the residential mortgage-backed securities, as well as claims for failure to repurchase any such breaching loans.

6. These claims arise out of the same or substantially similar contract language to that giving rise to the claims at issue in the Third Amended and Restated RMBS Trust Settlement Agreements, dated as of September 21, 2012 between Residential Capital LLC and its direct and indirect subsidiaries, on the one hand, and two separate groups of institutional investors (the "RMBS Trust Settlements"). In fact, the securities at issue in the cases I handled are included in the RMBS Trust Settlements.

7. Specifically, *MBIA Insurance Co. v. Residential Funding Company, LLC*, No. 603552/2008 (N.Y. Sup. Ct.) (involving five securitizations), *MBIA Insurance Co. v. GMAC Mortgage, LLC*, No. 600837/2010 (N.Y. Sup. Ct.) (involving three securitizations), *Assured Guaranty Mutual Corp. f/k/a Financial Securities Assurance Inc. v. GMAC Mortgage LLC et al.* No. 12-cv-03776-JPO (involving two securitizations), and the 12 cases brought by FGIC against various Debtor and affiliated entities (involving 20 securitizations, and coordinated before Judge Crotty under the lead case *FGIC v. GMAC Mortgage, LLC*, No. 11-CV-09729-PAC (S.D.N.Y.)) all involved claims of breaches of representations and warranties, and related claims of alleged failure to repurchase loans pursuant to the terms of the applicable contracts. Our Firm was counsel of record in all but the *Assured Guaranty* case, which was filed on the eve of the filing of the Debtors' bankruptcy petitions and not served until after those filings.

8. In addition, the Debtors frequently called upon me and my Firm to evaluate various issues relating to repurchase demands or alleged breaches of representations and warranties that were not yet in litigation.

9. As part of our Firm's representation of the Debtors in these matters, I have conducted extensive factual and legal analysis of the claims and defenses in these types of "representation and warranty" cases, monitored the development of the law around the country in this area of the law, and assessed the Debtors' exposure in these types of cases. This analysis has included close review of the publicly available papers relating to similar RMBS representation and warranty settlements, including the Bank of America and Lehman Brothers settlements.

10. I am also deeply familiar with the Debtors' history and practices with respect to RMBS securitizations. As detailed in my May 24, 2012 Declaration, the parties in the two MBIA cases engaged in extensive fact discovery involving the exchange and analysis of millions of pages of discovery material and the completion of dozens of depositions as of the petition date, and had begun exchanging initial expert reports in the *MBIA v. Residential Funding Company* case. In addition, we had evaluated and made initial letter submissions in the *FGIC* group of cases relating to motion to dismiss arguments, and FGIC, likewise, had submitted a letter outlining a proposed early summary judgment motion.

11. Because of my experience with these types of representation and warranty claims – and, specifically, those asserted against the Debtors – I was asked by Morrison & Foerster to evaluate the reasonableness of the Debtors' settlement of such claims relating to 392 mortgage-backed securitization trusts upon the terms set forth in the RMBS Trust Settlements. Based on my review of the settlement terms, my extensive knowledge of the types of claims and defenses at issue and the strengths and weaknesses in the applicable law, and my familiarity with the

strengths and potential weaknesses in the Debtors' defense of the claims, it is my opinion that the RMBS Trust Settlement resolves the potential claims against the Debtors in a reasonable and fair range.

12. The bases for my conclusion are outlined below.

**I. OVERVIEW OF POTENTIAL CLAIMS**

13. Claims for breaches of loan-level representations and warranties, such as those to be resolved by the RMBS Trust Settlements, generally arise out of the applicable Pooling and Servicing Agreement, Assignment and Assumption Agreement, or another applicable sale agreement (for purposes of this Declaration, "Sale Agreements") between the appropriate Debtor entity and the Trust to whom the Debtor is selling the loans.

14. These Sale Agreements typically contain or incorporate by reference a list of fairly standard representations and warranties about the loans in the collateral pool underlying the securitization. These may be representations about the pool of loans generally – for example, "97.5% of the loans in this securitization are actuarial mortgage loans, on which 30 days of interest is owed each month irrespective of the day on which the payment is received" or "no more than 25.0% of the loans are secured by Mortgaged Properties located in California", or they may be representations that apply to each and every loan in the pool, such as "All of the loans in the pool were originated in compliance with applicable state and federal law."

15. As discussed in greater detail below, additional insight regarding the interpretation of certain representations and warranties may be found in other, related transaction documents, such as the Prospectus and Prospectus Supplement.

16. The representations and warranties most commonly claimed to have been breached in the various lawsuits that have been filed, both against the Debtors and against others, include:

- a. Representations relating to compliance with Underwriting Guidelines;
- b. Representations relating to compliance with state and federal law;
- c. Representations relating to the accuracy of Loan-to-Value (LTV) or Combined Loan-to-Value (CLTV) information;
- d. Representations relating to appraisals or the qualifications of appraisers;
- e. Representations relating to the accuracy of Owner/Occupancy information;
- f. Representations relating to the completeness of Loan Files; and
- g. Representations relating to the accuracy of loan information on the Mortgage Loan Schedule or loan tapes provided in connection with the securitization.

17. In addition to these claims for breach of the applicable representations and warranties, plaintiffs in representation and warranty litigation have often engaged in a pre-litigation negotiation process, pursuant to the repurchase process outlined in the applicable contract documents.

18. Specifically, the transaction documents provide that, “upon discovery” of a breach of a representation or warranty, the Seller (here, the Debtor entity selling the loans to the Trust for each securitization) is obligated to repurchase or substitute Mortgage Loans sold to a Trust that breach the stated representations and warranties and “materially and adversely” affect the Certificateholders’ interest in those Loans. The substitution and cure remedies are limited, leaving repurchase of the loan as the primary remedy once the securitization has been in the market for some period of time.

19. Under the contract documents, the Trustee for each Trust is the party authorized to pursue claims for breaches of representations and warranties. In the case of pools wrapped by

insurance from a monoline insurer, the insurer will also have certain contractual rights to enforce breaches of representations and warranties regarding the mortgage loans.

20. Although the right to request repurchase belongs in the first instance to the Trustees, the contract documents provide that investors with substantial holdings in a given class of certificates – typically, 25% – have the ability to direct the Trustees to take action with respect to such repurchase demands, including, if necessary, pursuing litigation against the Debtors for alleged breaches of either the representations and warranties themselves, or the obligation to repurchase a loan “upon discovery” that it does not comply with the representations and warranties.<sup>1</sup>

## **II. ELEMENTS OF THE CAUSE OF ACTION**

21. The claims to be asserted by the Trustees, at the direction of the Institutional Investors who are parties to the RMBS Trust Settlements, are primarily breach of contract claims.<sup>2</sup> There are two basic contract causes of action that may be asserted: one for breaches of

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<sup>1</sup> The Institutional Investors themselves are likely barred from pursuing a direct action against the Debtors themselves by contractual “no action” clauses that require them to work through the Trustees, at least in the first instance. *See, e.g., Walnut Place LLC v. Countrywide Home Loans, Inc.*, 35 Misc. 3d 1207A (N.Y. Sup. Ct. 2012), *aff’d* 96 A.D.3d 684, 948 N.Y.S.2d 580, 581 (N.Y. App. Div. 1st Dept. 2012).

<sup>2</sup> It is possible the Institutional Investors and/or Trustees would attempt to assert related tort claims, such as negligent misrepresentation or fraud. As to negligent misrepresentation, however, New York requires a showing of a “special relationship of trust” between the parties that would warrant the Trustees relying on the Debtors’ statements without question. Courts have regularly rejected such claims as to the monoline insurers, which are similarly situated to the Trustees in terms of the arm’s length contractual relationship to the Debtors and the information provided to them by the Debtors. *See, e.g., MBIA Insurance Corp. v. Countrywide Home Loans, Inc.*, 87 A.D.3d 287, 928 N.Y.S.2d 229, 235-36 (N.Y. App. Div. 1st Dep’t 2011) (upholding dismissal of negligent misrepresentation claim because no special relationship of trust or uniquely superior knowledge was established); *MBIA Insurance Corp. v. Residential Funding Company, LLC*, 26 Misc. 3d 1204A, 906 N.Y.S.2d 781, 781 (N.Y. Sup. Ct. 2009) (same). As to fraud, similarly, the Trustees would need to establish the additional elements of scienter and justifiable reliance. *HSH Nordbank AG v. UBS AG*, 95 A.D.3d 185, 941 N.Y.S.2d



the representations and warranties made in the Sale Agreements themselves, and one for breach of the obligation to repurchase defective loans that is triggered by the discovery of a breach of representation or warranty. Although distinct causes of action, both types of claims turn on the question of whether a given loan breached one or more contractual representations or warranties.

22. If the Institutional Investors or Trustees were to pursue litigation of the claims, the elements they would need to prove include that (1) an agreement existed, (2) the agreement was breached, (3) the breach was material, (4) the breach caused harm to the plaintiff, and (5) the Institutional Investors suffered damages as a result.

23. Because of the complex structure of the RMBS offerings, each of these elements poses unique legal and evidentiary challenges, many of which have not fully developed in a definitive way in the case law to date, and none of which have been litigated to resolution with respect to the Debtors specifically. I evaluate each element in more detail below, and explain why I have concluded that there is sufficient uncertainty and risk in the outcome of these claims to support the conclusion that the proposed settlement is reasonable.

**A. Scope of Representations and Warranties**

24. Although the representations and warranties for each securitization are spelled out in a clearly identifiable section of the Sale Agreements, there remains ambiguity and dispute about the scope of some of the representations. Accordingly, the fundamental question of

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59, 65 (N.Y. App. Div. 1st Dep't 2012) (collecting cases holding no justifiable reliance as to fraud claims arising from sale or agreement to provide insurance for securities where plaintiff was sophisticated, understood and accepted the risks, and could conduct its own independent investigation into the accuracy of defendant's representations before agreeing to purchase or provide insurance); *see also CIFG Assur. N.A., Inc. v. Goldman Sachs Mortg. Co.*, 2012 N.Y. Misc. LEXIS 3986, at \*29-33 (N.Y. Sup. Ct. May 1, 2012) (same). In either case, the Trustees' and Institutional Investors' burden of proof would be greater than it is for breach of contract claims. Moreover, the Debtors would argue that any tort claims relating to the representations and warranties are duplicative of breach of contract claims. Accordingly, I have focused my analysis on the riskiest claims for the Debtors, which are the breach of contract claims.

whether the Debtor had even made an actionable representation may be disputed, and subject to uncertainty as to how a court might rule.

25. Some of the representations and warranties that pose potential interpretive issues with respect to the Debtors' Sale Agreements include (for example):

- a. "The appraisal was made by an appraiser who meets the minimum qualifications for appraisers as specified in the Program Guide." 2005-EMX3 Assignment and Assumption Agreement, Sec. 4(xi)
- b. "The information set forth on the Mortgage Loan Schedule with respect to each Mortgage Loan is true and correct in all material respects as of the date or dates which such information is furnished." *Id.* at 4(xv);
- c. "The weighted average Loan-to-Value Ratio with respect to the Mortgage Loans, by outstanding principal balance at origination, is 83.80%." *Id.* at 4(xviii);
- d. "Approximately 93.87% of the Mortgaged Properties (by outstanding principal balance as of the Cut-off Date) are secured by the owner's primary residence. Approximately 3.69% . . . of the Mortgaged Properties . . . are secured by the owner's second or vacation residence. Approximately 2.44% of the Mortgaged Properties . . . are secured by a non-owner occupied residence." *Id.* at 4(xxiii)
- e. "[T]here is no default, breach, violation or event of acceleration existing under any Mortgage Note or Mortgage and no event which, with notice and expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration . . ." *Id.* at 4(xxviii)
- f. "Each Mortgage Loan as of the time of its origination complied in all material respects with all applicable local, state and federal laws, including, but not limited to, all applicable predatory lending laws." *Id.* at 4(xlvii)
- g. "The originator of [the relevant Loans] offered the related borrower mortgage loan products for which the borrower qualified and we are not aware that the originator encouraged or required the borrower to select a mortgage loan product that is a higher cost product designed for less creditworthy borrowers." 2007-KS3 Assignment and Assumption Agreement at 4(liv)
- h. "The originator of [the relevant Loans] adequately considered the borrower's ability to make payments by employing underwriting techniques that considered a variety of factors, such as: the borrower's income, assets and liabilities, and not solely the collateral value, in deciding to extend the credit at the time of origination." *Id.* at 4(lv)

- i. “With respect to each Mortgage Loan originated under a ‘streamlined’ Mortgage Loan program (through which no new or updated appraisals of Mortgaged Properties are obtained in connection with the refinancing thereof), the related Seller has represented that either (a) the value of the related Mortgaged Property as of the date the Mortgage Loan was originated was not less than the appraised value of such property at the time of origination of the refinanced Mortgage Loan or (b) the Loan-to-Value Ratio of the Mortgage Loan as of the date of origination of the Mortgage Loan generally meets the Company’s underwriting guidelines.” 2006-QS5 Series Supplement to Standard Terms of Pooling & Servicing Agreement, at 2.03(b)(xv)
- j. “No borrower . . . was charged ‘points and fees’ in an amount greater than (a) \$1,000 or (b) 5% of the principal amount of such Mortgage Loan, whichever is greater.” 2007-EMX1 Assignment and Assumption Agreement, at 4(liv)
- k. “No fraud or misrepresentation has taken place in connection with the origination of any Mortgage Loan.” *Id.* at 4(lx).
- l. “There is no right of rescission, valid offset, defense, claim or counterclaim of any obligor under any Mortgage Note or Mortgage . . . .” 2006-HSA2 Home Equity Loan Purchase Agreement at 3.1(b)(iii)
- m. “For each [relevant] Loan, the related Mortgage File contains or will contain each of the documents and instruments specified to be included therein” *Id.* at 3.1(b)(vi)
- n. “All of the [relevant] Loans have been underwritten in substantial compliance with the criteria set forth in the Program Guide,” *Id.* at 3.1(b)(xxxvii)
- o. “Each Subservicer meets all applicable requirements under the Servicing Agreement, is properly qualified to service the [Loans] and has been servicing the [Loans] . . . in accordance with the terms of the respective Subservicing Agreement.” *Id.* at 3.1(b)(xxiii)

26. The representations and warranties cited above are just a sampling of the variety of loan-level representations and warranties that may be at issue, and they vary from Trust to Trust, requiring that any issues as to their scope be litigated differently for different Trusts. But the examples above all present interpretive (not to mention evidentiary) issues: How will the qualifications of an appraiser be evaluated? If some number of the appraisals are deemed flawed because of unqualified appraisers (or for other reasons), how does that impact the weighted average Loan-to-Value Ratio for the collateral pool? Did the Debtors warrant the accuracy of

the underlying appraisal, or merely the accuracy of the loan-to-value calculation based on it? What constitutes “awareness” as to whether an originator may be “encourag[ing]” a borrower to choose one loan product over another? What does it mean for an originator to “adequately consider” a borrower’s ability to pay, and what are the Debtors actually warranting in that regard? What does “substantial compliance” with the underwriting guidelines mean? If granting exceptions to the requirements of published underwriting guidelines is common across the industry, should loans with exceptions be considered in “substantial compliance”? Will those originators be considered to have “adequately considered” the borrower’s ability to pay? Is there a threshold number of exceptions that renders the loan not substantially compliant, or demonstrates a failure to adequately consider the borrower’s ability to pay? Or could a single exception, if the variance is large enough (say, 40 or more points on a FICO score, or 10 or more percentage points for a DTI or LTV), be sufficient to render a given loan out of substantial compliance? Do such deviations constitute *prima facie* evidence that an originator has not adequately considered a borrower’s ability to pay?

27. Further complicating the issues, other materials in the package of transaction documents relating to each Trust shed additional light on how potentially ambiguous representations and warranties should be interpreted, including the extensive risk disclosures included in the Prospectus and Prospectus Supplement for each securitization. For example, the risk disclosures explain:

- a. “Generally, the [Loans] have been originated using underwriting standards that are less stringent than the underwriting standards applied by certain other [similar] loan purchase programs.” 2006-HSA4 Pro. Supp. at S-13. *See also* 2007-EMX1 Pro. Supp. at S-19 (“The mortgage loans have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first lien and junior lien mortgage loan purchase programs, including other programs of Residential Funding Company, LLC and the programs of Fannie Mae and Freddie Mac.”)

- b. "Applying less stringent underwriting standards creates additional risks that losses on the [loans] will be allocated to noteholders. For example, the . . . loan pool includes . . . loans made to borrowers whose income is not required to be disclosed or verified." 2006-HSA4 Pro. Supp. at S-13. *See also* 2007-EMX1 Pro. Supp. at S-19 ("Applying less restrictive underwriting standards creates additional risks that losses on the mortgage loans will be allocated to certificateholders.")
- c. "[M]ortgage loans made to borrowers whose income is not verified, including borrowers who may not be required to state their income . . . may increase the risk that the borrowers' income is less than that represented." 2007-EMX1 Pro. Supp. at S-19.
- d. "The basis for any statement that a given percentage of the mortgage loans is secured by mortgaged properties that are owner-occupied will be one or more of the following:
- the making of a representation by the mortgagor at the origination of a mortgage loan that the mortgagor intends to use the mortgaged property as a primary residence;
  - a representation by the originator of the mortgage loan, which may be based solely on the above clause; or
  - the fact that the mailing address for the mortgagor is the same as the address of the mortgaged property.
- "Any representation and warranty in the related pooling and servicing agreement regarding owner-occupancy may be based solely on that information." 2007-EMX1 Prospectus at 9.
- e. "In some cases, in lieu of an appraisal, a valuation of the mortgaged property will be obtained from a service that provides an automated valuation." 2007-EMX1 Prospectus at 10.
- f. "Appraisers may be either staff appraisers employed by the originator or independent appraisers selected in accordance with pre-established guidelines established by or acceptable to the originator." 2007-EMX1 Prospectus at 11.
- g. "Appraised values may be determined by either:
- a statistical analysis;
  - a broker's price opinion; or
  - an automated valuation, drive-by appraisal, or other certification of value." 2007-EMX1 Prospectus at 10.

- h. "If specified in the accompanying prospectus supplement, a mortgage pool may include mortgage loans that have been underwritten pursuant to a streamlined documentation refinancing program. Such program permits some mortgage loans to be refinanced with only limited verification or updating of the underwriting information that was obtained at the time that the original mortgage loan was originated." 2007-EMX1 Prospectus at 11.
- i. "[S]ome mortgage loans may have been originated under 'limited documentation,' 'stated documentation,' or 'no documentation' programs that require less documentation and verification than do traditional 'full documentation' programs. Under [these programs], minimal investigation into the mortgagor's credit history and income profile is undertaken by the originator . . . ." 2007-EMX1 Prospectus at 11.
- j. "The level of review by Residential Funding Company, LLC, if any, will vary . . . [RFC] typically will review a sample of the mortgage loans purchased . . . for conformity with the applicable underwriting standards." 2007-EMX1 Prospectus at 12.
- k. "[A] mortgage loan will be considered to be originated in accordance with a given set of underwriting standards if, based on an overall qualitative evaluation, the loan is in substantial compliance with the underwriting standards." 2007-EMX1 Prospectus at 12.
- l. "[A] mortgage loan may be considered to comply with a set of underwriting standards, even if one or more specific criteria included in the underwriting standards were not satisfied, if other factors compensated for the criteria that were not satisfied or if the mortgage loan is considered to be in substantial compliance with the underwriting standards." 2007-EMX1 Prospectus at 12.
- m. "In the case of a Designated Seller Transaction" – such as the EMX transactions – "the applicable underwriting standards will be those of the seller or of the originator of the mortgage loans . . . ." 2007-EMX1 Prospectus at 12.
- n. "In addition, the depositor purchases loans that do not conform to the underwriting standards contained in the Guide." 2006-HSA4 Prospectus at 13.
- o. "The underwriting standards used in negotiated transactions and master commitments and the underwriting standards applicable to loans underlying private securities may vary substantially from the underwriting standards contained in the Guide." 2006-HSA4 Prospectus at 14.
- p. "Due to the variety of underwriting standards and review procedures that may be applicable to the loans included in any pool, the accompanying prospectus supplement, in most cases, will not distinguish among the various underwriting standards applicable to the loans nor describe any review for



compliance with applicable underwriting standards performed by the depositor or Residential Funding Corporation.” 2006-HSA4 Prospectus at 14.

- q. “Because an automated underwriting system will only consider the information that it is programmed to review, which may be more limited than the information that could be considered in the course of a manual review, some mortgage loans may be approved by an automated system that would have been rejected through a manual review.” 2006-HSA4 Prospectus at 14.
- r. “[T]here could be programming inconsistencies between an automated underwriting system and the underwriting criteria set forth in Residential Funding Corporation’s Seller Guide, which could in turn be applied to numerous mortgage loans that the system reviews.” 2006-HSA4 Prospectus at 14.
- s. “We cannot assure you that an automated underwriting review will in all cases result in the same determination as a manual review with respect to whether a mortgage loan satisfied Residential Funding Corporation’s underwriting criteria.” 2006-HSA4 Prospectus at 14.

28. The Debtors would argue that these risk disclosures must be considered when evaluating the scope and/or interpretation of the applicable representations and warranties, and that where the disclosure clearly state the data provided elsewhere in the transaction documents is less than 100% reliable, the scope and/or interpretation of the corresponding warranties is therefore more limited. *See, e.g., Assured Guar. Mun. Corp. v. Flagstar Bank*, 2011 U.S. Dist. LEXIS 102722, at \*13 (S.D.N.Y. Sept. 8, 2011), amended Oct. 27, 2011 (Rakoff, J.) (“[I]t is black letter law that the provisions of a contract or a related set of contracts should be read as a whole and every effort should be made to give them consistent meaning in their overall context”) (citing *Perreca v. Gluck*, 295 F.3d 215, 224 (2d Cir. 2002) (it is a “cardinal principle of contract construction that a document should be read to give effect to all its provisions and to render them consistent with each other,” and, accordingly, “all provisions of a contract [should] be read together as a harmonious whole, if possible.”)). Thus, for example, the Debtors would argue that because the risk disclosures make clear that owner-occupancy data is frequently self-reported by borrowers, and that self-reported data is the basis for the calculations provided by Debtors, it

cannot be a breach of the owner occupancy representations if it turns out some of the self-reporting was inaccurate.

29. The Institutional Investors, however, would likely argue that regardless of their skepticism as to the quality of the underwriting or accuracy of the data supplied, the very purpose of a warranty is that it obviates the need to do additional investigating, including by probing the discrepancies between the warranties and the risk disclosures. *See CBS, Inc. v. Ziff-Davis Publ'g Co.*, 553 N.E.2d 997, 1001-02 (N.Y. 1990); *see also Metro. Coal Co. v. Howard*, 155 F.2d 780, 784 (2d Cir. 1946) (L. Hand, J.) (“A warranty . . . is intended precisely to relieve the promise of any duty to ascertain the fact for himself.”); *Credit Suisse Secs. (USA) LLC*, 2011 N.Y. Misc. LEXIS 4787, at \*17 (“[W]here a plaintiff has gone to the trouble to insist on a written representation [or warranty] that certain facts are true, it will often be justified in accepting that representation [or warranty] rather than making its own inquiry”) (citation and emphasis omitted)).

30. To illustrate the complexity of the issue, just one of the many key potential disputes likely to be litigated for a large number of Trusts arises with respect to alleged borrower fraud. Some transactions contain an express representation that “[n]o fraud or misrepresentation has taken place in connection with the origination of any Mortgage Loan.” *See, e.g.*, 2006-QS5 Assignment and Assumption Agreement at 8, § 4(hh); 2006-S12 Assignment and Assumption Agreement at 9, § 4(xxxvii). Those representations pose their own challenges in terms of determining what constitutes “fraud or misrepresentation.”

31. Many of the Debtors’ securitizations, however, do not contain an express “fraud representation,” but contain language in the representations and warranties that plaintiffs have argued is the equivalent of a fraud representation.



32. For example, a number of the Debtors' Sale Agreements include warranties as to the accuracy of the Mortgage Loan Schedules accompanying the Trust documents. *See, e.g.*, 2005-EMX3 Assignment and Assumption Agreement, Sec. 4(xxviii) ("The information set forth in the Mortgage Loan Schedule with respect to each Mortgage Loan or the Mortgage Loans is true and correct in all material respects as of the date or dates respecting which such information is initially furnished."); 2006-HSA2 Home Equity Loan Purchase Agreement, Sec. 3.1(b)(ii) (similar language).

33. The Mortgage Loan Schedules vary in complexity from one securitization to the next, but the Schedules frequently include information about debt-to-income ratios, loan-to-value ratios, and owner-occupancy status.

34. In many cases, particularly for securitizations on the RALI and RFMSII shelves, the "income" data from which the "debt to income" ratio is derived is based on a borrower's stated income, and not on W-2s or pay stubs collected as part of the loan application process.

35. Stated income loans were clearly permitted under various of the Debtors' loan programs and did not require verification of the borrower's actual income. The consequence of not requiring income documentation meant that the incomes stated by borrowers could be inaccurate, inflated, or even fraudulent, and the Debtors may not have any express obligation to investigate them for accuracy. As described above, these facts were disclosed in the Prospectuses for securitizations containing stated income loans.

36. Plaintiffs in representation and warranty litigation have alleged that, by representing that the Mortgage Loan Schedules were accurate, the Debtors indirectly represented that the underlying income data were truthful and not fraudulent. *See, e.g.*, Complaint, *Fin. Ins. Guar. Corp. v. Residential Funding Co., LLC* (No. 1:11-cv-09736-PAC) (S.D.N.Y.), Complaint

at ¶ 81, Doc. 1 (“RFC provided information to FGIC concerning Mortgage Loans . . . . This information included schedules that set forth statistics about the loan pool. The schedules purported to describe key characteristics relevant to the assessment of risk, including weighted averages of FICO scores and DTI and CLTV ratios. . . . In turn, . . . RFC represented that all the information in those schedules ‘is true and correct in all material respects as of the date or dates respecting which such information is furnished.’”); First Amended Complaint, *MBIA Ins. Corp. v. Residential Funding Co., LLC*, (No. 603552/2008) (N.Y. Sup. Ct. March 19, 2010), at ¶ 57 (“RFC’s breaches of its representations and warranties establish that the information conveyed to MBIA, including the schedules in the Offering Documents containing DTI and CLTV statistics for the mortgage loan pools . . . was materially false. Notably, the DTI and CLTV statistics for the mortgage loan pools contained in the Offering Documents are based on ‘stated incomes’ and appraisals that are grossly inflated and unreasonable.”).

37. For such securitizations, the Debtors would vigorously dispute plaintiffs’ interpretation. On the contrary, the Debtors’ position is that they only warranted that the data in the Schedules was consistent with the data in their records, not that it was actually true; and that if the other transaction documents disclosed a potential reason for inaccuracy in the data, such as the use of stated income underwriting, then there is no basis for interpreting the representation otherwise.

38. Although I have been unable to locate any case law squarely addressing the correct interpretation of this representation, there is at least some risk that a Court will accept plaintiffs’ arguments that, by representing the Schedules are “accurate,” the Debtors could be found to have warranted the *truth* of the information contained in them. Such a conclusion could find support in general contract principles applying the “plain meaning” of contractual language,

or in extrinsic evidence if the court deems the contractual language ambiguous. *See, e.g., LaSalle Bank Nat'l Ass'n v. Merrill Lynch Mortg. Lending, Inc.*, 2007 U.S. Dist. LEXIS 59303, at \*21-\*25 (S.D.N.Y. Aug. 13, 2007).

39. Likewise, as the various Prospectuses and Prospectus Supplements clearly disclose, the property value data underlying the calculation of a loan's loan-to-value ratio (as included on a Mortgage Loan Schedule) may be derived from drive-by appraisals, automated valuation models, or stated values, depending on the applicable underwriting guidelines for that loan; and owner-occupancy data is typically based on what the borrower's stated intention is at the time of loan closing, not what actually occurs (or even what the borrower actually intends). These other aspects of the Mortgage Loan Schedules may also be subject to attack by the Institutional Investors for alleged breach of the "accuracy" representation, depending on what re-underwriting of the individual loan files reveals.<sup>3</sup> Other data on certain Schedules may be subject to a similar argument. These issues are starting to be litigated in different types of RMBS cases around the country, but no consensus has yet emerged from the courts to review these issues. *See, e.g., Mass. Mut. Life Ins. Co. v. Countrywide Fin. Corp.*, 2012 U.S. Dist. LEXIS 121702, at \*9-10 (C.D. Cal. Aug. 17, 2012) (Pfaelzer, J.) (holding issuer cannot be liable in investor litigation for misrepresentations of owner occupancy data where information was furnished by borrowers); *Mass. Mut. Life Ins. Co. v. Residential Funding Co., LLC*, 843 F. Supp. 2d 191, 204-05 (D. Mass. 2012) (same).

40. As another example, for a number of Trusts, the relevant agreements included a representation that:

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<sup>3</sup> The Debtors did not re-underwrite substantial numbers of loans in connection with defending the pre-petition litigation matters because the bankruptcy petition was filed on the eve of that work beginning in earnest in the first case to reach the expert phase.

[T]here is no material default, breach, violation or event of acceleration existing under the terms of any Mortgage Note or Mortgage and no event which . . . would constitute a material default, breach, violation or event of acceleration under the terms of any Mortgage Note or Mortgage.

2005-EMX3 Assignment and Assumption Agreement, at 4(xxviii); *see also* 2006-HSA2 Home Equity Loan Purchase Agreement, at 3.1(b)(xix).

41. Plaintiffs in representation and warranty litigation have argued that certain commonly-used Notes and Loan Application forms contain a promise by the borrower that the information provided by the borrower in obtaining the loan is true. Where borrowers make those representations, breach of them is typically described in the loan documents as a “material event of default.” Thus, plaintiffs argue, if a borrower lied in his or her loan application, that is a “material event of default” and a breach of the related representation by the issuer (here, one of the Debtors) for which the issuer should be strictly liable, regardless of whether applicable underwriting guidelines required it to investigate the truthfulness of the statements in the loan application and regardless of whether it knew of the borrower’s fraud.

42. There are a number of counter-arguments the Debtors could mount (and have mounted) to such an argument, including testimony and expert opinions that such an interpretation is contrary to the parties’ intent and the industry standard interpretation of the “material event of default” language. However, at least some courts have agreed with the plaintiffs’ view as to this representation. *Trust for the Certificate Holders of the Merrill Lynch Mortg. Pass-Through Certificates Series 1991-C1 v. Love Funding Corp.*, 2005 U.S. Dist. LEXIS 23522, at \*26-30 (S.D.N.Y. Oct. 7, 2005), *reversed and remanded on other grounds*, 591 F.3d 116 (2d Cir. 2010), *judgment entered on remand*, 736 F. Supp. 2d 716 (S.D.N.Y. 2010).

43. In *Love Funding*, the Southern District of New York granted summary judgment to the Trust/plaintiff in a commercial mortgage-backed securities case for breach of a virtually identical “material event of default” representation, concluding that the seller of the loans was “strictly liable” for an event of acceleration caused by the borrower’s fraud, even if the seller lacked knowledge of the fraud. *Id.* at \*29-\*30. See also *Citimortgage v. OCM Bancorp, Inc.*, 2011 U.S. Dist. LEXIS 45437, at \*19 (E.D. Mo. Apr. 27, 2011) (holding that, regardless of whether applicable guidelines require it, underwriters must evaluate the “reasonableness” of a borrower’s income in a stated income transaction).

44. Indeed, when MBIA, in its case against RFC, sought to issue subpoenas to thousands of borrowers’ employers to try to determine whether the borrowers had committed fraud, it successfully relied on this argument to obtain the discovery, notwithstanding the absence of an express fraud representation in the applicable Sale Agreements. *MBIA Ins. Corp. v. Residential Funding Co., LLC* (603552/2008), MBIA Letter To Court, Doc. 83:6-8 (N.Y. Sup. Ct. Feb. 17, 2011); *id.*, Hr’g Tr., Doc. 118 at 34:21-26, 35-38 (N.Y. Sup. Ct. Mar. 3, 2011).

45. There are some distinguishing features to the *Love Funding* opinion that render it not directly applicable to the claims here: the defendant in that case did not dispute either (1) whether the “material event of default” representation was intended to be limited to non-payment defaults, or (2) the correctness of a prior Louisiana state court determination that the borrower’s fraud at origination constituted an “event of default” under the terms of the mortgage. Thus, the arguments Debtors might advance were not specifically tested in *Love Funding*. However, the court in *Love Funding* did find that “the meaning [of the representation at issue] was unambiguous,” despite the fact that the parties “urge[d] different interpretations.” *Id.* at \*27-28.

46. Accordingly, there is uncertainty in the developing case law – and certainly with respect to the Debtors’ specific transaction documents – as to the correct interpretation of the scope of the representations and warranties at issue in the RMBS Trust Settlement.

**B. Existence of a Breach**

47. The only reliable way to determine whether a loan in fact complies with an underwriting-related representation or warranty – such as those relating to loan-to-value ratios, debt-to-income ratios, borrower misrepresentations, or compliance with federal or state law, all of which are commonly alleged to have been breached – is to review and re-underwrite the actual loan files. This task is time-consuming, expensive, and fraught with differences in judgment and opinion, as predicting or assessing a borrower’s likely ability to pay in the future is not an empirical exercise.

48. In addition to the mortgage and the note, loan files typically contain the borrower’s loan application, supporting income documentation (if required), credit report, appraisals (if required), Truth In Lending Act disclosure forms, and other documents relating to the evaluation of the borrower’s creditworthiness.

49. Debtors RFC and GMAC Mortgage, who originated and/or acquired the loans prior to securitization, each published underwriting guidelines generally governing the process of evaluating whether a loan met the respective Debtor’s standards. In addition, RFC sometimes negotiated specific contracts with third party loan sellers, or negotiated purchase terms for a specific portfolio of loans, that included additional underwriting parameters. For individual loans, Debtors RFC or GMAC Mortgage might also grant an exception to the published guidelines, depending on the circumstances of the particular loan or borrower. These underwriting standards, including the use of exceptions and other variances from the published guidelines, are described in the Prospectus and Prospectus Supplement for each Trust. *See*

Paragraph 26, *infra* (quoting underwriting disclosures from various Prospectuses and Prospectus Supplements).

50. There are frequently ambiguities in how to determine when there has been a breach of an underwriting-related representation or warranty, and loan underwriting and the evaluation of a borrower's creditworthiness are often judgment calls.

51. Thus, litigating the fundamental issue of whether a representation or warranty has even been breached poses evidentiary challenges and injects a high level of uncertainty into the outcome.

52. By way of example, some of the typical underwriting-related disputes that arise in attempting to prove a breach include the following (some of which have already arisen in pre-petition litigation against the Debtors):

- a. **Is the granting of exceptions to underwriting guidelines consistent with representations that the underwriting "substantially complies" with the published guidelines?** *See, e.g.,* First Amended Complaint, *MBIA Insurance Corp. v. Residential Funding Company, LLC* (603552/2008) Doc. 28 at ¶¶ 58, 61, 63, 68-69, 78 (N.Y. Sup. Ct. Mar. 19, 2010); Amended Complaint, *MBIA Insurance Corp. v. Countrywide Home Loans, Inc.* (602825/2008), Doc. 9 at ¶¶ 78-79 (N.Y. Sup. Ct. Aug. 24, 2009).
- b. **Is the purchase of loans in bulk (a practice that is common in the industry) pursuant to a negotiated set of underwriting criteria consistent with representations that the underwriting "substantially complies" with the published guidelines?** *See, e.g.,* First Amended Complaint, *MBIA Insurance Corp. v. Residential Funding Company, LLC* (603552/2008), Doc. 28 at ¶¶ 62-63, 69, 78 (N.Y. Sup. Ct. Mar. 19, 2010); Amended Complaint, *MBIA Insurance Corp. v. Countrywide Home Loans, Inc.* (602825/2008), Doc. 9 at ¶¶ 1-4 (N.Y. Sup. Ct. Aug. 24, 2009).
- c. **Can defects in appraisals be accurately demonstrated through the use of retroactive automated valuation tools (essentially, retroactive appraisal models)?** *See, e.g.,* Amended Complaint, *Fed. Home Loan Bank of Boston v. Ally Fin. Inc.* (1:11-cv-10952-GAO), Doc. 180 at ¶¶ 877-90 (D. Mass. June 29, 2012); Amended Complaint at ¶¶ 628-35, *Fed. Home Loan Bank of Indianapolis v. Banc of Am. Mortg. Secs. Inc.*, 49D05 10 10 PL 045071 (Marion, Indiana Sup. Ct. July 14, 2011); Corrected Amended Complaint at ¶¶



619-26, *Fed. Home Loan Bank of Chicago v. Banc of Am. Funding Corp.*, 10 CH 45033 (Circuit Court of Cook County, Illinois Apr. 8, 2011).

- d. **Do issuers who acquire and then sell stated income loans into securitizations have a duty to evaluate whether the borrower committed fraud in stating an inflated income, even where there is no fraud representation in the securitization documents?** *Compare Citimortgage v. OCM Bancorp, Inc.*, 2011 U.S. Dist. LEXIS 45437, at \*19 (E.D. Mo. Apr. 27, 2011) (holding that, regardless of whether applicable guidelines require it, underwriters must evaluate the “reasonableness” of a borrower’s income in a stated income transaction) *with New Jersey Carpenters Health Fund v. NovaStar Mortg., Inc.*, 2012 U.S. Dist. LEXIS 56010, at \*18-21 (S.D.N.Y. Mar. 29, 2012) (finding it unreasonable for an investor to rely on statements about the underwriting of stated income loans when the same set of transaction documents contained extensive disclosures about the risks of such loans).
- e. **Have issuers who conducted “due diligence” on only a sample of loans coming through the process breached their representation that loans were underwritten according to “generally accepted” standards?** *Luminent Mortg. Capital, Inc. v. Merrill Lynch & Co.*, 652 F. Supp. 2d 576, 580-581 (E.D. Pa. 2009) (in assessing sufficiency of complaint alleging securities fraud arising from sale of RMBS, stating that the “quality of the issuer’s due diligence examination was a material characteristic of all the Certificates” and that, “[a]s part of its due diligence, Defendant [] reviewed a large sample of the loan documentation and conducted a detailed statistical analysis to ensure that the quality of the loans was consistent with the expected yields”).
- f. **Where issuers have warned that owner-occupancy data is self-reported, can they nonetheless be held liable for owner-occupancy data that turns out to be inaccurate?** *Massachusetts Mut. Life Ins. Co. v. Countrywide Fin. Corp.*, 2012 U.S. Dist. LEXIS 121702, at \*6-10 (C.D. Cal. Aug. 17, 2012) (Pfaelzer, J.) (holding issuer cannot be liable in investor litigation for misrepresentations of owner occupancy data where information was furnished by borrowers); *MassMutual v. Residential Funding Co., LLC*, 843 F. Supp. 2d 191, 204-05 (D. Mass. 2012) (same).
- g. **Were points and fees correctly calculated and disclosed to borrowers (in order to comply with state and federal requirements)?**
- h. **Does the absence of certain documents in a loan file – such as a written underwriting approval, exception request form, or Patriot Act disclosure form – constitute a breach of a representation that the loan “substantially complied” with applicable underwriting guidelines, even if irrelevant to the borrower’s actual creditworthiness?**



53. From my experience representing the Debtors in RMBS cases over the past several years, I am aware that the Debtors face a number of factual hurdles in answering these questions, and there is great uncertainty in the outcome of any one of these issues.

54. By way of example, the parties in the pre-petition RMBS cases involving the debtors have largely disagreed as to which were the applicable underwriting guidelines and whether the use of “exceptions” as disclosed in the Prospectus was permissible.

55. On the one hand, RFC developed evidence, including the deposition testimony of a number of witnesses and the language of the Prospectuses, showing that RFC considered loans with exceptions, loans processed through automated underwriting systems, or loans acquired pursuant to negotiated criteria agreements all to be in “substantial compliance” with the applicable guidelines. The evidence showed that the Debtors’ underwriters, quality audit staff, and those managing the securitization process followed consistent processes, gave considerable time and attention to individual underwriting decisions, never intended or knowingly allowed “bad” loans to be securitized, often voluntarily undertook to weed out weak collateral, and made extensive efforts to fully disclose to counterparties and investors any risks present in the collateral pool, including through the creation and expansion of the “Vision” website, a “best in class” tool for tracking historical collateral performance at a loan level for each securitization and shelf.

56. On the other hand, the Institutional Investors and/or Trustees may attempt to point to the plain language of the published RFC Client Guide to suggest that deviations from it (including exceptions and negotiated criteria) were not authorized. They may try to develop evidence that there were either certain controls lacking in the Debtors’ underwriting and securitization processes, or failures to document underwriting decision-making, that (they will

likely argue) demonstrate the process was flawed. Underwriting decisions are frequently a judgment call, so it is likely the Institutional Investors and/or Trustees will be able to find examples where reasonable underwriters may disagree, and point to those as examples of breaches.

57. For example, the Institutional Investors and/or Trustees may look to stated income loan underwriting practices and try to advance the theory that the Debtors had an affirmative obligation routinely to evaluate the reasonableness of every stated income loan, notwithstanding the clear language of the Client Guide and the risk disclosures to the contrary. They may likewise attempt to mount an attack on the Debtors' use of automated decisioning tools, (which was externally available to loan sellers and allowed for a preliminary assessment of whether the loan was acceptable to the Debtors), arguing that because the Debtors knew that automated programs might evaluate a loan application differently than a human underwriter would (despite that this is clearly disclosed in the Prospectus and Prospectus Supplement), their use of such tools was problematic. And, as with any document-intensive complex litigation matter—particularly where the events in question are several years in the past—the Institutional Investors and/or Trustees are likely to attempt to point to the absence of documentation as evidence that proper processes were allegedly not followed.

58. Finally, it is typical for plaintiffs to focus on the small handful of self-critical memos or emails that inevitably exist in any business process of this size and complexity, and attempt to present those out of context. I considered the potential impact of these types of random documents on a judge or jury, regardless of the weight of the evidence otherwise suggesting a generally robust and disciplined underwriting process.

59. Thus, the Debtors' ability to meet the various representations and warranties relating to loan underwriting is an issue for which both the law and the facts are likely to be disputed. While the Debtors would hotly contest any allegation that underwriting representations were breached, there is potential risk for the Debtors of an adverse outcome on each of these issues if a representation and warranty case were to go to trial.

**C. Materiality of Breach**

60. Under black-letter contract law, a breach must be "material" to be actionable.

61. In addition, the applicable contract language for breaches of representations and warranties in these Trusts adds an express materiality component, requiring that the breach be one that "materially and adversely affects the interests of any Securityholders or the Credit Enhancer . . . in such [Loan]". *See, e.g.*, 2006-HSA2 Home Equity Loan Purchase Agreement at 3.1; 2006-QO8 Pooling and Servicing Agreement at 2.03 (actionable breach is one that "materially and adversely affects the interests of the Certificateholders in any Mortgage Loan").

62. Under general contract principles, whether a "material" breach has occurred is typically a question of fact. 23 Williston on Contracts (4th ed.) § 63.3 (quoted in *Metro. Nat'l Bank v. Adelphi Acad.*, 886 N.Y.S.2d 68, 68 (N.Y. Sup. Ct. 2009)). To be "material," a breach must "go to the root of the agreement" and be "so fundamental to a contract that the failure to perform that obligation defeats the essential purpose of the contract or makes it impossible for the other party to perform . . . ." *Id.*

63. To date, I am aware of no significant opinions relating to materiality issued specifically in cases brought by Trustees for breaches arising out of residential mortgage-backed securities. However, the issue of whether a breach is material or causes a material and adverse effect has been addressed a handful of times in cases involving contracts for the purchase of

loans, commercial mortgage-backed securities cases, and in residential mortgage-backed securities cases brought by monoline insurers.

64. Generally, the most significant materiality disputes arise because the plaintiff (whether Trustee or insurer) seeks to restrict the materiality analysis to the closing date of the securitization. Under plaintiffs' analysis, the breach of the representation or warranty has occurred as of the closing date, so, plaintiffs argue, subsequent events are irrelevant to the evaluation of whether the breach was material.

65. Defendants argue, in contrast, that certain breaches are not material because they do not ultimately have a "material and adverse effect" on the plaintiff, and facts subsequent to the closing date are relevant to that analysis.

66. For example, some loans may breach a representation or warranty, but if the borrower continues to pay his or her loan timely, there is no "effect" on the investor. Similarly, if the loan is found to breach an underwriting representation related to stated income, undisclosed debts, property value, etc., but the reason the borrower ultimately stopped paying is because he passed away, then the breach itself has no "effect" on the investor.

67. These issues overlap with causation issues, discussed further below.

68. In two commercial mortgage-backed cases to address the issue, the dispute arose in the context of motions *in limine* to preclude evidence relating to post-closing performance of the loans. *See Wells Fargo Bank, N.A. v. LaSalle Bank Nat'l Ass'n*, 2011 U.S. Dist. LEXIS 35343 (W.D. Okla. Apr. 1, 2011); *Wells Fargo Bank, N.A. v. LaSalle Bank Nat'l Ass'n*, 2011 U.S. Dist. LEXIS 145026 (D. Nev. Dec. 15, 2011). Both cases were brought by trustees seeking to enforce loan repurchase provisions for breaches of representations and warranties.

69. The Oklahoma court addressed Wells Fargo's motion *in limine* to exclude evidence regarding the decline of the economy and mortgage and real estate markets because "as of the closing date of the securities, the value of the certificateholders' interests and the underlying mortgages were materially and adversely affected by Defendant's alleged breaches of warranties." *Wells Fargo*, 2011 U.S. Dist. LEXIS 35343, at \*24. The court held that "[e]vidence regarding the post-securitization market meltdown is relevant only if Plaintiff asserts material and adverse effects occurred after the securitization closing date." *Id.* at \*24. Similarly, the Nevada court held that "[i]f plaintiff limits its material and adverse effects claim to evidence available as of the closing date, evidence or testimony of general post-closing economic conditions is irrelevant" and must be excluded. *Wells Fargo Bank*, 2011 U.S. Dist. LEXIS 145026, at \*4.

70. Likewise, courts interpreting loan sale agreements have found evidence that a buyer would not have purchased the loan "had they known about the negative information" that was the basis for an alleged breach of representation and warranty sufficient to defeat summary judgment. *Lehman Bros. Holdings, Inc. v. Laureate Realty Servs.*, 2007 U.S. Dist. LEXIS 76940, at \*36-37 (S.D. Ind. Sept. 28, 2007). This again suggests a risk that a court may find it is the falsity of the information available to the buyer at the time of closing that gives rise to the "material and adverse effect," and not the subsequent performance of the loan in question. *See also* Material and Adverse Opinion of Professor Barry E. Adler (relating to the action *In the Matter of the Application of The Bank of New York Mellon*, No. 651786/2011 (N.Y. Sup. Ct. filed June 29, 2011) (pending before Kapnick, J.)), available at <http://www.cwrmbssettlement.com/docs/Opinion%20Regarding%20Material%20and%20Adverse%20Affect.pdf>, at 12 (last visited September 24, 2012) (discussing interpretation of similar

language in light of *Laureate* and *Wells Fargo* decisions and concluding it “is not possible to conclude with any confidence how a court would interpret” such language).

71. Most recently, in the monoline insurance context, Judge Rakoff issued an opinion denying summary judgment in *Assured Guaranty Municipal Corp. v. Flagstar Bank, FSB*, No. 11 Civ. 2375 (JSR) (S.D.N.Y. Sept. 25, 2012), in which he relied on the “dictionary definitions” of “material” and “adverse” to conclude that plaintiffs in breach of representation and warranty cases need not prove that the breach “causes . . . actual loss” in order to satisfy the “material and adverse breach” element. *Id.* at 9-10.

72. Courts interpreting this type of language in the commercial mortgage-backed securities context have also split on the question of whether plaintiffs can be required to meet a “double materiality” standard; that is, whether plaintiff must prove both that the breach was a material breach *and*, as a separate element, that the breach had a “material and adverse” effect on the Institutional Investor. Compare *Wells Fargo Bank NA v. LaSalle Bank Nat’l Ass’n*, 3:07-cv-00449-MRM, Hr’g Tr., Doc. 366 at 5:11-15 (S.D. Ohio Nov. 13, 2009) (“I agree with Defendant’s interpretation of the relevant case law, that Plaintiff must prove as required by New York law that there is a material breach of a representation and warranty . . .”) with *Wells Fargo Bank NA v. LaSalle Nat’l Ass’n*, 2011 U.S. Dist. LEXIS 145026, at \*11 (D. Nev. Dec. 15, 2011) (“[T]he court does not endorse defendant’s contention that the double materiality requirement is well-supported by the relevant case law”) and *Wells Fargo Bank, N.A. v. LaSalle Nat’l Ass’n*, No. CIV-08-1125-C, Mem. Op. & Order Doc. 323:41 (W.D. Okla. Dec. 10, 2010) (declining to follow *Wells Fargo* S.D. Ohio decision). Thus, it is unclear what burden of proof a court in a case between Debtors and the Trustees or Institutional Investors might place on the plaintiffs regarding materiality.



73. In addition to the issues discussed above, other, more mundane disputes as to “materiality” are bound to arise in any litigation concerning residential mortgage-backed securities. For example, as noted above, it was industry standard during the relevant time period to grant “exceptions” to underwriting guidelines from time to time, based on an overall assessment of the borrower’s creditworthiness. Thus, while published guidelines might require a minimum FICO score of 680 for certain types of loans, an underwriter could approve a borrower with a lower FICO score (say, 640) based on an evaluation of other features of that borrower or loan, such as reserves in excess of the minimum required amount, or a lower debt-to-income ratio than required. Disputes are bound to arise as to whether a 40-point FICO deviation, in the overall context of that loan, is or is not “material.” With dozens of underwriting parameters to evaluate for thousands of individual loans, any litigation over such issues is certain to be extremely costly and fraught with risk.

**D. Causation**

74. As noted above, a hotly contested issue in representation and warranty litigation is proximate cause. This has most recently arisen in the context of RMBS cases pursued by monoline insurers, but has also been addressed by commercial mortgage-backed cases.

75. The primary legal dispute, which is intertwined with the materiality issues discussed above, is whether the actual cause of the loan’s failure is a defect in the underwriting.

76. Courts have confirmed that the market collapse can serve as a defense to securities claims under the federal securities laws, as well as common law claims for fraud and negligent misrepresentation. *See, e.g., In re Washington Mut. Mortg. Backed Secs. Litig.*, 2012 U.S. Dist. LEXIS 102064, at \*41-42 (W.D. Wash. July 23, 2012) (denying summary judgment on Securities Act claim where factual issues existed regarding, among other things, whether

market collapse caused plaintiffs' losses); *see also Abu Dhabi Commercial Bank v. Morgan Stanley & Co., Inc.*, 2012 U.S. Dist. LEXIS 119671, at \*101-103 (S.D.N.Y. Aug. 17, 2012) (same as to fraud and negligent misrepresentation claims). *But see MBIA Insurance Corp. v. Countrywide Home Loans, Inc.*, 87 A.D.3d 287, 296 (1<sup>st</sup> Dep't 2011) (declining to rule at motion to dismiss stage that MBIA's losses were caused by the housing and credit crisis).

77. Furthermore, as a general matter, causation is an element of a contract claim under New York law. A plaintiff, for example, must show that the alleged breach of contract was the "direct and proximate" cause of the plaintiff's injuries. *See Freund v. Washington Square Press, Inc.*, 34 N.Y.2d 379, 379 (1974). Accordingly, general contract law allows defendants to present evidence of the market collapse as the cause of a plaintiff's losses in RMBS cases.

78. Only a handful of cases, however, have examined this causation issue in the specific context of contractual breach of representation and warranty claims (or repurchase claims). While some of these cases touch on the market collapse as a defense to plaintiffs' claims, no court has issued a definitive ruling on the issue.

79. The only two cases involving trustee repurchase demands I am aware of are the two *Wells Fargo* evidentiary decisions discussed above, in which the courts excluded *in limine* any evidence of the market collapse so long as the plaintiff trustee limited its evidence to "material and adverse effects as of the closing date." *See Wells Fargo Bank, N.A. v. LaSalle Bank Nat'l Ass'n*, 2011 U.S. Dist. LEXIS 35343, at \*23-24 (W.D. Okla. April 1, 2011); *Wells Fargo Bank, N.A. v. LaSalle Bank Nat'l Ass'n*, 2011 U.S. Dist. LEXIS 145026, at \*3-4 (D. Nev. Dec. 15, 2011). In both cases, however, the courts did not provide any legal analysis supporting



this conclusion. Accordingly, these decisions appear to have limited persuasive or precedential value.

80. In another case, *LaSalle Bank Nat'l Assn. v. Citicorp Real Estate, Inc.*, 2002 U.S. Dist. LEXIS 1730 (S.D.N.Y. Feb. 5, 2002), which is a non-trustee case involving the sale of a loan, the court stated that plaintiffs had properly pleaded a “material and adverse effect” because the alleged breaches could constitute a “partial cause” or may have “contributed” to the loan’s eventual default. *Id.* at \*13. Under this analysis, even a court looking to the eventual outcome of the loan may accept a minimal showing of partial causation by plaintiff as sufficient for plaintiff to meet its burden.

81. Courts in the monoline insurance context have addressed the causation issue – most notably Justice Bransten in the *MBIA Insurance Co. v. Countrywide Financial Corp.* case. There, Justice Bransten held that MBIA was “not required to establish a direct causal connection between proven warranty breaches by [defendant] and MBIA’s claims payments made pursuant to the insurance policies at issue” in order to prove that a breach was material. 936 N.Y.S.2d 513, 527 (2012). In the same opinion, Justice Bransten nonetheless held that MBIA must still “prove that it was damaged as a direct result of the material misrepresentations,” and denied MBIA’s motion to strike Countrywide’s defenses based on the intervening or superseding cause of the economic crisis. *Id.* at 522, 527. However, the court’s ruling—in addition to providing mixed guidance—was based in substantial part on applicable insurance statutes, which are not relevant to the Investor- or Trustee-initiated claims at issue in the RMBS Trust Settlements. *See also Syncora Guar. Inc. v. EMC Mortg. Corp.*, 2012 U.S. Dist. LEXIS 84937, at \*32 (S.D.N.Y. June 19, 2012); *Assured Guaranty v. Flagstar*, No. 11 Civ. 2375 (JSR) (S.D.N.Y. Sept. 25, 2012), at 10-12 (also noting that the contractual repurchase language does not tie the repurchase

obligation to default of the loan). It is unclear whether any portion of these rulings can be imported into the Institutional Investor / Trustee litigation context, or to what extent courts will look to the monoline insurance litigation for guidance.

82. No court has yet addressed the issue in an Institutional Investor-initiated RMBS representation and warranty case, so the outcome of the causation issues remains highly uncertain.

**E. Harm and Damages**

83. Defendants in representation and warranty litigation, including the Debtors, have consistently maintained that the sole remedy for breaches of representations and warranties is repurchase of the defective loan. That conclusion is supported by the plain language of the Sale Agreements. *See, e.g.,* 2006-HSA2 Home Equity Loan Purchase Agreement at 3.1 (“Upon discovery . . . of a breach of any representation and warranty . . . which materially and adversely affects the interests of any Securityholders or the Credit Enhancer . . . the Seller shall, within 90 days of its discovery or receipt of notice of such breach, . . . either (i) cure such breach in all material respects or (ii) . . . either (A) repurchase such [Loan] . . . or (B) substitute one or more Eligible Substitute Loans . . . ; provided that the seller shall have the option to substitute . . . only if such substitution occurs within two years following the Closing Date.”); 2006-QO8 Pooling and Servicing Agreement at 2.03 (similar language).

84. The issue of damages has not come up in Trustee litigation involving RMBS, except as to the Bank of New York Mellon and Lehman Brothers settlements. Meanwhile, Plaintiffs in the monoline context have argued with some success – based in large part on applicable insurance statutes that have no bearing on the Institutional Investors’ claims – that

they are instead entitled to the monetary equivalent of rescission of their insurance agreements. *See, e.g., MBIA Ins. Co. v. Countrywide*, 936 N.Y.S.2d 513, 522-24 (N.Y. Sup. Ct. 2012).

85. In considering the risk to the Debtors of litigating the RMBS Trust Settlement claims, I had to take into account the possibility—however remote—that the Institutional Investors would attempt to import concepts of rescission into their claims here, in order to maximize or increase their potential recovery. Such a theory could inflate the Institutional Investors' claimed damages by attempting to hold the Debtors responsible for all losses suffered by the Trusts, regardless of whether they are attributable to breaches of representations and warranties, based on the argument that the Institutional Investors would never have purchased the certificates had they known of the alleged breaches.

86. Even if the Institutional Investors do not attempt to pursue a rescission-like theory, the parties will undoubtedly dispute the extent to which any losses suffered by the Trusts are actually attributable to breaches of representations and warranties.

87. In addition, the parties will almost certainly dispute whether the Institutional Investors can recover for loans that breach representations and warranties, but have not defaulted. This dispute flows directly from the proximate cause issues discussed above. If the Institutional Investors can recover for loans that have not defaulted—and perhaps even loans that have been fully paid off, as MBIA's counsel suggested in arguing the issue before Justice Bransten in the *Countrywide* case—then their damages could theoretically exceed even the actual and estimated losses to the Trusts.

88. Finally, as noted in footnote 1, it is possible the Institutional Investors will pursue some tort claims, which could expose the Debtors to a different potential damages calculation and the prospect of having to litigate punitive damages issues.

89. These risks and uncertainties as to the basic methodology for calculating damages relating to the Institutional Investors' claims are an important factor I considered in reaching my conclusion.

### **III. ADDITIONAL DEFENSES**

90. In addition to the elements of a proposed plaintiff's cause of action for breaches of representations and warranties or breaches of the repurchase obligation, I reviewed various potential affirmative defenses available to Debtors. The strengths and weaknesses of these affirmative defenses also were factors in my conclusion. The three primary affirmative defenses I evaluated were (1) statute of limitations, (2) plaintiff's knowledge of the risk and/or failure to conduct appropriate due diligence, and (3) the intervening cause of the housing crisis.

#### **Statute of Limitations**

91. The Trusts included in the RMBS Trust Settlement were issued between 2004 and 2007.

92. The statute of limitations for contract claims in New York is six years, and no discovery rule that would extend the time period is available for contract claims. NY CPLR § 213(2); *Hernandez v. Bank of Nova Scotia*, 908 N.Y.S.2d 45, 46 (N.Y. App. Div. 1st Dep't 2010).<sup>4</sup>

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<sup>4</sup> As noted at the outset of this Declaration, my analysis focuses on the breach of contract claims because they pose the greatest risk to Debtors. However, I note that the statute of limitations for fraud in New York is either six years, or two years from the time the plaintiff discovered or should have discovered the fraud. N.Y. CPLR § 213. The analysis as to when the statute was triggered on fraud claims is likely highly factual; however courts have considered the fact of widely-publicized allegations of underwriting problems as evidence that the plaintiff "should have discovered" the fraud at that point. *See, e.g., Stichting Pensioenfonds ABP v. Countrywide Fin. Corp.*, 802 F. Supp.2d 1125, 1134-39 (C.D. Cal. 2011). The analysis above with respect to the timing of repurchase demands as a trigger will likely apply to tort claims as well.

93. Accordingly, one argument we likely would have considered making if the claims were litigated is that claims for breach of representation and warranty arising from securitizations issued prior to May 14, 2006 are time-barred.

94. This argument is supported by a number of courts in a variety of breach of warranty contexts. *See, e.g., Structured Mortg. Trust 1997-2 v. Daiwa Fin. Corp.*, 2003 U.S. Dist. LEXIS 2677, \*5 (S.D.N.Y. Feb. 25, 2003) (breach occurs at the moment of sale because “the facts warranted in the . . . Agreement were not true when made”); *Lehman Bros. Holdings, Inc. v. Evergreen Moneysource Mortg. Co.*, 793 F. Supp. 2d 1189, 1194 (W.D. Wash. 2011); *see also Cent. Mortg. Co. v. Morgan Stanley Mortg. Capital Holdings LLC*, 2012 Del. Ch. LEXIS 171, at \*56 (Del. Ch. Aug. 7, 2012).

95. However, at least one court has held that the breach of the contractual repurchase obligation is a separate claim from that for breach of a representation or warranty. *Lehman Bros. Holdings, Inc. v. Nat’l Bank of Arkansas*, 2012 U.S. Dist. LEXIS 87265, at \*12-13 (E.D. Ark. June 25, 2012). Thus, the cause of action for breach of the repurchase obligation is only complete – and the statute of limitations only begins running – once the Debtors fail to repurchase non-conforming loans upon demand.

96. Here, the Institutional Investors have yet to direct the Trustees to make a formal repurchase demand and thus trigger the obligation to repurchase. The applicable contract documents contain no limitation on the time for the Trustees to make such a demand, and indeed, although the Debtors would dispute this in litigation, there is a facially logical argument that none should apply: if a defect is discovered, whenever or however that may be, a remedy should exist to remove that defective loan and make the investors whole.

97. In addition, the Institutional Investors’ position – and that articulated by the court in *Bank of Arkansas* – finds some support in the concept of the condition precedent. The Debtors today typically treat the repurchase obligation as only arising when there is a demand for repurchase. Thus, the Institutional Investors may argue, “where a demand is necessary to entitle a person to commence an action, the time within which the action must be commenced shall be computed from the time when the right to make the demand is complete.” NY CPLR § 206; *see also Kunstsammlungen Zu Weimar v. Elicofon*, 536 F. Supp. 829, 848-49 (E.D.N.Y. 1981).

98. Thus, while Debtors would have argued that many of the Institutional Investors’ claims are time-barred if this dispute were litigated, I must consider as part of my analysis the risk that a court hearing the issues would agree with the *Bank of Arkansas* court and allow a separate claim for breach of the repurchase obligation to proceed.

#### **Plaintiffs’ Due Diligence**

99. A common inquiry in the monoline insurer litigation context, and under federal securities law in the investor litigation context, is whether the plaintiff undertook any diligence before entering the transaction. For claims arising under the 1933 Securities Act, the relevant inquiry is whether the investor had knowledge of the risks prior to purchasing the securities. For the monoline litigation matters, the question is whether the insurer justifiably relied on the seller’s assurances.

100. Accordingly, we considered whether any similar analysis might provide a defense in the context of the kinds of claims resolved by the RMBS Trust Settlements. We found only limited support for importing these concepts into a breach of contract setting such as this one. On the contrary, the bulk of the case law has supported the general rule that because a warranty “is intended precisely to relieve the promise of any duty to ascertain the fact for himself,” it

relieves the recipient of any obligation to investigate further. *Metro. Coal Co. v. Howard*, 155 F.2d 780, 784 (2d Cir. 1946) (L. Hand, J.); *see also CBS, Inc. v. Ziff-Davis Publ'g Co.*, 75 N.Y.2d 496, 503-06 (N.Y. 1990); *Credit Suisse Secs. (USA) LLC*, 2011 N.Y. Misc. LEXIS 4787, at \*17 (“[W]here a plaintiff has gone to the trouble to insist on a written representation [or warranty] that certain facts are true, it will often be justified in accepting that representation [or warranty] rather than making its own inquiry”) (citation omitted).

101. The general rule has a critical exception directly applicable here: “where the seller has disclosed at the outset facts that would constitute a breach of warranty, that is to say, the inaccuracy of certain warranties, and the buyer closes with full knowledge and acceptance of those inaccuracies, the buyer cannot later be said to believe he was purchasing the seller’s promise respecting the truth of the warranties.” *Merrill Lynch & Co. v. Allegheny Energy, Inc.*, 500 F.3d 171, 186 (2d Cir. 2007). In other words, if the counterparty to the contract “candidly disclosed” that the information supplied (and warranted in the contract to be accurate) was actually inaccurate, the allegedly “relying” party cannot assert a claim for breach of warranty. *Id.* *See also Galli v. Metz*, 973 F.2d 145, 151 (2d Cir. 1992) (“Where a buyer closes on a contract in the full knowledge and acceptance of facts *disclosed by the seller* which would constitute a breach of warranty under the terms of the contract, the buyer should be foreclosed from later asserting the breach. In that situation, unless the buyer expressly preserves his rights under the warranties . . . , we think the buyer has waived the breach.”).

102. However, this exception has been narrowly construed. Indeed, the court in *Assured Guaranty v. Flagstar* recently rejected a diligence-based argument made by Flagstar on summary judgment, holding that *Ziff-Davis* applied and the *Galli* exception did not, because even though Assured received diligence reports identifying actual examples of problematic loans



in the securitization, and had run its own loss models predicting certain losses would occur, that information did not come from the seller/issuer (*i.e.*, Flagstar). *Assured Guaranty Municipal Corp. v. Flagstar Bank, FSB*, No. 11 Civ. 2375 (JSR) (S.D.N.Y. Sept. 25, 2012), at 15-19. Thus, the court reasoned, “[i]f the buyer ‘has been informed of the falsity of the facts by some third party,’ he has not waived the representations and warranties.” *Id.* at 16 (quoting *Rogath v. Siebenmann*, 129 F.3d 261, 265 (2d Cir. 1997)).

103. Debtors would argue that their own risk disclosures are so substantial, and so directly warn against reliance on the corresponding statements in the representations and warranties, that the *Galli* exception applies. However, there is no clear indication that the Debtors would be successful in making such an argument.

**“Housing Crisis” Defense**

104. There is ample evidence that the true cause of the losses to these Trusts was the massive economic downturn beginning in late 2007 and escalating through 2008 and into 2009.

105. As discussed above, Debtors had developed extensive factual and expert support for this argument.

106. However, in light of some of the court rulings discussed above with respect to materiality and causation, it is possible a court evaluating such claims against the Debtors would preclude the evidence entirely, require the Debtors to prove these facts as an affirmative defense, rather than considering them part of plaintiff’s burden to address as part of the “causation” element its claims, or consider the evidence only as a “partial” cause of the loss.

107. Moreover, some of the Institutional Investors may attempt to argue that the housing crisis itself was propelled in part by the business practices of RMBS issuers like the Debtors.



108. Finally, although I believe based on my analysis of the facts that the housing crisis is the greatest single cause for the poor performance of the Trusts, it is not likely the *only* cause of loan failures.

109. Accordingly, a key factor to be considered in weighing the potential outcome of the RMBS Trust Settlement claims is the possibility that the housing crisis defense may not be permitted or may not be entirely persuasive.

**Other Intervening Causes**

110. Debtors also would argue that a number of issues relating to loan attributes and/or non-underwriting events contributed to the Institutional Investors' losses.

111. For example, a number of the Trusts involve loans with underwriting characteristics that increase the risk of losses. These risks are disclosed in the Prospectuses and Prospectus Supplements, and likely contributed to some of the losses experienced by the Trusts, reinforcing that breaches of representations and warranties were not the sole cause of losses. For example, some Trusts are comprised of loans that are "payment option" loans or otherwise negatively amortize, so that the amounts owed by the borrower could increase over time. Other trusts contain loans with adjustable interest rates or "teaser" rate, such that a borrower may be able to afford an introductory or lower interest rate early in the term of the loan, but later encounters difficulty timely paying when the interest rate increases.

112. In addition, there are a number of causes of delinquencies or defaults that cannot be effectively prevented or controlled through stringent underwriting: borrowers may become disabled or die; they may unexpectedly lose their jobs; the property may be destroyed due to a fire or natural disaster and they may be unable to refinance or sell the home as a result. Some

amount of the losses to the Trusts occur as a result of these everyday, non-underwriting-related events.

113. This type of “causation” evidence is likely to face similar challenges to the causation factors described above, because it relates to events occurring after the closing of the transaction. I considered the likelihood that these alternative causes actually impacted the Trusts’ losses, as well as the possibility that a court might not permit such evidence to be introduced (either as to causation or damages), in my analysis of the reasonableness of the RMBS Trust Settlements.

#### **V. EVIDENTIARY ISSUES**

114. In reaching my conclusions regarding the reasonableness of the RMBS Trust Settlements, I also had to consider potential evidentiary issues and, as a trial lawyer, make an assessment of whether and how the proof on either side of the case would be admitted.

115. In general, based on my evaluation of the factual record developed so far, I believe the Debtors have very strong factual defenses and solid witnesses. None of the 60+ witnesses deposed in the *MBIA v. RFC* case, for example, testified to anything resembling fraud or knowing misrepresentation in any of the Debtors’ practices. Many described good attention to internal controls, and a meaningful effort and genuine desire to be transparent with investors about the risks of the investments.

116. However, there are some practical challenges to the presentation of evidence, separate from the legal and factual merits discussed above.

117. For one, there has been tremendous attrition among the Debtors’ employees since the key events occurring from 2004 through about 2008. For example, of the 76 witnesses deposed in the two MBIA cases as of the petition date, 80% were former employees. Some who were current employees at the time of their deposition have since left the company. Most reside

in Minnesota and Pennsylvania, beyond the reach of a New York state court trial subpoena. A few reside as far away as California and Texas. Almost none left the company with any ongoing contractual obligation to cooperate with future litigation.

118. Moreover, most of the former employee witnesses were involuntarily terminated as part of a series of mass layoffs beginning in 2007. Thus, many have a limited sense of loyalty to the Debtors, and while they may have been willing to appear voluntarily once for a deposition to avoid being served with a deposition subpoena, garnering their cooperation for future depositions, let alone trial testimony in another state, would undoubtedly be challenging. Thus, presenting evidence live at trial – which, from my perspective as a trial lawyer, is almost always more meaningful than reading a dry transcript or even replaying videotaped testimony – would be a challenge.

119. Another challenge is posed by the nature of these securitizations, each of which contains thousands of individual loans. As noted above, it has always been the Debtors' position that a repurchase claim requires a loan-by-loan evaluation of *which* loans to repurchase. Plaintiffs in both securitization and representation and warranty cases have argued, with some limited success to date, that a statistical sampling approach is acceptable. *MBIA Ins. Corp. v. Countrywide Home Loans, Inc.*, 2010 N.Y. Misc. LEXIS 6182, at \*8-18 (N.Y. Sup. Ct. Dec. 22, 2010) (permitting statistical sampling); Order, Doc. 90, *Fed. Housing Fin. Agency v. UBS Americas, Inc.*, 1:11-cv-07010 (S.D.N.Y. May 8, 2012) (same). Regardless of whether statistical sampling can reliably be used to assess breaches and calculate damages, however, it is clear most judges would not permit the presentation of evidence on thousands of individual loans one by one.

120. Thus, the evidentiary challenge for trial becomes *which* loans to present. While it is my belief based on the available evidence to date that the overwhelming majority of the loans in each collateral pool did not breach any representations and warranties, it is easy for a plaintiff's lawyer to focus in on the relatively few loans that present egregious examples of underwriting problems – what I call the “low hanging fruit.”

121. Those examples present a risk to the Debtors that a judge or jury will form an adverse impression based on a small slice of the available evidence, placing the Debtors in the position of attempting to prove a negative. It is often impractical and difficult to shake those kinds of initial impressions effectively.

122. Finally, a trial of this magnitude would be lengthy and expensive, involving weeks of evidence and numerous experts on either side, including experts on the underwriting of the loans, statistical sampling, the impact of the housing crisis, and damages, to name a few. The details of the discovery burdens and cost just to get to that point are more fully described in my prior Declaration; I estimate the burden and cost of pre-trial motion practice and trial itself in this case would easily run into the millions of dollars.

## V. CONCLUSION

123. Based on all of the factors described above, as well as my general professional experience, my experience working with the Debtors as my clients, and my experience defending representation and warranty and other RMBS lawsuits, I conclude that the RMBS Trust Settlements represent a fair and reasonable settlement within an appropriate range under the circumstances.

I declare under penalty of perjury, pursuant to 28 U.S.C. § 1746, that the foregoing is true to the best of my knowledge, information, and belief. Executed on September 28, 2012, at Columbus, Ohio.

  
\_\_\_\_\_  
Jeffrey A. Lipps

**Exhibit 5**

**MORRISON & FOERSTER LLP**  
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Telephone: (212) 468 8000  
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Gary S. Lee  
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Darryl Rains  
Jamie A. Levitt

*Counsel for the Debtors  
and Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

	)	
In re:	)	Case No. 12-12020 (MG)
	)	
RESIDENTIAL CAPITAL, LLC, <u>et al.</u> ,	)	Chapter 11
	)	
Debtors.	)	Jointly Administered
	)	

**SUPPLEMENTAL DECLARATION OF FRANK SILLMAN IN SUPPORT  
OF DEBTORS' MOTION PURSUANT TO FED. R. BANKR. P. 9019 FOR  
APPROVAL OF THE RMBS TRUST SETTLEMENT AGREEMENTS**

I, Frank Sillman, being duly sworn, depose and say:

1. I serve as Managing Partner for Fortace, LLC (“Fortace”)<sup>1</sup> an advisory and consulting firm to banks, mortgage companies, insurance companies, trustees and other investors. I am authorized to submit this Supplemental Declaration (the “Supplemental Declaration”) on behalf of the Debtors in connection with their motion pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure for approval of RMBS Trust Settlement Agreements. This Supplemental Declaration

<sup>1</sup> Capitalized terms not otherwise defined herein are as defined in the Original Declaration, in the RMBS Trust Settlement Agreement, or in the Governing Agreements for each of the Debtors' Trusts, or in the defined terms incorporated by reference therein.

reflects the Estimated Loan Loss work performed since my original declaration (“Original Declaration”) and I reserve the right to augment and refine the analysis as my work is ongoing.

2. Except as otherwise indicated, all statements in this Supplemental Declaration are based upon my review of the cash flow and Estimated Lifetime Loss model output, the relevant documents, my discussions with the Debtors and their professionals, and my personal knowledge and expert experience. If I were called upon to testify, I could and would testify to each of the facts set forth below.

### **INTRODUCTION**

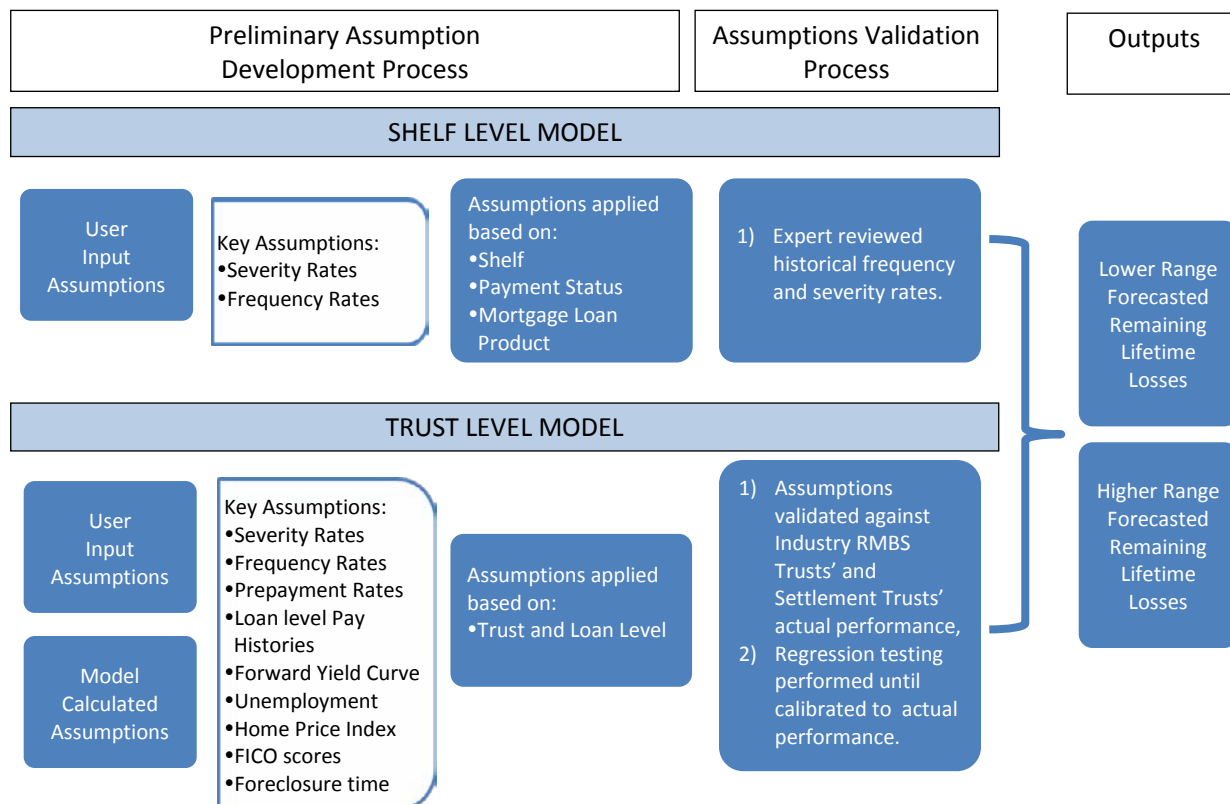
3. As I discussed in my Original Declaration, the first step in estimating the range of potential repurchase liability for the Debtors (“Potential Repurchase Requirements”) is developing the potential cumulative lifetime loss ranges (“Estimated Lifetime Losses”) for the 392 Trusts included in the RMBS Trust Settlement (“Settlement Trusts”).

4. In my Original Declaration, I discussed that there are a variety of methods accepted in the financial services industry to estimate RMBS Trust lifetime losses. In my Original Declaration I utilized one of those methods, the Shelf Level Estimated Lifetime Loss methodology (“Shelf Level Model”), to develop the Estimated Lifetime Losses. For this Supplemental Declaration, I utilized another of the accepted methods to supplement the Estimated Lifetime Loss model work I performed in my Original Declaration. For this Supplemental Declaration, I employed the more granular and detailed Loan Level and Trust Level Estimated Lifetime Loss model (“Trust Level Model”) process for the Settlement Trusts. The Trust Level Model process is regularly used by market participants and financial institutions to estimate repurchase exposure, including estimates provided by financial institutions in their regulatory filings. Both the Shelf Level Model and the Trust Level Model methods utilize similar frequency and severity rate-based forecasting and historically based assumption development methodologies. Accordingly, the Trust Level Model



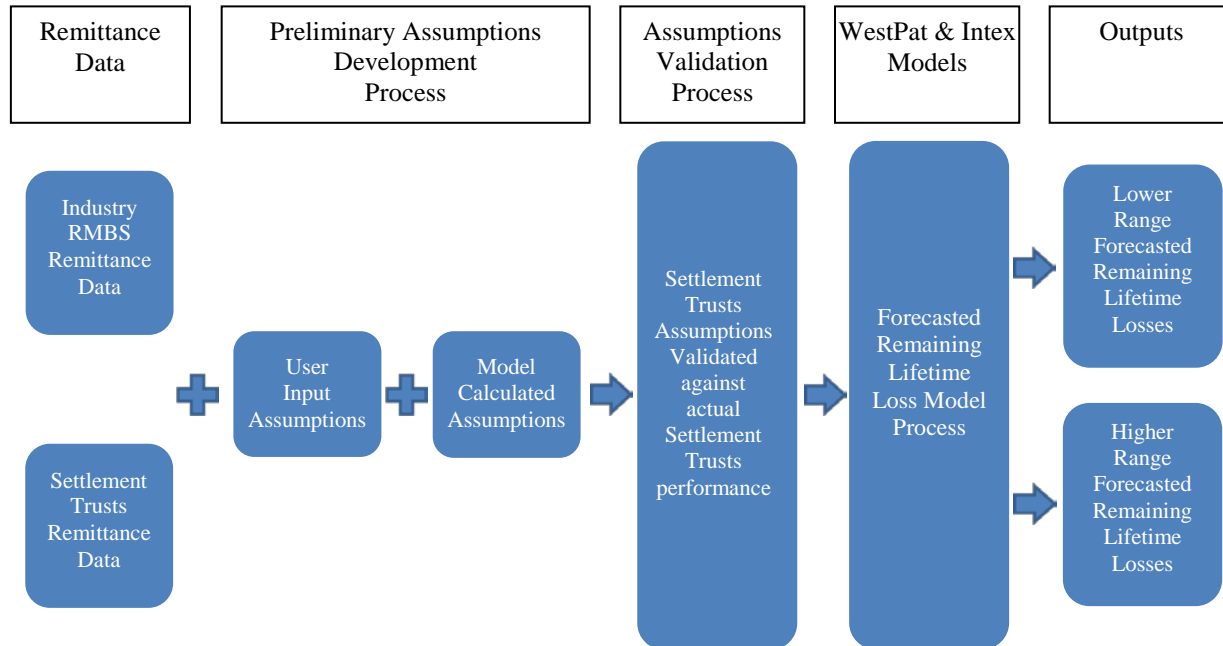
methodology that I used in this Supplemental Declaration is generally accepted in the industry as a sound means of forecasting estimated lifetime losses and estimating potential repurchase liability.

The Trust Level Model process I utilized in the development of the Estimated Lifetime Losses ranges in this Supplemental Declaration is described below.



**DETERMINATION OF THE SETTLEMENT TRUSTS'**  
**ESTIMATED LIFETIME LOSSES**

**Trust Level Model Process Overview**



5. Step 1 - The first step in developing estimated loss ranges for RMBS Trusts is to obtain the historical borrower loan payment remittance data (“Remit Data”) for both (1) the Settlement Trusts, and (2) other industry RMBS Trusts which consist of loan products and securitization structures similar to the Settlement Trusts<sup>2</sup>. This Remit Data contains hundreds of data fields including loan level payment histories, prepayment data, default data and loan level losses. The Remit Data may be available on either a loan level basis or at a trust level basis. For the 392 Settlement Trusts, we were able to obtain loan level data from Loan Performance<sup>3</sup> (“LP”) for 352 Settlement Trusts, Intex<sup>4</sup> loan level data for 16 Settlement Trusts and Intex trust level data for 23 Settlement Trusts. We utilized Remit Data from May 2012.

<sup>2</sup> WestPat model groups the RMBS Trusts into the following categories: Alt A/Sub Prime, Prime, HELOC & Fixed 2nds.

<sup>3</sup> CoreLogic Loan Performance is a provider of RMBS Trust loan remittance data.

<sup>4</sup> Intex Solutions, Inc. is a provider of structured fixed income cash flow models and RMBS Trust loan remittance data.

6. Step 2a – I employed WestPat LLC to run their proprietary RMBS estimated loss and cash flow model (the “WestPat Model”) to determine Estimated Lifetime Loss ranges for the Settlement Trusts for which loan level Remit Data was available. The WestPat Model requires loan level Remit Data. The WestPat Model is a commercially available estimated loss and cash flow model used by mortgage lenders, mortgage bond investors and money managers to estimate loan losses, cash flows and value RMBS mortgage bonds.

7. Step 2b – For the 23 Settlement Trusts for which only trust level Remit Data was available, I utilized the Intex Model, as defined below, to determine Estimated Lifetime Loss ranges. The Intex Model is a commercially available cash flow model used by mortgage lenders, mortgage bond investors and money managers to estimate loan losses, cash flows and value RMBS mortgage bonds (“Intex Model”).

8. Step 3 – WestPat and Intex Model assumption requirements and discussion:

(a) WestPat Model assumptions:

(i) The WestPat Model independently develops its Validated Settlement Trusts Assumptions for forecasting cash flows and estimated losses from actual historical performance of certain key data elements (“HIST PERF”) from the Remit Data for each of the Settlement Trusts:

(a) Actual Trust Losses to date.

(b) Actual Severity Rates to date.

(c) Actual Constant Default Rates to date (“CDR”) aka Roll Rates aka Frequency Rates.

(d) Actual Voluntary Constant Prepayment Rates (“VCPR”).

(e) Actual Loan Level Payment Histories to date (“PAY HIST”) aka Pay Strings.

(ii) Additionally, I provided a few macro economic assumptions to WestPat for use in the WestPat Model based on industry available data and my expert experience in developing these assumptions:

- (a) Forward Yield Curve from 6/20/12.
- (b) The unemployment rate<sup>5</sup> utilized was 8.1% from April 2012. The unemployment rate was held constant for the life of the loans.
- (c) The current Combined Loan To Value (“CLTV”) was calculated using Case-Shiller<sup>6</sup> home price data as of April 2012. The model uses the zip code when available. If the zip code is not available, the model uses Metropolitan Statistical Area (“MSA”) level or state level data. Once the CLTV is updated, it is varied over time based on our Forward Home Price Index assumptions described below.
- (d) FICO scores - The model does not update Borrowers’ FICO scores, the model utilizes the Borrowers’ origination FICO scores.
- (e) LP and Intex Remit Data reflect the RMBS Trusts’ actual Losses to Date after applying any mortgage insurance claims paid to the Trusts. The LP and Intex Remit Data do not include any Monoline insurance claims paid to the Trustee for the benefit of the CertificateHolders.
- (f) Forward Home Price Index (“HPI”) for distressed home sales.
- (g) The WestPat Model varies time to foreclosure by state. The WestPat Model utilized time to foreclosure history through March 2012.

(b) Intex Model assumptions:

- (i) The Intex Model requires the user to develop and input assumptions into the model. I provided assumptions for use in the Intex Model based on industry available data and my expert experience in developing these assumptions:
  - (a) Forward Yield Curve from 6/20/12.
  - (b) VCPR – determined after reviewing each individual Settlement Trusts’ 6 month, 12 month and monthly time series trends.

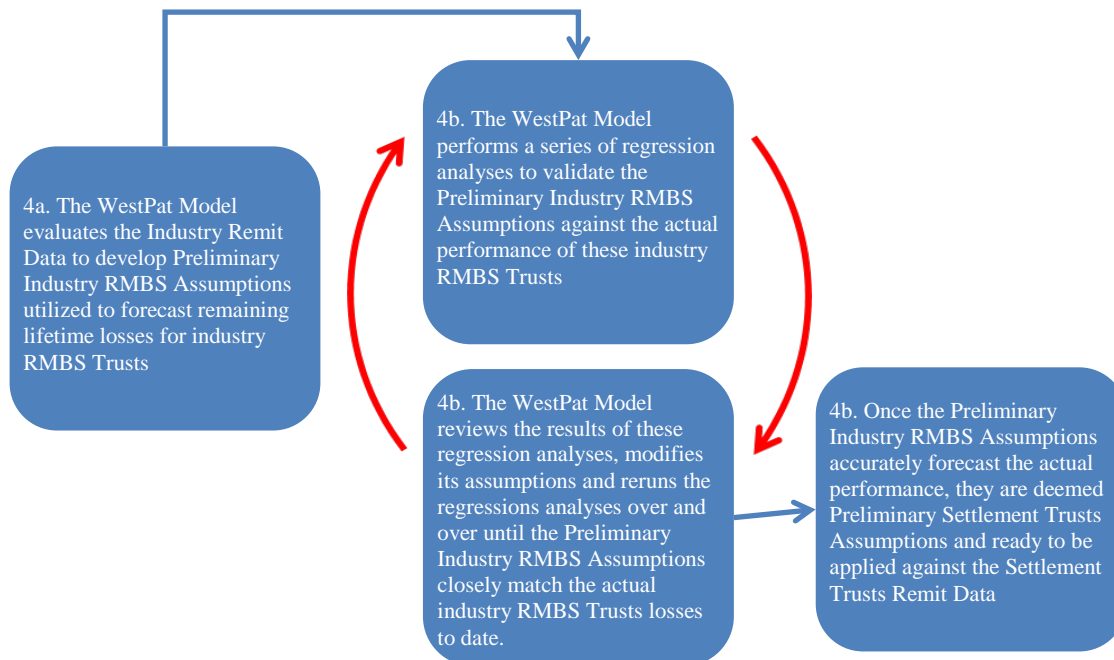
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<sup>5</sup> U.S. Bureau of Labor Statistics.

<sup>6</sup> S&P/Case-Shiller Home Price Index is a leading measure of the U.S. residential housing market.

- (c) CDR - determined after reviewing each individual Settlement Trusts' 6 month, 12 month and monthly time series trends.
- (d) Severity Rates - determined after reviewing each individual Settlement Trusts' monthly time series Severity trends.

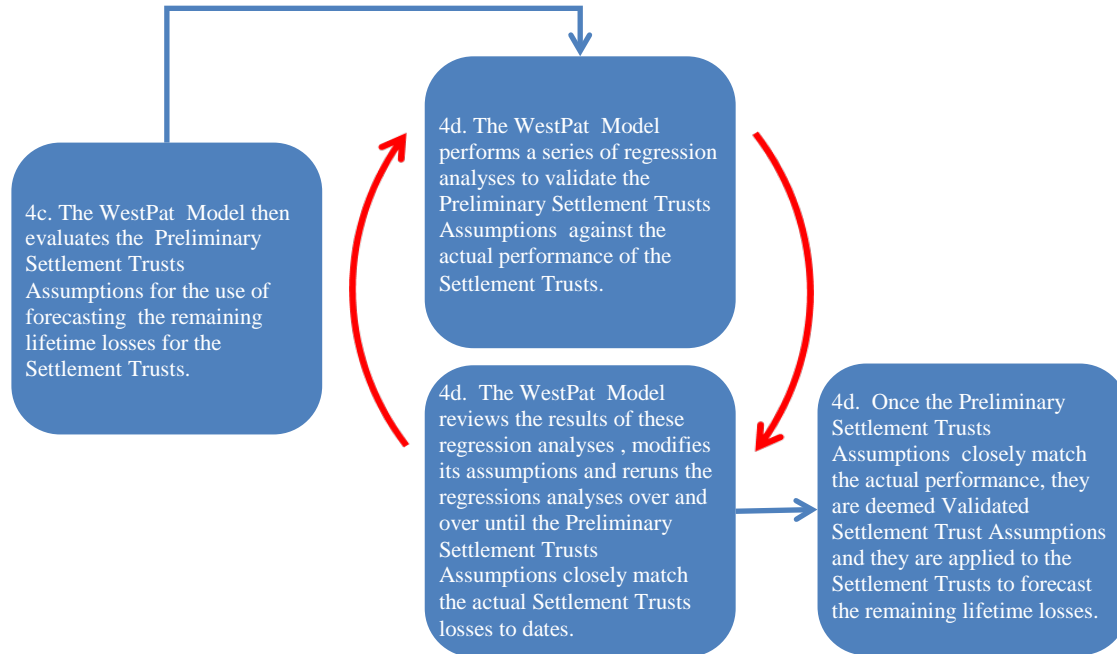
**Validating the Industry RMBS Assumptions**



9. Step 4a – The WestPat Model evaluates RMBS Trust historical Remit Data for loan products and securitization structures similar to the Settlement Trusts from the available industry Remit Data from LP or Intex (“Industry RMBS Remit Data”) to develop the Preliminary Industry RMBS Assumptions utilized to estimate the remaining lifetime losses for these industry RMBS Trusts.

10. Step 4b - The WestPat Model then performs a series of regression analyses to validate the Preliminary Industry RMBS Assumptions against the actual performance of these Industry RMBS Trusts to create the validated assumptions for the industry RMBS Trusts (“Validated Industry RMBS Trust Assumptions”).

**Validating the Settlement Trusts Assumptions and Forecasted Remaining Lifetime Losses**



11. Step 4c - The WestPat Model then applies these Validated Industry RMBS Trust Assumptions to the Settlement Trusts (“Preliminary Settlement Trusts Assumptions”). The WestPat Model then performs a series of regression analyses to validate these Preliminary Settlement Trusts Assumptions against the actual performance of the Settlement Trusts to obtain the validated Settlement Trust assumptions (“Validated Settlement Trusts Assumptions”).

12. Step 4d - After this last regression analysis step, the WestPat Model then utilizes the Validated Settlement Trusts Assumptions for each of the 369 Settlement Trusts to forecast the Remaining Lifetime Losses for the Settlement Trusts.

13. Step 5 - Determining the Forecasted Remaining Lifetime Losses for the Settlement Trusts: I added the Forecasted Remaining Lifetime Losses from the both the WestPat and Intex Models for both the lower and higher ranges. The calculations are illustrated below:

			<b>Forecasted Remaining Lifetime Losses (in billions)</b>	
Model	Data Source	# of Trusts	Lower Range	Higher Range
WestPat	LP	353	\$11.7	\$14.7
WestPat	Intex	16	\$0.2	\$0.2
Intex	Intex	23	\$1.0	\$1.3
<b>Total</b>		<b>392</b>	<b>\$12.9</b>	<b>\$16.2</b>

14. Step 6 - Determining the Actual Losses to Date for the Settlement Trusts: I added the Actual Trust Losses to Date for the Settlement Trusts from both the LP and Intex Remit Data. The calculations are illustrated below:

<b>Actual Settlement Trust Losses to Date (in billions)</b>		
Data Source	# of Trusts	Actual Losses to Date
LP	353	\$26.9
Intex	16	\$1.6
Intex	23	\$2.1
<b>Total</b>	<b>392</b>	<b>\$30.6</b>

15. Step 7 – Determining the Total Estimated Lifetime Loss ranges for the Settlement Trusts: I added the Total Actual Trust Losses to Date for the Settlement Trusts to the Forecasted Remaining Lifetime Losses for the Settlement Trusts to determine the Total Estimated Lifetime Loss for both the lower and higher ranges for the Settlement Trusts. The calculations are illustrated below:

<b>LOWER RANGE (in billions)</b>					
Model	Data Source	# of Trusts	Actual Losses to Date	Forecasted Remaining Lifetime Losses	Total Estimated Lifetime Losses
WestPat	LP	353	\$26.9	\$11.7	\$38.6
WestPat	Intex	16	\$1.6	\$0.2	\$1.8
Intex	Intex	23	\$2.1	\$1.0	\$3.1
<b>Total</b>		<b>392</b>	<b>\$30.6</b>	<b>\$12.9</b>	<b>\$43.5</b>

<b>HIGHER RANGE (in billions)</b>					
Model	Data Source	# of Trusts	Actual Losses to Date	Forecasted Remaining Lifetime Losses	Total Estimated Lifetime Losses
WestPat	LP	353	\$26.9	\$14.7	\$41.6
WestPat	Intex	16	\$1.6	\$0.2	\$1.8
Intex	Intex	23	\$2.1	\$1.3	\$3.4
<b>Total</b>		<b>392</b>	<b>\$30.6</b>	<b>\$16.2</b>	<b>\$46.8</b>

16. The Total Estimated Lifetime Loss ranges determined in this Supplemental Declaration are similar to the Total Estimated Lifetime Loss ranges determined in my Original Declaration. See the comparison in the following charts:

	<b>Total Estimated Lifetime Losses (in billions)</b>	
	Orig. Decl.	Suppl. Decl.
Lower Range	\$45.6	\$43.5
Higher Range	\$49.8	\$46.8

Comparison of models by Shelf:

<b>Total Estimated Lifetime Losses (in billions)</b>				
Shelf	Lower Range		Higher Range	
	Orig. Decl.	Suppl. Decl.	Orig. Decl.	Suppl. Decl.
GMACM	\$3.4	\$3.3	\$3.8	\$3.6
RAAC	\$0.8	\$0.7	\$0.9	\$0.8
RAAC RP	\$1.3	\$1.2	\$1.3	\$1.4
RALI	\$16.1	\$15.7	\$17.8	\$17.1
RAMP	\$8.3	\$8.0	\$8.9	\$8.5
RASC	\$10.6	\$9.9	\$11.4	\$10.5
RFMSI	\$1.9	\$1.6	\$2.3	\$1.8
RFMSII	\$3.2	\$3.1	\$3.4	\$3.1
<b>Total Est. Lifetime Losses</b>	<b>\$45.6</b>	<b>\$43.5</b>	<b>\$49.8</b>	<b>\$46.8</b>

### **CONCLUSION**

17. In summary, for this Supplemental Declaration I utilized a detailed and granular process to estimate the lifetime losses of the Settlement Trusts. This Trust Level Estimated Lifetime Loss model process is regularly used by market participants and financial institutions to estimate their repurchase exposure, including estimates provided by financial institutions in their regulatory filings.

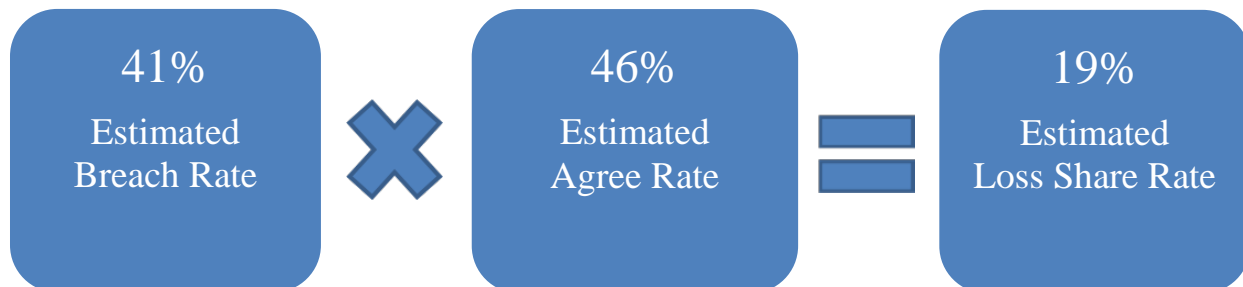


Based on my analysis described above, both the lower and higher Estimated Lifetime Loss ranges for the Shelf Level Model and Trust Level Model in my opinion, to a reasonable degree of certainty, supports the reasonableness of the proposed Allowed Claim of \$8.7 billion.

**Of the \$45 billion in Estimated Lifetime Trust Losses,  
2/3 of the Losses have already occurred**



**Settling for 19% of the Estimated Lifetime Trust Losses is fair and reasonable based on the below Breach, Agree and Loss Share Rates**



**The Allowed Claim of \$8.7 Billion  
is within the range of fair and reasonable**



**INDUSTRY STANDARDS FOR FORECASTING REMAINING LIFETIME LOSSES**

18. As I discussed in my Original Declaration, one of the key steps in estimating the range of potential repurchase liability for the Debtors (“Potential Repurchase Requirements”) is forecasting the remaining lifetime losses for the Settlement Trusts utilizing an industry standard cash flow/estimated loss model.

19. I am familiar various Financial Accounting Standards Board (“FASB”) statements and updates discussing acceptable valuation frameworks and methodologies for forecasting future RMBS cash flows, estimated losses and fair market values. Here are the few of those statements and updates:

(a) FASB - Statement of Financial Accounting Standards 157 - defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. FASB 157 discusses three approved approaches to determining fair value, one of which is the Income approach. The Income approach allows the user to select assumptions (Level 3 inputs) such as loss severity, default rates and prepayment rate and input those assumptions into a cash flow model to determine future cash flows and losses on the underlying loans or RMBS securities.

(b) FASB Accounting Standards Update<sup>7</sup> – this FASB update discusses the following significant inputs for a valuation model to include the following weighted averages:

- (i) Yield: XX percent (not required unless you’re pricing a security)
- (ii) Probability of default: XX percent constant default rate
- (iii) Loss severity: XX percent
- (iv) Prepayment: XX percent constant prepayment rate

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<sup>7</sup> FASB Accounting Standards Update, No. 2010-06, January 2010.

(c) FASB approves the use of a valuation model, key user input assumptions and cash flow/estimated loss model methodologies that I utilized in both the Shelf Level and Trust Level estimated lifetime loss model process discussed in my Original Declaration and this Supplemental Declaration.

20. DBRS<sup>8</sup> utilizes a RMBS loss model<sup>9</sup> that estimates loan level default probability, loss severity and expected loss for a pool of mortgage loans to help determine its credit ratings for a particular mortgage pool or RMBS Trust.

21. As part of its modeling process, DBRS utilizes certain regional economic data such as growth in civilian labor force, per-capita income, unemployment rate and house price index at the MSA level to help its model better forecast future losses. Their model also provides users with the option to forecast certain variables such as changes in unemployment rates, housing prices, voluntary prepayment rate (CPR), liquidation timelines, months in REO properties and roll rates from 180 days delinquent to default to better forecast losses.

22. The DBRS model utilizes remittance data<sup>10</sup>, regional economic data<sup>11</sup> and Case-Schiller home price indices as inputs in its loss model.

23. The DBRS model primarily utilizes the Probability of Default (or Frequency) and the Loss Severity at default to drive its loss modeling results. These two significant components are determined by analyzing the historical remittance data of like residential mortgage loan products and RMBS securitization structures provided in the remittance data and the various user inputs discussed above.

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<sup>8</sup> DBRS, Inc. is a full-service credit rating agency established in 1976.

<sup>9</sup> DBRS' RMBS Insight: U.S. Residential Mortgage-Backed Securities Loss Model and Rating Methodology published in January 2012.

<sup>10</sup> Remittance data from MBS Data LLC.

<sup>11</sup> Regional economic data from the St. Louis Federal Reserve.

24. This modeling process including the user inputs and heavy reliance on historical remittance data to determine future assumptions is very similar to the estimated loss modeling process employed in this Supplemental Declaration.

**INDUSTRY STANDARDS FOR THE REPURCHASE DEMAND PROCESS**

25. As I discussed in my Original Declaration, one of the key methods utilized in estimating the range of potential repurchase liability for the Debtors (“Potential Repurchase Requirements”) is to develop data on the Audit Rate, Demand Rate, Breach Rate, Agree Rate and Loss Share Rate for the loans in the Settlement Trusts. The repurchase demand process methodology I utilized in my Original Declaration is regularly used by major financial institutions such as Fannie Mae, Wells Fargo Bank and many other top national banks to manage their repurchase demand process and is commonly accepted in the industry. I am familiar with the use of this repurchase demand process methodology and I have utilized this repurchase demand process methodology over the last 10 years for Fannie Mae, Freddie Mac and various PLS RMBS sellers and clients.

**Fannie Mae’s Repurchase Demand Process**

26. I am familiar with Fannie Mae’s current National Underwriting Center (“NUC”) Quality Assurance review process<sup>12</sup> as a result of my professional experience. The process has the following steps:

(a) Step 1 – Loans are selected for review by the National Underwriting Center (“Audit Rate”).

(b) Step 2 – Loans are requested from the Lender and the Lender provides the original file and any missing documentation to Fannie Mae.

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<sup>12</sup> Fannie Mae’s National Underwriting Center Quality Assurance review process dated 2010.

(c) Step 3 - An underwriter reviews the file and records any defects both significant and informational. If any significant defects are identified, the underwriter recommends the loan be repurchased by the Lender.

(d) Step 4 - Upon validation of the significant defect(s) and determination that the loan does not meet Fannie Mae criteria, a request for repurchase is sent to the Lender (“Demand Rate”).

(e) Step 5 - The Lender reviews the loan file and responds with a Concur or Rebuttal (“Agree Rate”).

27. Fannie Mae employs an industry standard repurchase demand methodology which is similar to the repurchase demand methodology utilized in my Original Declaration. Additionally, Fannie Mae requires its Sellers or customers to participate in their repurchase process for all loans sold to them, including but not limited to large financial institutions such as Bank of America, Wells Fargo, JP Morgan Chase, Citi, SunTrust, US Bank and other top banks (See the IMF Special Report).

#### **Wells Fargo Repurchase Demand Process**

28. I am familiar with the Wells Fargo Repurchase and Rescission Process<sup>13</sup> as a result of my professional experience. The process has the following steps:

(a) Step 1 – Wells Fargo loans are selected for review (“Audit Rate”) by an investor.

(b) Step 2 – The investor reviews the file and records for any breach of representations and warranties. If any breaches are identified, the investor issues a repurchase demand to Wells Fargo (“Demand Rate”).

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<sup>13</sup> Wells Fargo Funding Repurchase and Rescission Process Overview dated October 15, 2010.

(c) Step 3 – Upon receipt a demand, Wells Fargo researches the demand to determine if there was a breach of representation or warranty or non-compliance with a term of the mortgage insurance policy. Wells Fargo either agrees to repurchase the loan or appeals the demand (“Agree Rate”).

(d) Wells Fargo thus utilizes an industry standard repurchase process similar to the repurchase demand methodology utilized in my Original Declaration. Wells Fargo originated approximately 33% of all residential mortgages in the United States through the first six months of 2012 according to a Bloomberg article from August 2012.

**CLARIFICATIONS AND CORRECTIONS TO ORIGINAL 9019 DECLARATION**

29. In my Original Declaration (page 5, item 5(3); page 13, item 32), I stated that I reviewed Frequency Rates from one Trust for each of the representative Shelves. I would like to clarify that I reviewed Frequency Rates from at least one Series by Issue Year, which may consist of multiple Trusts, for each of the representative Shelves.

30. In my Original Declaration (page 14, item 35), I inadvertently stated that the Severity Rate is also known as the Default Rate.

Dated: September 28, 2012

/s/

Frank Sillman



EXHIBITS

- Exhibit A - U.S. Bureau of Labor Statistics Labor Force Statistics from the Current Population Survey for unemployment rates, data extracted on September 26, 2012.
- Exhibit B - Financial Accounting Standards Board Financial Accounting Series Accounting Standards Update No. 2010-06, dated January 2010.
- Exhibit C - DBRS, Inc.'s RMBS Insight: U.S. Residential Mortgage-Backed Securities Loss Model and Rating Methodology, dated January 2010.
- Exhibit D - Fannie Mae's National Underwriting Center Quality Assurance review process, dated 2010.
- Exhibit E - Wells Fargo Funding Repurchase and Rescission Process Overview, dated October 15, 2010.

**Exhibit A**





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## Databases, Tables & Calculators by Subject

FONT SIZE:  

**Change Output Options:** From:  To:  **GO**

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Data extracted on: September 26, 2012 (10:53:51 AM)

### Labor Force Statistics from the Current Population Survey

**Series Id:** LNS14000000  
**Seasonally Adjusted**  
**Series title:** (Seas) Unemployment Rate  
**Labor force status:** Unemployment rate  
**Type of data:** Percent or rate  
**Age:** 16 years and over

**Download:**  [.xls](#)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2002	5.7	5.7	5.7	5.9	5.8	5.8	5.8	5.7	5.7	5.7	5.9	6.0	
2003	5.8	5.9	5.9	6.0	6.1	6.3	6.2	6.1	6.1	6.0	5.8	5.7	
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	
2005	5.3	5.4	5.2	5.2	5.1	5.0	5.0	4.9	5.0	5.0	5.0	4.9	
2006	4.7	4.8	4.7	4.7	4.6	4.6	4.7	4.7	4.5	4.4	4.5	4.4	
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.7	4.6	4.7	4.7	4.7	5.0	
2008	5.0	4.9	5.1	5.0	5.4	5.6	5.8	6.1	6.1	6.5	6.8	7.3	
2009	7.8	8.3	8.7	8.9	9.4	9.5	9.5	9.6	9.8	10.0	9.9	9.9	
2010	9.7	9.8	9.8	9.9	9.6	9.4	9.5	9.6	9.5	9.5	9.8	9.4	
2011	9.1	9.0	8.9	9.0	9.0	9.1	9.1	9.1	9.0	8.9	8.7	8.5	
2012	8.3	8.3	8.2	8.1	8.2	8.2	8.3	8.1					

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**Exhibit B**

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2010-06  
January 2010

### Fair Value Measurements and Disclosures (Topic 820)

Improving Disclosures about  
Fair Value Measurements

*An Amendment of the FASB Accounting Standards Codification™*

Financial Accounting Standards Board  
of the Financial Accounting Foundation

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## Accounting Standards Update

No. 2010-06  
January 2010

### Fair Value Measurements and Disclosures (Topic 820)

Improving Disclosures about  
Fair Value Measurements

An Amendment of the *FASB Accounting Standards Codification*<sup>™</sup>

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116



## Accounting Standards Update 2010-06

### Fair Value Measurements and Disclosures (Topic 820)

### Improving Disclosures about Fair Value Measurements

January 2010

## CONTENTS

	Page Numbers
Summary .....	1–3
Amendments to the <i>FASB Accounting Standards Codification</i> ™ .....	5–40
Background Information and Basis for Conclusions .....	41–47
Amendments to the XBRL Taxonomy .....	48–61





## Summary

### Why Is the FASB Issuing This Accounting Standards Update (Update)?

A number of constituents have recommended that the Board improve disclosure requirements related to Fair Value Measurements and Disclosures—Overall Subtopic (Subtopic 820-10) of the *FASB Accounting Standards Codification*<sup>TM</sup>, originally issued as FASB Statement No. 157, *Fair Value Measurements*. The Board concluded that users will benefit from improved disclosures in this Update and that the benefits of the increased transparency in financial reporting will outweigh the costs of complying with the new requirements.

### Who Is Affected by the Amendments in This Update?

All entities that are required to make disclosures about recurring or nonrecurring fair value measurements are affected by the amendments in this Update.

### What Are the Main Provisions?

This Update provides amendments to Subtopic 820-10 that require new disclosures as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
2. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows:

1. Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
2. Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs

used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures.

## How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The Board has improved the disclosures about fair value measurements on the basis of input received from users of financial statements. The Board concluded that the changes will provide a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements. Users have stated that separate information about purchases, sales, issuances, and settlements would indicate the reasons for changes in the reporting entity's Level 3 fair value measurements. They also have said that because of the different degrees of subjectivity and reliability of Level 1, Level 2, and Level 3 fair value measurements, information about significant transfers between the three levels and the reasons for such transfers would be useful.

## When Will the Amendments Be Effective?

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this Update improve the comparability of financial reporting internationally because those required disclosures also are required by IFRS. For example, IFRS 7, *Financial Instruments: Disclosures*, as amended in March 2009, requires disclosures similar to those provided in this Update, such as

disclosures about transfers between Level 1, Level 2, and Level 3 and the disaggregated activity in the roll forward for Level 3 fair value measurements.

In May 2009, the International Accounting Standards Board published an Exposure Draft, *Fair Value Measurement*, which includes disclosures similar to those in IFRS 7 that would apply to all assets and liabilities measured at fair value after initial recognition, not just to financial instruments.



## Amendments to the *FASB Accounting Standards Codification*<sup>TM</sup>

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### Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–14. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

### Amendments to Subtopic 820-10

2. Amend paragraphs 820-10-50-1 through 50-2, with a link to transition paragraph 820-10-65-7 as follows:

#### **Fair Value Measurements and Disclosures—Overall**

##### **Disclosure**

**820-10-50-1** The reporting entity shall disclose information that enables users of its financial statements to assess both of the following:

- a. For assets and liabilities that are measured at **fair value** on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the valuation techniques and inputs used to develop those measurements
- b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period.

**820-10-50-2** ~~To meet that objective, the objectives of the preceding paragraph,~~ the reporting entity shall disclose all of the ~~following~~ information ~~in (a) through (e) below~~ for each interim and annual period separately for each ~~major category~~ class of assets and ~~liabilities~~ liabilities. The reporting entity shall determine appropriate classes of assets and liabilities on the basis of guidance in the following paragraph. It shall provide sufficient information to permit reconciliation of the fair value measurement disclosures for the various classes of assets and liabilities to the line items in the statement of financial position.

- a. The fair value ~~measurements~~ measurement at the reporting ~~date~~ date.

- b. ~~The level within the fair value hierarchy in which the fair value measurements measurement in its entirety fall, falls,~~ segregating the fair value ~~measurements measurement~~ using any of the following:
  - 1. Quoted prices in active markets for identical assets or liabilities (Level 1)
  - 2. Significant other **observable inputs** (Level 2)
  - 3. Significant unobservable inputs (Level 3).
- bb. The amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. Significant transfers into each level shall be disclosed separately from transfers out of each level. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into the levels as that for transfers out of the levels. Examples of policies for when to recognize the transfers are as follows:
  - 1. The actual date of the event or change in circumstances that caused the transfer
  - 2. The beginning of the reporting period
  - 3. The end of the reporting period.
- c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to any of the following:
  - 1. Total gains or losses for the period (realized and unrealized), segregating those, separately presenting gains or losses included in earnings (or changes in net assets), assets and gains or losses recognized in other comprehensive income, and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities) or in other comprehensive income
  - 2. Purchases, sales, issuances, and settlements (net)(each type disclosed separately)
  - 3. Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs) and the reasons for those transfers. Significant transfers into Level 3 shall be disclosed separately from significant transfers out of Level 3. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out

of Level 3. Examples of policies for when to recognize the transfers are as follows:

- i. The actual date of the event or change in circumstances that caused the transfer
  - ii. The beginning of the reporting period
  - iii. The end of the reporting period.
- d. The amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or ~~activities~~) activities).
- e. ~~The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.~~ For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), a description of the valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach, and the inputs used in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique(s) (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason for making it. For examples of disclosures that a reporting entity may present to comply with the requirement to disclose the inputs used in measuring fair value in this paragraph, see paragraphs 820-10-55-22A through 55-22B.

~~For equity and debt securities major category shall be defined as major security type as described in paragraph 320-10-50-1B, even if the equity securities or debt securities are not within the scope of Subtopic 320-10 and, for a reporting entity within the scope of Topic 942, as described in paragraph 942-320-50-2.~~

3. Add paragraph 820-10-50-2A, with a link to transition paragraph 820-10-65-7, as follows:

**820-10-50-2A** For equity and debt securities, class shall be determined on the basis of the nature and risks of the investments in a manner consistent with the guidance in paragraph 320-10-50-1B and, if applicable, shall be the same as the guidance on major security type as described in paragraph 942-320-50-2 even if the equity securities or debt securities are not within the scope of paragraph 320-10-50-1B. For all other assets and liabilities, judgment is needed to determine the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. Fair value measurement disclosures for each class of assets and liabilities often will require greater disaggregation than the reporting entity's line items in the statement of financial position. A reporting entity shall determine the appropriate classes for those disclosures on the basis

of the nature and risks of the assets and liabilities and their classification in the fair value hierarchy (that is, Levels 1, 2, and 3). In determining the appropriate classes for fair value measurement disclosures, the reporting entity shall consider the level of disaggregated information required for specific assets and liabilities under other Topics. For example, under Topic 815, disclosures about derivative instruments are presented separately by type of contract such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts. The classification of the asset or liability in the fair value hierarchy also shall affect the level of disaggregation because of the different degrees of uncertainty and subjectivity involved in Level 1, Level 2, and Level 3 measurements. For example, the number of classes may need to be greater for fair value measurements using significant unobservable inputs (that is, Level 3 measurements) to achieve the disclosure objectives because Level 3 measurements have a greater degree of uncertainty and subjectivity.

4. Amend paragraph 820-10-50-3, with a link to transition paragraph 820-10-65-7, as follows:

**820-10-50-3** For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. The fair value disclosures required by paragraph 820-10-50-2(a) through (bb) on a gross basis (which is consistent with the requirement of paragraph 815-10-50-4B(a))
- b. The reconciliation disclosure required by (c) in the preceding paragraph 820-10-50-2(c) through (d) may be presented net on either a gross or a net basis.

**820-10-50-4** Example 8, Cases A and B (see paragraphs 820-10-55-60 through 55-63) illustrate disclosures about recurring measurements.

5. Amend paragraph 820-10-50-5, with a link to transition paragraph 820-10-65-7, as follows:

**820-10-50-5** For assets and liabilities that are measured at fair value on a nonrecurring basis in periods ~~after subsequent to~~ initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the valuation techniques and inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose all of the following information for each interim and annual period separately for each major category class of assets and liabilities: liabilities. The reporting entity shall determine classes of assets and liabilities on the basis of the guidance in paragraph 820-10-50-2A.

- a. The fair value ~~measurements~~ measurement recorded during the period and the reasons for the ~~measurements~~ measurement



- b. The level within the fair value hierarchy in which the fair value ~~measurements~~measurement in ~~their~~its entirety ~~fall, falls,~~ segregating the fair value ~~measurements~~measurement using any of the following:
  - 1. Quoted prices in active markets for identical assets or liabilities (Level 1)
  - 2. Significant other observable inputs (Level 2)
  - 3. Significant unobservable inputs (Level 3).
- c. ~~Subparagraph superseded by Accounting Standards Update 2010-06. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs~~
- d. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), the disclosure required by paragraph 820-10-50-2(e). The inputs and valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) and related inputs used to measure similar assets and/or liabilities in prior periods.

~~For equity and debt securities *major category* shall be defined as *major security type* as described in paragraph 320-10-50-1B, even if the equity securities or debt securities are not within the scope of Subtopic 320-10 and, for reporting entities within the scope of Topic 942, paragraph 942-320-50-2.~~

**820-10-50-6** Example 8, Case C (see paragraph 820-10-55-64) illustrates disclosures about nonrecurring measurements.

6. Amend paragraph 820-10-50-6A, with a link to transition paragraph 820-10-65-7, as follows:

**820-10-50-6A** For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 (regardless of whether the practical expedient in paragraph 820-10-35-59 has been applied) and measured at fair value on a recurring or nonrecurring basis during the period, the reporting entity shall disclose information that enables users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, the reporting entity shall disclose all of the following information for each interim and annual period separately for each ~~class~~major category of investment (~~class~~major category of investment shall be determined on the basis of the nature and risks of the investments in a manner consistent with the guidance for major security types in paragraph 320-10-50-1B):

- a. The fair value (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the ~~class~~major category, and a description of the significant investment strategies of the investee(s) in the ~~class~~major category.

- b. For each ~~classmajor category~~ of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
- c. The amount of the reporting entity's unfunded commitments related to investments in the ~~classmajor category~~.
- d. A general description of the terms and conditions upon which the investor may redeem investments in the ~~classmajor category~~ (for example, quarterly redemption with 60 days' notice).
- e. The circumstances in which an otherwise redeemable investment in the ~~classmajor category~~ (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the ~~classmajor category~~ at the measurement date.
- g. If a reporting entity determines that it is probable that it will sell an investment(s) for an amount different from net asset value per share (or its equivalent) as described in paragraph 820-10-35-62, the reporting entity shall disclose the total fair value of all investments that meet the criteria in paragraph 820-10-35-62 and any remaining actions required to complete the sale.
- h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

7. Add paragraphs 820-10-55-22A through 55-22B and their related heading, with a link to transition paragraph 820-10-65-7, as follows:

## **Implementation Guidance and Illustrations**

### **> > > Disclosures—Valuation Techniques and Inputs**

**820-10-55-22A** Examples of disclosures that the reporting entity may present to comply with the input disclosure requirement of paragraph 820-10-50-2(e) include the following:

- a. Quantitative information about the inputs, for example, for certain debt securities or derivatives, information such as, but not limited to, prepayment rates, rates of estimated credit losses, interest rates (for example, LIBOR swap rate) or discount rates, and volatilities.
- b. The nature of the item being measured at fair value, including the characteristics of the item being measured that are considered in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity may conclude that meeting the objective of this disclosure requirement requires disclosure of items such as the following:
  - 1. The types of underlying loans (for example, subprime or home equity lines of credit)
  - 2. Collateral
  - 3. Guarantees or other credit enhancements
  - 4. Seniority level of the tranches of securities
  - 5. The year of issuance
  - 6. The weighted-average coupon rate of the underlying loans and the securities
  - 7. The weighted-average maturity of the underlying loans and the securities
  - 8. The geographical concentration of the underlying loans
  - 9. Information about the credit ratings of the securities.
- c. How third-party information such as broker quotes, pricing services, net asset values, and relevant market data was considered in measuring fair value.

**820-10-55-22B** For example, with respect to its investment in a class of residential mortgage-backed securities, a reporting entity may disclose the following:

As of December 31, 20X1, the fair value of the entity's investments in available-for-sale Level 3 residential mortgage-backed securities was \$XXX million. These securities are senior tranches in a securitization trust and have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. The underlying loans for these securities are residential subprime mortgages that originated in California in 2006. The underlying loans have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. These securities are currently rated below investment grade. To estimate their fair value, the entity used an industry standard valuation model, which is based on an income approach. The significant inputs for the valuation model include the following weighted averages:

- a. Yield: XX percent
- b. Probability of default: XX percent constant default rate
- c. Loss severity: XX percent
- d. Prepayment: XX percent constant prepayment rate.

8. Amend paragraphs 820-10-55-61 through 55-64A, with a link to transition paragraph 820-10-65-7, as follows:

**[Note: For ease of readability, the new tables have not been underlined. The tables in paragraphs 820-10-55-64 and 820-10-55-64A are not new; they are included for context.]**

**> > > Case A: Disclosure—Assets Measured at Fair Value on a Recurring Basis**

**820-10-55-61** For assets and liabilities measured at fair value on a recurring basis during the period, this Subtopic requires quantitative disclosures about the fair value measurements separately for each ~~major category~~class of assets and liabilities (see paragraph 820-10-50-2(a) through (b)). For assets, that information might be presented as follows.

(\$ in 000s)		Fair Value Measurements at Reporting Date Using		
Description	12/31/XX	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other- Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities:				
Equity securities-real estate	\$ 115	\$ 105	\$ 10	
Available for sale securities:				
Residential mortgage-backed securities	75			\$ 75
Derivatives	60	25	15	20
Venture capital investments	10			10
Total	\$ 260	\$ 130	\$ 25	\$ 105

(Note: For liabilities, a similar table should be presented.)

Description	12/31/XX	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Trading securities</b>				
Equity securities—real estate industry	\$ 93	\$ 70	\$ 23	
Equity securities—oil and gas industry	45	45		
Equity securities—other	15	15		
Total trading securities	<u>\$ 153</u>	<u>\$ 130</u>	<u>\$ 23</u>	
<b>Available-for-sale debt securities</b>				
Residential-mortgage-backed securities	\$ 149		\$ 24	\$ 125
Commercial-mortgage-backed securities	50			50
Collateralized debt obligations	35			35
U.S. Treasury securities	85	\$ 85		
Corporate bonds	93	9	84	
Total available-for-sale debt securities	<u>\$ 412</u>	<u>\$ 94</u>	<u>\$ 108</u>	<u>\$ 210</u>
<b>Available-for-sale equity securities</b>				
Financial services industry	\$ 150	\$ 150		
Healthcare industry	110	110		
Other	15	15		
Total available-for-sale equity securities	<u>\$ 275</u>	<u>\$ 275</u>		
Total available-for-sale securities	<u>\$ 687</u>	<u>\$ 369</u>	<u>\$ 108</u>	<u>\$ 210</u>
<b>Hedge fund investments</b>				
Equity long/short	\$ 55	\$ 55		
Global opportunities	35	35		
Distressed debt	90			\$ 90
Total hedge fund investments	<u>\$ 180</u>	<u>\$ 90</u>		<u>\$ 90</u>
Private equity investments <sup>(a)</sup>	\$ 25			\$ 25
Venture capital investments <sup>(a)</sup>	10			10
<b>Derivatives</b>				
Interest rate contracts	57		\$ 57	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	78	\$ 78		
Commodity forward contracts	20		20	
Total derivatives	<u>\$ 236</u>	<u>\$ 78</u>	<u>\$ 120</u>	<u>\$ 38</u>
<b>Total</b>	<u>\$ 1,291</u>	<u>\$ 667</u>	<u>\$ 251</u>	<u>\$ 373</u>

(a) Based on its analysis of the nature and risks of these investments, the reporting entity has determined that presenting them as a single class is appropriate.

(Note: For liabilities, a similar table should be presented.)

Paragraph 820-10-50-2(bb) requires that the reporting entity also disclose any significant transfers to or from Levels 1 and 2 and the reasons for those transfers. Transfers to or from Level 3 are disclosed in the table illustrated in Case B (see paragraphs 820-10-55-62 through 55-63).

**> > > Case B: Disclosure—Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)**

**820-10-55-62** For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, this Subtopic requires a reconciliation of the beginning and ending balances, separately for each class~~major category~~ of assets and liabilities, except for derivative assets and liabilities, which may be presented net (see paragraph 820-10-50-2(c) through (d)). For assets, the reconciliation might be presented as follows.

(\$ in 000s)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Residential- Mortgage Backed- Securities	Derivatives	Venture- Capital- Investments	Total
Beginning balance	\$ 80	\$ 14	\$ 11	\$ 105
Total gains or losses (realized/unrealized)				
Included in earnings (or changes in net assets)		11	(3)	8
Included in other comprehensive income	(5)	4		(1)
Purchases, issuances, and settlements		(7)	2	(5)
Transfers in and/or out of Level 3		(2)		(2)
Ending balance	\$ 75	\$ 20	\$ 10	\$ 105
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$	\$ 7	\$ 2	\$ 9

(Note: For liabilities, a similar table should be presented.)

Roll forward  
(\$ In millions)

(\$ In millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Available-for-Sale Debt Securities			Other Fund Investments				
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	Hedge Fund Distressed Debt	Private Equity	Venture Capital	Derivatives Credit Contracts	Total
Beginning balance	\$ 100	\$ 39	\$ 25	\$ 145	\$ 20	\$ 11	\$ 30	\$ 370
Transfers into Level 3	60 (a) (b)							60
Transfers out of Level 3								
Total gains or losses								
Included in earnings (or changes in net assets)	(8)			7	5	(3)	5	6
Included in other comprehensive income	(15)	(5)	(7)				(5)	(32)
Purchases, issuances, sales, and settlements								
Purchases		16	17			2	18	53
Issuances								
Sales	(12)			(62)				(74)
Settlements							(10)	(10)
Ending balance	\$ 125	\$ 50	\$ 35	\$ 90	\$ 25	\$ 10	\$ 38	\$ 373
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date				\$ (5)	\$ 5	\$ (3)	\$ 2	\$ (1)

(a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity for these securities.

(b) The company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.

(Note: For liabilities, a similar table should be presented.)

**820-10-55-63** Gains and losses (realized and unrealized) included in earnings (or changes in net assets) for the period (above) are reported in trading revenues and in other revenues as follows.

	<u>Trading Revenues</u>	<u>Other Revenues</u>
Total gains or losses included in earnings (or changes in net assets) for the period (as shown in the table in the preceding paragraph)	<u>\$ 11 5</u>	<u>\$ (3) 1</u>
Change in unrealized gains or losses relating to assets still held at reporting date	<u>\$ 7 2</u>	<u>\$ 2 (3)</u>

**> > Case C: Disclosure—Assets Measured at Fair Value on a Nonrecurring Basis**

**820-10-55-64** For each ~~major category class~~ of assets and liabilities measured at fair value on a nonrecurring basis during the period, this Subtopic requires disclosures about the fair value measurements (see paragraph 820-10-50-5(a) through (b)). That information might be presented as follows.



(\$ in millions)

Description	Year Ended 12/31/XX	Fair Value Measurements Using			Total Gains (Losses)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-lived assets held and used	\$ 75		\$ 75		\$ (25)
Goodwill	30			\$ 30	(35)
Long-lived assets held for sale	26		26		(15)
					<u>\$ (75)</u>

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held and used with a carrying amount of \$100 million were written down to their fair value of \$75 million, resulting in an impairment charge of \$25 million, which was included in earnings for the period.

In accordance with the provisions of FASB Codification Topic 350, Intangibles—Goodwill and Other, goodwill with a carrying amount of \$65 million was written down to its implied fair value of \$30 million, resulting in an impairment charge of \$35 million, which was included in earnings for the period.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$35 million were written down to their fair value of \$26 million, less cost to sell of \$6 million (or \$20 million), resulting in a loss of \$15 million, which was included in earnings for the period.

**> > > Case D: Disclosure—Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)**

**820-10-55-64A** For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 measured at fair value on a recurring or nonrecurring basis during the period, in addition to the disclosures required in paragraphs 820-10-50-1 through 50-2 and 820-10-50-5, this Subtopic requires disclosure of information that enables users to understand the nature and risk of the investments by ~~major category~~class and whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) (see paragraph 820-10-50-6A). That information may be presented as follows. (The ~~major categories~~classes presented below are provided as examples only and are not intended to be treated as a template. The ~~major categories~~classes disclosed should be tailored to the nature and risks of the reporting entity's investments.)

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds <sup>(a)</sup>	\$ 55		quarterly	30–60 days
Event driven hedge funds <sup>(b)</sup>	45		quarterly, annually	30–60 days
Global opportunities hedge funds <sup>(c)</sup>	35		quarterly	30–45 days
Multi-strategy hedge funds <sup>(d)</sup>	40		quarterly	30–60 days
Real estate funds <sup>(e)</sup>	47	\$ 20		
Private equity funds—international <sup>(f)</sup>	43	15		
Total	<u>\$ 265</u>	<u>\$ 35</u>		

- a. This category class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this category class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.
- b. This category class includes investments in hedge funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this category class have been estimated using the net asset value per share of the investments.
- c. This category class includes investments in hedge funds that hold approximately 80 percent of the funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the funds' investments in diversified currencies. The fair values of the investments in this category class have been estimated using the net asset value per share of the investments. For one investment, valued at \$8.75 million, a gate has been imposed by the hedge fund manager and no redemptions are currently permitted. This redemption restriction has been in place for six months and the time at which the redemption restriction might lapse cannot be estimated.

- d. This categoryclass invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this categoryclass includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this categoryclass have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this categoryclass cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 20X3.
- e. This categoryclass includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this categoryclass have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this categoryclass is planned to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an action process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.
- f. This categoryclass includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this categoryclass is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 8 years. However, as of December 31, 20X3, it is probable that all of the investments in this categoryclass will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this classcategory have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 20X3, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the

investee fund's management must approve of the buyer before the sale of the investments can be completed.

9. Add paragraph 820-10-65-7 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements**

**820-10-65-7** The following represents the transition and effective date information related to Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*:

- a. The pending content that links to this paragraph shall be effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements (see paragraph 820-10-50-2(c)(2)), which shall be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.
- b. In the period of initial adoption, the reporting entity shall not be required to provide the disclosures otherwise required by the pending content that links to this paragraph for any previous periods presented for comparative purposes.
- c. In periods after initial adoption, comparative disclosures of the pending content that links to this paragraph shall be required only for periods ending after initial adoption.
- d. Early adoption of the pending content that links to this paragraph is permitted.

## Amendments to Subtopic 715-20

10. Amend paragraph 715-20-50-1, with a link to transition paragraph 820-10-65-7, as follows:

### **Compensation—Retirement Benefits—Defined Benefit Plans—General**

#### **Disclosure**

**715-20-50-1** An employer that sponsors one or more defined benefit pension plans or one or more defined benefit other postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of

the date of each statement of financial position presented. All of the following shall be disclosed:

- a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
  1. Service cost
  2. Interest cost
  3. Contributions by plan participants
  4. Actuarial gains and losses
  5. Foreign currency exchange rate changes (The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to Section 830-10-45.)
  6. Benefits paid
  7. Plan amendments
  8. Business combinations
  9. Divestitures
  10. Curtailments, settlements, and special and contractual termination benefits.

For defined benefit pension plans, the benefit obligation is the projected benefit obligation. For defined benefit other postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation.

- b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following:
  1. Actual return on plan assets
  2. Foreign currency exchange rate changes (see ~~(a)(5)~~ (a)(5))
  3. Contributions by the employer
  4. Contributions by plan participants
  5. Benefits paid
  6. Business combinations
  7. Divestitures
  8. Settlements.
- c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets and current and noncurrent liabilities recognized.
- d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:
  1. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
  2. The ~~major categories~~ classes of plan assets

3. The inputs and valuation techniques used to measure the fair value of plan assets
4. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
5. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

- i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the ~~major categories~~classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as ~~major categories~~classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.
- ii. The fair value of each ~~major category~~class of plan assets as of each date for which a statement of financial position is presented. Asset ~~categories~~classes shall be based on the nature and risks of assets in an employer's plan(s). For additional guidance on determining appropriate classes of plan assets, see paragraph 820-10-50-2A. Examples of ~~major categories~~ classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in ~~paragraphs~~paragraph 715-20-50-1(d)(1) through ~~50-1(d)(5)(5)~~ in determining whether additional ~~categories~~classes of plan assets or further disaggregation of ~~major categories~~classes should be disclosed.

- iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the ~~major categories~~ classes of assets as described in (ii) above, as appropriate.
- iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant observable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each ~~major category~~ class of plan assets disclosed pursuant to (ii) above for each annual period:
  - 01. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The guidance in paragraph 820-10-35-37 is applicable.
  - 02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
    - A. Actual Return on Plan Assets (Component of **Net Periodic Postretirement Benefit Cost**) or Actual Return on Plan Assets (Component of **Net Periodic Pension Cost**), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
    - B. Purchases, sales, and **settlements**, net
    - C. Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
  - 03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.
- e. For defined benefit pension plans, the accumulated benefit obligation.



- f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits shall be estimated based on the same assumptions used to measure the entity's benefit obligation at the end of the year and shall include benefits attributable to estimated future employee service.
- g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining all of the following:
  - 1. Contributions required by funding regulations or laws
  - 2. Discretionary contributions
  - 3. Noncash contributions.
- h. The amount of net benefit cost recognized, showing separately all of the following:
  - 1. The service cost component
  - 2. The interest cost component
  - 3. The expected return on plan assets for the period
  - 4. The gain or loss component
  - 5. The prior service cost or credit component
  - 6. The transition asset or obligation component
  - 7. The gain or loss recognized due to settlements or curtailments.
- i. Separately the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 715-30-35-11, 715-30-35-21, 715-60-35-16, and 715-60-35-25, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.
- j. The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
- k. On a weighted-average basis, all of the following assumptions used in the accounting for the plans, specifying in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost:
  - 1. Assumed discount rates (~~refer to see~~ paragraph 715-30-35-45 for a discussion of representationally faithful disclosure)
  - 2. Rates of compensation increase (for pay-related plans)
  - 3. Expected long-term rates of return on plan assets.
- l. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern

of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.

- m. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on the aggregate of the service and interest cost components of net periodic postretirement health care benefit costs and the accumulated postretirement benefit obligation for health care benefits. Measuring the sensitivity of the accumulated postretirement benefit obligation and the combined service and interest cost components to a change in the assumed health care cost trend rates requires remeasuring the accumulated postretirement benefit obligation as of the beginning and end of the year. (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)
  - n. If applicable, the amounts and types of securities of the employer and **related parties** included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts, including annuity contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.
  - o. If applicable, any alternative method used to amortize prior service amounts or net gains and losses pursuant to paragraphs 715-30-35-13 and 715-30-35-25 or 715-60-35-18 and 715-60-35-31.
  - p. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.
  - q. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.
  - r. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Subtopic.
  - s. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
  - t. The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.
  - u. Subparagraph not used.
11. Amend paragraph 715-20-50-5, with a link to transition paragraph 820-10-65-7, as follows:

**715-20-50-5 A nonpublic entity** is not required to disclose the information required by paragraphs 715-20-50-1(a) through ~~50-1(e),(c)~~, 715-20-50-1(h), 715-20-50-1(m), and 715-20-50-1(o) through ~~50-1(r),(r)~~. A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide all of the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented.

- a. The benefit obligation, fair value of plan assets, and funded status of the plan.
- b. Employer contributions, participant contributions, and benefits paid.
- c. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:
  1. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
  2. The ~~major categories~~classes of plan assets
  3. The inputs and valuation techniques used to measure the fair value of plan assets
  4. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
  5. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

- i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the ~~major categories~~classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as ~~major categories~~classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.
- ii. The fair value of each ~~major category~~class of plan assets as of each date for which a statement of financial position is

presented. Asset ~~categories~~classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of ~~major categories~~classes include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in ~~paragraphs~~paragraph 715-20-50-5(c)(1) through ~~50-5(c)(5)(5)~~ in determining whether additional ~~categories~~classes of plan assets or further disaggregation of ~~major categories~~classes should be disclosed.

- iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the ~~major categories~~classes of assets described in (ii) above, as appropriate.
- iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each ~~major category~~class of plan assets disclosed pursuant to (ii) above for each annual period:
  - 01. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The guidance in paragraph 820-10-35-37 is applicable.
  - 02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation

of the beginning and ending balances, separately presenting changes during the period attributable to the following:

- A. Actual Return on Plan Assets (Component of Net Periodic Postretirement Benefit Cost) or Actual Return on Plan Assets (Component of Net Periodic Pension Cost), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
- B. Purchases, sales, and settlements, net
- C. Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

- d. For defined benefit pension plans, the accumulated benefit obligation.
- e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits shall be estimated based on the same assumptions used to measure the entity's benefit obligation at the end of the year and shall include benefits attributable to estimated future employee service.
- f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining any of the following:
  - 1. Contributions required by funding regulations or laws
  - 2. Discretionary contributions
  - 3. Noncash contributions.
- g. The amounts recognized in the statements of financial position, showing separately the postretirement benefit assets and current and noncurrent postretirement benefit liabilities.
- h. Separately, the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 715-30-35-11, 715-30-35-21, 715-60-35-16, and 715-60-35-25 and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.
- i. The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

- j. On a weighted-average basis, all of the following assumptions used in the accounting for the plans, specifying in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost:
    - 1. Assumed discount rates (~~refer to see~~ paragraph 715-30-35-45 for a discussion of representationally faithful disclosure)
    - 2. Rates of compensation increase (for pay-related plans)
    - 3. Expected long-term rates of return on plan assets.
  - k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.
  - l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts, including annuity contracts, issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.
  - m. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.
  - n. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
  - o. The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.
  - p. Subparagraph not used.
  - q. The amount of net periodic benefit cost recognized.
12. Amend paragraph 715-20-55-17, with a link to transition paragraph 820-10-65-7, as follows:

### **Implementation Guidance and Illustrations**

**715-20-55-16** The following illustrates the fiscal 20X3 financial statement disclosures for an employer (Entity A) with multiple defined benefit pension plans and other postretirement benefit plans (dollar amounts in millions). Narrative descriptions of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption (see paragraph 715-20-50-1(d)(iii)) and disclosure of the valuation technique(s) and inputs used to measure the fair value of plan assets and a discussion of changes in valuation techniques and inputs (see paragraph 715-20-55-1(d)(iv)(.03)), if any, are not included in this Example. The narrative description of the basis used to determine the overall expected

long-term rate-of-return-on-assets assumption is meant to be entity-specific. For purposes of this Example, the disclosures required by paragraphs 715-20-50-1(d)(ii) and 715-20-50-1(d)(iv) are provided for only the fiscal year ending December 31, 20X3. However, those paragraphs indicate that the disclosures are required to be presented as of each date for which a statement of financial position is presented.

**715-20-55-17** During 20X3, Entity A acquired FV Industries and amended its plans. Entity A would make the following disclosure.

**Notes to Financial Statements**

**Pension and Other Postretirement Benefit Plans**

Entity A has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

Entity A also has other postretirement benefit plans covering substantially all of its employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with the entity's expressed intent to increase retiree contributions each year by 50 percent of health care cost increases in excess of 6 percent. The postretirement health care plans include a limit on the entity's share of costs for recent and future retirees.

Entity A acquired FV Industries on December 27, 20X3, including its pension plans and other postretirement benefit plans. Amendments made at the end of 20X3 to Entity A's plans increased the pension benefit obligations by \$70 and reduced the other postretirement benefit obligations by \$75.

**Obligations and Funded Status**

**At December 31**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$1,246	\$1,200	\$ 742	\$ 712
Service cost	76	72	36	32
Interest cost	90	88	55	55
Plan participants' contributions			20	13
Amendments	70		(75)	
Actuarial loss	20		25	
Acquisition	900		600	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	<u>2,277</u>	<u>1,246</u>	<u>1,313</u>	<u>742</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,068	894	206	87
Actual return on plan assets	29	188	5	24
Acquisition	1,000		25	
Employer contributions	75	100	137	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	<u>2,047</u>	<u>1,068</u>	<u>303</u>	<u>206</u>
Funded status at end of year	<u>\$ (230)</u>	<u>\$ (178)</u>	<u>\$ (1,010)</u>	<u>\$ (536)</u>

[Note: Nonpublic entities are not required to provide information in the preceding tables; they are required to disclose the employer's contributions, participants' contributions, benefit payments, and the funded status.]

Amounts recognized in the statement of financial position consist of the following.

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Noncurrent assets	\$ 227	\$ 127	\$ -	\$ -
Current liabilities	(125)	(125)	(150)	(150)
Noncurrent liabilities	(332)	(180)	(860)	(386)
	<u>\$ (230)</u>	<u>\$ (178)</u>	<u>\$ (1,010)</u>	<u>\$ (536)</u>



Amounts recognized in accumulated other comprehensive income consist of the following.

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Net loss (gain)	\$ 94	\$ 18	\$ (11)	\$ (48)
Prior service cost (credit)	210	160	(92)	(22)
	<u>\$ 304</u>	<u>\$ 178</u>	<u>\$ (103)</u>	<u>\$ (70)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$1,300 and \$850 at December 31, 20X3, and 20X2, respectively.

**Information for pension plans with an accumulated benefit obligation in excess of plan assets**

	<b>December 31</b>	
	<b>20X3</b>	<b>20X2</b>
Projected benefit obligation	\$ 263	\$ 247
Accumulated benefit obligation	237	222
Fair value of plan assets	84	95

**Components of Net Periodic Benefit Cost and Other Amounts Recognized in Accumulated Other Comprehensive Income**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
<b>Net Periodic Benefit Cost</b>	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Service cost	\$ 76	\$ 72	\$ 36	\$ 32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	-	-	-	-
Net periodic benefit cost	<u>\$ 101</u>	<u>\$ 100</u>	<u>\$ 69</u>	<u>\$ 74</u>

**Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Net loss (gain)	\$ 76	\$ 112	\$ 37	\$ (48)
Prior service cost (credit)	70	-	(75)	(27)
Amortization of prior service cost	(20)	(16)	5	5
Total recognized in other comprehensive income	126	96	(33)	(70)
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 227</u>	<u>\$ 196</u>	<u>\$ 36</u>	<u>\$ 4</u>

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$4 and \$27, respectively. The estimated prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$10.

[Note: Nonpublic entities are not required to separately disclose components of net periodic benefit cost.]

**Assumptions**

**Weighted-average assumptions used to determine benefit obligations at December 31**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Discount rate	6.75%	7.25%	7.00%	7.50%
Rate of compensation increase	4.25	4.50		

**Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Discount rate	7.25%	7.50%	7.50%	7.75%
Expected long-term return on plan assets	8.00	8.50	8.10	8.75
Rate of compensation increase	4.50	4.75		

[Entity-specific narrative description of the basis used to determine the overall expected long-term rate of return on assets, as described in paragraph 715-20-50-1(d)(iii), would be included here.]

**Assumed health care cost trend rates at December 31**

	<u>20X3</u>	<u>20X2</u>
Health care cost trend rate assumed for next year	12%	12.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6%	5%
Year that the rate reaches the ultimate trend rate	20X9	20X9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects.

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost	\$ 22	\$ (20)
Effect on postretirement benefit obligation	173	(156)

[Note: Nonpublic entities are not required to provide the information about the impact of a one-percentage-point increase and one-percentage-point decrease in the assumed health care cost trend rates.]

**Plan Assets**

The company's overall investment strategy is to achieve a mix of approximately 75 percent of investments for long-term growth and 25 percent for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 65 percent equity securities, 20 percent corporate bonds and U.S. Treasury securities, and 15 percent to all other types of investments. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds and private equity funds that follow several different strategies.

The fair value of Entity A's pension plan assets at December 31, 20X3, by asset ~~category~~class are as follows.

[Note: The two methods for disclosing the fair value of ~~major categories~~classes of plan assets presented below are not intended to be treated as a template. While they both provide examples of disclosures that comply with the requirements of paragraph 715-20-50-5(d)(ii), the ~~major categories~~classes disclosed should be tailored to the nature and risks of assets in an employer's plan(s). Additionally, an employer should consider the overall objectives in ~~paragraphs~~paragraph 715-20-50-5(d)(1), ~~715-20-50-5(d)(2), and 715-20-50-5(d)(5).~~(2), and (5).]

**Method 1:**

Asset Category Class	Total	Fair Value Measurements at December 31, 20X3 (in millions)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 150	\$ 150		
Equity securities:				
U.S. large-cap <sup>(a)</sup>	550	550		
U.S. mid-cap growth	100	100		
International large-cap value	325	325		
Emerging markets growth	75	25	\$ 50	
Domestic real estate	100	20	80	
Fixed income securities:				
U.S. Treasuries	200	200		
Corporate bonds <sup>(b)</sup>	200		200	
Mortgage-backed securities	50		50	
Other types of investments:				
Equity long/short hedge funds <sup>(c)</sup>	55			\$ 55
Event driven hedge funds <sup>(d)</sup>	45			45
Global opportunities hedge funds <sup>(e)</sup>	35			35
Multi-strategy hedge funds <sup>(f)</sup>	40			40
Private equity funds <sup>(g)</sup>	47			47
Real estate	75			75
<b>Total</b>	<b>\$ 2,047</b>	<b>\$ 1,370</b>	<b>\$ 380</b>	<b>\$ 297</b>

(a) This category class comprises low-cost equity index funds not actively managed that track the S&P 500.

(b) This category class represents investment grade bonds of U.S. issuers from diverse industries.

(c) This category class includes hedge funds that invest both long and short in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

(d) This category class includes investments in approximately 60% equities and 40% bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions.

(e) This category class includes approximately 80% investments in non-U.S. common stocks in the health care, energy, information technology, utilities, and telecommunications sectors and approximately 20% investments in diversified currencies.

(f) This category class invests in multiple strategies to diversify risks and reduce volatility. It includes investment in approximately 50% U.S. common stocks, 30% global real estate projects, and 20% arbitrage investments.

(g) This category class includes several private equity funds that invest primarily in U.S. commercial real estate.

[Note: Presented below is another method by which management could disclose categories classes of plan assets.]

**Method 2:**

Fair Value Measurements at December 31, 20X3 (in millions)				
<u>Asset Category Class</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 150	\$ 150		
Equity securities:				
U.S. companies	400	400		
International companies	300	300		
Mutual funds <sup>(a)</sup>	450	320	\$ 130	
U.S. Treasury securities	200	200		
AA corporate bonds	100		100	
A corporate bonds	100		100	
Mortgage-backed securities	50		50	
Equity long/short hedge funds <sup>(b)</sup>	55			\$ 55
Event driven hedge funds <sup>(c)</sup>	45			45
Global opportunities hedge funds <sup>(d)</sup>	35			35
Multi-strategy hedge funds <sup>(e)</sup>	40			40
Private equity funds <sup>(f)</sup>	47			47
Real estate	75			75
<b>Total</b>	<b>\$ 2,047</b>	<b>\$ 1,370</b>	<b>\$ 380</b>	<b>\$ 297</b>

(a) 70% of mutual funds invest in common stock of large-cap U.S. companies. 30% of the company's mutual fund investments focus on emerging markets and domestic real estate common stocks.

(b) This category class includes hedge funds that invest both long and short in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

(c) This category class includes investments in approximately 60% equities and 40% bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions.

(d) This category class includes approximately 80% investments in non-U.S. common stocks in the health care, energy, information technology, utilities, and telecommunications sectors and approximately 20% investments in diversified currencies.

(e) This category class invests in multiple strategies to diversify risks and reduce volatility. It includes investments in approximately 50% U.S. common stocks, 30% global real estate projects, and 20% arbitrage investments.

(f) This category class includes several private equity funds that invest primarily in U.S. commercial real estate.

[Note: An entity shall disclose the following information regardless of its method for disclosing major categories classes of plan assets.]

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Equity Long/Short Hedge Funds	Event Driven Hedge Funds	Global Opportunities Hedge Funds	Multi-Strategy Hedge Funds	Private Equity Funds	Real Estate	Total
Beginning balance at December 31, 20X2	\$ 40	\$ 35	\$ 39	\$ 35	\$ 40	\$ 10	\$ 199
Actual return on plan assets:							
Relating to assets still held at the reporting date	(2)	5	(7)	5	2	3	6
Relating to assets sold during the period		3			2		5
Purchases, sales, and settlements	15	2			3	62	82
Transfers in and/or out of Level 3	2		3				5
Ending balance at December 31, 20X3	<u>\$ 55</u>	<u>\$ 45</u>	<u>\$ 35</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 75</u>	<u>\$ 297</u>

[Entity-specific narrative description of investment policies and strategies for plan assets, including weighted-average target asset allocations [if used as part of those policies and strategies] as described in paragraph 715-20-50-1(d)(ii) would be included here.]

The fair values of Entity A's other postretirement benefit plan assets at December 31, 20X3, by asset categoryclass are as follows.

Fair Value Measurements at December 31, 20X3 (in millions)				
<u>Asset Category Class</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Diversified equity securities	\$ 150	\$ 150	-	\$ -
U.S. Treasury securities	50	50	-	-
Diversified corporate bonds	103	-	\$ 103	-
Total	<u>\$ 303</u>	<u>\$ 200</u>	<u>\$ 103</u>	<u>\$ -</u>

Diversified equity securities include Entity A common stock in the amounts of \$12 at December 31, 20X3.

## Cash Flows

## Contributions

Entity A expects to contribute \$125 million to its pension plan and \$150 million to its other postretirement benefit plan in 20X4.

### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

	<b><u>Pension Benefits</u></b>	<b><u>Other Benefits</u></b>
20X4	\$ 200	\$ 150
20X5	208	155
20X6	215	160
20X7	225	165
20X8	235	170
Years 20X9–20Y3	1,352	984

### Amendments to Status Sections

13. Add paragraph 715-20-00-1 as follows:

**715-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
715-20-50-1	Amended	2010-06	01/21/2010
715-20-50-5	Amended	2010-06	01/21/2010
715-20-55-17	Amended	2010-06	01/21/2010

14. Amend paragraph 820-10-00-1, by adding the following items to the table, as follows:

**820-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
820-10-50-1	Amended	2010-06	01/21/2010
820-10-50-2	Amended	2010-06	01/21/2010
820-10-50-2A	Added	2010-06	01/21/2010

820-10-50-3	Amended	2010-06	01/21/2010
820-10-50-5	Amended	2010-06	01/21/2010
820-10-50-6A	Amended	2010-06	01/21/2010
820-10-55-22A	Added	2010-06	01/21/2010
820-10-55-22B	Added	2010-06	01/21/2010
820-10-55-61 through 55-64A	Amended	2010-06	01/21/2010
820-10-65-7	Added	2010-06	01/21/2010

*The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:*

Robert H. Herz, *Chairman*  
Thomas J. Linsmeier  
Leslie F. Seidman  
Marc A. Siegel  
Lawrence W. Smith



## Background Information and Basis for Conclusions

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BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

### Background Information

BC2. U.S. GAAP requires that a reporting entity provide disclosures about fair value measurements used in financial statements. Most of those requirements are set out in Subtopic 820-10.

BC3. A number of constituents recommended that the Board improve disclosure requirements in U.S. GAAP on fair value measurements. Some of the more recent requests and developments include the following:

- a. During 2008, the Securities and Exchange Commission's (SEC) Division of Corporation Finance issued letters to some public companies that encouraged additional disclosures in the management's discussion and analysis (MD&A) section of their SEC filings about the application of the fair value measurement standards in U.S. GAAP.
- b. In October 2008, in responding to FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, some financial statement users urged the Board to enhance the disclosure requirements in U.S. GAAP on fair value measurements.
- c. In October 2008, the International Accounting Standard Board's (IASB) Expert Advisory Panel issued a report titled *Measuring and Disclosing the Fair Value of Financial Instruments in Markets That Are No Longer Active*. On the basis of that report, the IASB issued proposals to improve the fair value disclosures in IFRS 7.
- d. In December 2008, the SEC released its *Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting*. This report recommended that the FASB consider enhancing the disclosure requirements in U.S. GAAP on fair value measurements.
- e. In February 2009, the FASB's Valuation Resource Group met to discuss various issues on the implementation of fair value disclosure requirements in U.S. GAAP and suggested additional disclosures.
- f. In March 2009, the International Monetary Fund issued the Working Paper, *Procyclicality and Fair Value Accounting*. The authors of that

Paper recommend that fair value measurements be supplemented with adequate disclosures.

- g. In March 2009, the IASB issued *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*. The amendments require some new disclosures and improve convergence with the fair value hierarchy and the related disclosures in Subtopic 820-10.

BC4. In response to the developments summarized above, the Board issued a proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, on August 28, 2009. The Board received 111 comment letters in response to questions in the proposed Update. The Board considered those comments during its redeliberations of the issues addressed by the proposed Update at a public Board meeting in November 2009.

## Clarifications of Existing Disclosure Requirements

### Level of Disaggregation

BC5. Existing U.S. GAAP on fair value measurement and disclosures requires that a reporting entity provide disclosures about fair value measurements for each major category of assets and liabilities. Some users noted that many companies have interpreted the term *major category* to mean a line item in the statement of financial position. Those users told the Board that disclosures at that relatively high level of aggregation are often less useful. They recommended that the Board require that entities provide disclosures for meaningful subsets of line items in the statement of financial position.

BC6. The Board concluded that disclosures about fair value measurements are more useful if an entity provided them for each class of assets and liabilities within the line items in the statement of financial position. The Board decided to amend U.S. GAAP on fair value measurements and disclosures to include additional guidance on determining the appropriate level of disaggregation for those disclosures.

## Disclosures about Inputs to Recurring Fair Value Measurements

BC7. U.S. GAAP on fair value measurements and disclosures includes specific objectives that an entity should achieve when providing disclosures about recurring fair value measurements (paragraph 820-10-50-1). Those objectives state:

The reporting entity shall disclose information that enables users of its financial statements to assess both of the following:

- a. For assets and liabilities that are measured at **fair value** on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the **inputs** used to develop those measurements
- b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period.

BC8. U.S. GAAP on fair value measurements and disclosures also provides a list of specific disclosures necessary to achieve the above objectives; however, that list does not include a requirement to discuss the inputs to recurring fair value measurements. The Board notes that paragraph 820-10-50-2(e) requires that a reporting entity describe the techniques used for recurring fair value measurements. In the Board's view, a discussion of techniques is incomplete without a discussion of the inputs. However, the Board concluded that a more explicit requirement to discuss the inputs for recurring fair value measurements will clarify and improve disclosures. The amendments in this Update also clarify that for recurring, as well as nonrecurring, fair value measurements, the disclosures about inputs and valuation techniques apply to both Level 2 and Level 3 fair value measurements, not just Level 3 fair value measurements.

## New Disclosures Requirements

### Transfers between Levels 1, 2, and 3

BC9. Paragraph 820-10-50-2(c)(3) requires disclosure of the amounts of transfers in and/or out of Level 3 inputs. Financial statement users have indicated that similar information for significant transfers between all input levels (that is, Levels 1, 2, and 3) during the reporting period are useful. IFRS 7, as amended in March 2009, requires the disclosure of that information. Users may use the information about the amounts and reasons for transfers between levels in their assessment of the reporting entity's quality of reported earnings and expected future cash flows. The Board concluded that information about significant transfers between Levels 1, 2, and 3 is useful and should be required.

### Activity in Level 3 Fair Value Measurements

BC10. Users indicated that for fair value measurements using significant unobservable inputs (Level 3), information about movements due to purchases, sales, issuances, and settlements is most helpful if it is not presented as a single net amount (for example, see paragraph 144(b) on page 47 of the IASB's October 2008 Expert Advisory Panel Report, *Measuring and Disclosing the Fair Value of Financial Instruments in Markets That Are No Longer Active*). Therefore,

the proposed amendments required presentation of this activity on a gross rather than net basis.

BC11. Respondents who commented on that issue had mixed opinions about the operationality and usefulness of providing purchases, sales, issuances, and settlements of Level 3 fair value measurements on a gross basis. Users, accounting firms, valuation firms, and some banks generally agreed with the requirement, while private equity firms and entities with significant trading activities stated that the requirement was too onerous, or was operational, but would not provide useful information. The Board noted that IFRS 7, as amended in March 2009, also requires separate disclosure of Level 3 purchases, sales, issuances, and settlements. The Board concluded that the proposed disclosure is useful and should be required because it would indicate the reasons for changes in Level 3 fair value measurements. However, the Board decided on a delayed effective date and prospective transition to give entities that need significant changes to their information systems adequate time to comply with the new disclosure requirement.

## Other Disclosures Considered

### Effect of Reasonably Possible Alternative Level 3 Inputs— Sensitivity Disclosures

BC12. Regarding fair value measurements using Level 3 inputs, financial statement users indicated that information about the effect(s) of reasonably possible alternative inputs (sometimes also referred to as sensitivity analysis) would be relevant in their analysis of the reporting entity's performance.

BC13. Under current SEC rules, registrants may present sensitivity information to comply with the disclosure requirements in Financial Reporting Release No. 48, *Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information About Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments*, for quantitative information about exposure to future changes in market risk from financial instruments. Consequently, some SEC registrants may already be providing sensitivity information in their MD&A disclosures although it is different from the type of sensitivity information that was included in the proposed Update. Furthermore, IFRS 7, as amended in March 2009, requires sensitivity information about potential changes in fair value measurements resulting from using reasonably possible alternative Level 3 inputs.

BC14. To be consistent with the approach adopted in IFRS 7, as amended in March 2009, amendments in the proposed Update did not prescribe any specific method to calculate the effect(s) of reasonably possible alternative inputs but did require disclosure of the method that the reporting entity used in complying with

the sensitivity disclosure requirement. While not prescribing any specific method, the amendments in the proposed Update would have clarified that when estimating the effect of more than one reasonably possible input, the reporting entity should include the expected effect of correlation among changes in different significant inputs. For sensitivity disclosures to be useful for further analyses by users of financial statements, the proposed Update also would have required quantitative disclosure about the significant inputs used in Level 3 measurements and about reasonably possible alternative inputs.

BC15. Before issuing the proposed Update, the Board asked the staff to seek preparer input to assess the operationality of the disclosures about the level of disaggregation and about the effect(s) of reasonably possible alternative inputs for fair value measurements using significant unobservable inputs (Level 3) (sometimes also referred to as sensitivity analysis). Seven financial statement preparers volunteered to participate in that outreach effort. The proposed Update incorporated some of the suggestions made by those preparers.

BC16. During September and October 2009, the FASB staff conducted additional outreach with various entities. The effort involved calls with firms that provide third-party security pricing data (that is, pricing services) and a user group. As a result of that effort, the staff gained a better understanding of the operationality and usefulness of the proposed sensitivity disclosures for Level 3 fair value measurements.

BC17. Most respondents (other than users) did not support the proposed sensitivity disclosures. They stated that the proposed disclosures would be challenging to implement and would significantly increase costs while providing little, if any, benefit to users. Many respondents stated that the information provided by the proposed sensitivity disclosures would not be decision useful because the range of reasonably possible Level 3 fair values would be extremely wide and, thus, would be meaningless and possibly confusing to users. Other respondents questioned the usefulness of the information due to the complexities in capturing correlation and interdependencies among multiple significant inputs.

BC18. Some respondents also noted differences between the disclosure requirements in the proposed Update and those in IFRS 7. For example, entities are not required to consider the correlation between multiple significant inputs in the sensitivity disclosures under IFRS 7.

BC19. Users, however, supported the proposed disclosures because, in their view, the disclosures would provide useful information to better understand a reporting entity's fair value measurements, especially Level 3 measurements. Users noted the inherent subjectivity in Level 3 measurements and stated that the proposed sensitivity information would allow them to better evaluate the reporting entity's cash flows, earnings, capital requirements, and compliance with debt covenants.

BC20. At the October 2009 joint meeting, the FASB and the IASB decided that the staffs of both Boards should develop recommendations that would seek to eliminate all differences in the Boards' guidance for fair value measurement and disclosure. The staffs have not yet performed a formal analysis to identify the differences in fair value disclosures. The FASB staff also would like to obtain input from the IASB staff and others about the operationality and usefulness of the sensitivity disclosures required under IFRS 7.

BC21. In view of the respondents' concerns about the operationality and costs of the sensitivity disclosures in the proposed Update and the October 2009 joint Board meeting decision to achieve convergence on fair value measurement and disclosure, the FASB decided to defer consideration of the proposed sensitivity disclosures. In the meantime, the FASB staff will assess the operationality and usefulness of similar disclosures currently required under IFRS 7. A final decision on the Level 3 sensitivity disclosures will be part of the convergence project on fair value measurement and disclosures.

### Conforming Amendments to Subtopic 715-20

BC22. This Update includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The Board does not expect any significant changes in the application of Subtopic 715-20, as amended, because the objectives and basic principles of disaggregating fair value disclosures are the same for the financial statements of both an employer and a postretirement plan. The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures.

### Effective Date

BC23. The proposed Update would have required that the disclosures be effective for annual or interim reporting periods ending after December 15, 2009, except for Level 3 sensitivity disclosures, which would have been effective for periods ending after March 15, 2010.

BC24. Respondents generally disagreed with the proposed effective date(s), stating that additional time is necessary for entities to comply with the expanded disclosure requirements. Those respondents stated that the period would be used to make necessary information systems changes and to provide adequate time to comply with other accounting requirements that will become effective at year-end, such as the guidance in FASB Statements No. 166, *Accounting for Transfers of Financial Assets*, and No. 167, *Amendments to FASB Interpretation No. 46(R)*.

BC25. Based on the input from constituents, the Board concluded that the guidance in this Update should be effective for annual and interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity between purchases, sales, issuances, and settlements on a gross basis. That requirement is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

## Benefits and Costs

BC26. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC27. Users have told the Board that a greater level of disaggregation information about fair value measurements as well as more robust disclosures about valuation techniques and assumptions related to Level 2 and Level 3 measurements are useful in their analysis of a reporting entity's performance and expected future cash flows. Furthermore, users have said that because of the different degrees of subjectivity and reliability of Level 1, Level 2, and Level 3 fair value measurements, information about significant transfers between the three levels and the reasons for such transfers are useful. They also are interested in the level of activity in the Level 3 roll forward, which is indicated by the separate disclosure of gross purchases, sales, issuances, and settlements rather than as one net number.

BC28. The Board concluded that the information required to comply with the amendments in this Update generally should be available to most reporting entities without significant changes to their current information systems. Regarding the reporting of purchases, sales, issuances, and settlements on a gross basis in the Level 3 roll forward, the Board acknowledges that some entities will need to change information systems, and therefore, has provided a delayed effective date for that disclosure.

## Amendments to the XBRL Taxonomy

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The following elements are proposed additions or modifications to the XBRL taxonomy as a result of the amendments in this Update. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk\* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.)

Standard Label <sup>†</sup>	Definition	Codification Reference
<b>OBSERVABLE/RECURRING OR NONRECURRING /ASSETS</b>		
Fair Value, Assets, Measurement with Observable Inputs, Significant Transfers Into Level 1 from Level 2 Fair Value Measurements, [Text Block]	This element represents significant transfers of assets into Level 1 from Level 2 of the fair value hierarchy and the reasons for those transfers.	820-10-50-2(bb)
Fair Value, Assets, Measurement with Observable Inputs, Significant Transfers Out of Level 1 and Into Level 2 Fair Value Measurements, [Text Block]	This element represents significant transfers of assets out of Level 1 and into Level 2 of the fair value hierarchy and the reasons for those transfers.	820-10-50-2(bb)
Fair Value, Assets Measured on Recurring Basis, Reason for Significant Transfers between Level 1 and Level 2 Fair Value Measurements	Disclosure of the reasons for significant transfers between Level 1 and Level 2 fair value measurements.	820-10-50-2-(bb)

<sup>†</sup>The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.



<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
Fair Value, Assets Measured on Recurring Basis, Observable Inputs, Description and Development [Text Block]	This item represents, for each class of assets, a description of the inputs and the information used to develop the inputs for fair value measurements using observable inputs (Level 2).	820-10-20-2(e)
Fair Value, Assets Measured on Recurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate class of assets (Level 2).	820-10-50-2(e)
Fair Value, Assets Measured on Recurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate class of assets (Level 2).	820-10-50-2(e)
<b>UNOBSERVABLE/RECURRING/ASSETS</b>		
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Transfers In	This element represents transfers in to Level 3 of assets measured at fair value on a recurring basis using unobservable inputs, which have taken place during the period.	820-10-50-2(c)(3)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Transfers Out	This element represents transfers out of Level 3 of assets measured at fair value on a recurring basis using unobservable inputs, which have taken place during the period.	820-10-50-2(c)(3)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
Fair Value, Assets Measured on Recurring Basis, Reason for Significant Transfers In or Out of Level 3 Fair Value Measurement	Disclosure of the reasons for significant transfers in or out of Level 3 fair value measurement.	820-10-50-2-(c)(3)
<b>*Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Other Comprehensive Income</b>	This element represents total gains or losses for the period (realized and unrealized) arising from assets measured at fair value on a recurring basis using unobservable inputs (Level 3), which are included in other comprehensive income (a separate component of shareholders' equity).	820-10-50-2(c)(1)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Purchases	This element represents purchases that have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Sales	This element represents sales that have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Issuances	This element represents issuances that have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Assets, Settlements	This element represents settlements that have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)

Standard Label <sup>†</sup>	Definition	Codification Reference
UNOBSERVABLE/ RECURRING OR NONRECURRING /ASSETS		
Fair Value, Assets Measured on Recurring Basis, Unobservable Inputs, Description and Development [Text Block]	This item represents, for each class of assets, a description of the inputs and the information used to develop the inputs for fair value measurements using observable inputs (Level 3).	820-10-20-2(e)
Fair Value, Assets Measured on Recurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate class of assets (Level 3).	820-10-50-2(e)
Fair Value, Assets Measured on Recurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate class of assets (Level 3).	820-10-50-2(e)
OBSERVABLE/RECURRING OR NONRECURRING /LIABILITIES		
Fair Value, Liabilities, Measurement with Observable Inputs, Significant Transfers between Level 1 and Level 2 Fair Value Measurements, [Text Block]	This element represents significant transfers of liabilities between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers.	820-10-50-2(bb)
Fair Value, Liabilities, Measurement with Observable Inputs, Significant Transfers Out of Level 1 and	This element represents significant transfers of liabilities out of Level 1 and into Level 2 of the fair value hierarchy and the reasons for those transfers.	820-10-50-2(bb)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
Into Level 2 Fair Value Measurements, [Text Block]		
Fair Value, Liabilities Measured on Recurring Basis, Reason for Significant Transfers between Level 1 and Level 2 Fair Value Measurements	Disclosure of the reasons for significant transfers between Level 1 and Level 2 fair value measurements.	820-10-50-2-(bb)
Fair Value, Liabilities Measured on Recurring Basis, Observable Inputs, Description and Development [Text Block]	This item represents, for each class of liabilities, a description of the inputs and the information used to develop the inputs for fair value measurements using observable inputs (Level 2).	820-10-20-2(e)
Fair Value, Liabilities Measured on Recurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate class of liabilities (Level 2).	820-10-50-2(e)
Fair Value, Liabilities Measured on Recurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate class of liabilities (Level 2).	820-10-50-2(e)
<b>UNOBSERVABLE/ RECURRING OR NONRECURRING /LIABILITIES</b>		
Fair Value, Liabilities Measured on Recurring Basis, Unobservable Inputs, Description and Development [Text Block]	This item represents, for each class of assets, a description of the inputs and the information used to develop the inputs for fair value measurements using observable inputs (Level 3).	820-10-20-2(e)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
Fair Value, Liabilities Measured on Recurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate class of liabilities (Level 3).	820-10-50-2(e)
Fair Value, Liabilities Measured on Recurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate class of liabilities (Level 3).	820-10-50-2(e)
<b>UNOBSERVABLE/ RECURRING/LIABI LITY</b>		
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Transfers In	This element represents transfers in to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) that have taken place during the period.	820-10-50-2(c)(3)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Transfers Out	This element represents transfers out of liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) that have taken place during the period.	820-10-50-2(c)(3)
Fair Value, Liabilities Measured on Recurring Basis, Reason for Significant Transfers In or Out of Level 3 Fair Value Measurement	Disclosure of the reasons for significant transfers in or out of Level 3 fair value measurement.	820-10-50-2(c)(3)
<b>*Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Gain</b>	This element represents total gains or losses for the period (realized and unrealized) arising from liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) that are included in other comprehensive income (a separate	820-10-50-2(c)(1)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
<b>(Loss) Included in Other Comprehensive Income</b>	component of shareholders' equity).	
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Purchases	This element represents purchases that have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Sales	This element represents sales that have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Issuances	This element represents issuances that have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liabilities, Settlements	This element represents settlements that have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2(c)(2)
<b>*Fair Value, Assets Measured on Recurring Basis [Table]</b>	Summarization of information required and determined to be disclosed concerning assets, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2(a) through (b)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
<b>*Fair Value, Assets Measured on Recurring Basis, Disclosure Items [Axis]</b>	This element represents a number of concepts that are required or desirable disclosure items concerning assets, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
<b>*Fair Value, Assets Measured on Recurring Basis, Disclosure Items [Domain]</b>	Provides the general information items required or determined to be disclosed with respect to assets, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
<b>*Estimate of Fair Value, Fair Value Disclosure [Member]</b>	This element represents the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined) for which it is practicable to estimate such value.	820-10-50-2(a) through (b)
<b>*Fair Value, Inputs, Level 1 [Member]</b>	This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 1 of the fair value measurement hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.	820-10-50-2(a) through (b)
<b>*Fair Value, Inputs, Level 2 [Member]</b>	This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 2 of the fair value measurement hierarchy. Level 2 inputs are inputs other than quoted	820-10-50-2(a) through (b)

Standard Label <sup>†</sup>	Definition	Codification Reference
	<p>prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active; that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market), (3) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).</p>	
<p><b>*Fair Value, Inputs, Level 3 [Member]</b></p>	<p>This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 3 of the fair value measurement hierarchy. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available; for example, when there is little, if any, market activity for the asset or liability at the measurement</p>	<p>820-10-50-2(a) through (b)</p>



Standard Label <sup>†</sup>	Definition	Codification Reference
	date.	
RECURRING/ASSET		
<b>*Fair Value, Assets Measured on Recurring Basis, Financial Statement Captions [Line Items]</b>	This element represents certain statement of financial position asset captions, which represent a class of assets, or that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Trading Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Trading Securities, Equity Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Trading Securities, Debt Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Available-for-Sale Securities, Residential Mortgage-Backed Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Available-for-Sale Securities, Commercial Mortgage-Backed	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
Securities		
Fair Value, Assets Measured on Recurring Basis, Available-for-Sale Securities, Collateralized Debt Obligations	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Available-for-Sale Securities, U.S. Treasury Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Derivatives-Interest Rate Contracts	This element represents a certain statement of financial position asset caption, which represents a class of assets, or one that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Assets Measured on Recurring Basis, Derivatives-Foreign Exchange Contracts	This element represents a certain statement of financial position asset caption, which represents a class of assets, or that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
<b>RECURRING/LIABILITY</b>		
<b>*Fair Value, Liabilities Measured on Recurring Basis [Table]</b>	Summarization of information concerning assets required and determined to be disclosed, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
<b>*Fair Value, Liabilities Measured on Recurring Basis, Disclosure Items [Axis]</b>	This element represents a number of concepts that are required or desirable disclosure items concerning assets, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring	820-10-50-2(a) through (b)

Standard Label <sup>†</sup>	Definition	Codification Reference
	basis.	
<b>*Fair Value, Liabilities Measured on Recurring Basis, Disclosure Items [Domain]</b>	This element represents a number of concepts that are required or desirable disclosure items concerning liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
<b>*Estimate of Fair Value, Fair Value Disclosure [Member]</b>	This element represents the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined) for which it is practicable to estimate such value.	820-10-50-2(a) through b)
<b>*Fair Value, Inputs, Level 1 [Member]</b>	This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 1 of the fair value measurement hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.	820-10-50-2(a) through (b)
<b>*Fair Value, Inputs, Level 2 [Member]</b>	This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 2 of the fair value measurement hierarchy. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted	820-10-50-2(a) through (b)

Standard Label <sup>†</sup>	Definition	Codification Reference
	<p>prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market), (3) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).</p>	
<p><b>*Fair Value, Inputs, Level 3 [Member]</b></p>	<p>This item represents the amount of assets or liabilities, including (financial) instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 3 of the fair value measurement hierarchy. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available; for example, when there is little, if any, market activity for the asset or liability at the measurement date.</p>	<p>820-10-50-2(a) through (b)</p>

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
<b>*Fair Value, Liabilities Measured on Recurring Basis, Financial Statement Captions [Line Items]</b>	This element represents certain statement of financial position liability captions, which represent a class of liabilities, or that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Liabilities Measured on Recurring Basis, Long-term Debt	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Liabilities Measured on Recurring Basis, Derivatives-Interest Rate Contracts	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)
Fair Value, Liabilities Measured on Recurring Basis, Derivatives-Foreign Exchange Contracts	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or that may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2(a) through (b)

**Exhibit C**

Methodology  
*RMBS Insight: U.S. Residential  
Mortgage-Backed Securities Loss Model  
and Rating Methodology*

JANUARY 2012



*Insight beyond the rating.*

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### Related Research:

Legal Criteria for U.S. Structured Finance Transactions  
Representations and Warranties Criteria for U.S. RMBS Transactions  
Third-Party Due Diligence Criteria for U.S. RMBS Transactions  
Operational Risk Assessment for U.S. RMBS Servicers  
Unified Interest Rate Model for U.S. RMBS Transactions

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DBRS is a full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any financial institution, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, Web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.

This methodology replaces and supersedes all related prior methodologies. This methodology may be replaced or amended from time to time and, therefore, DBRS recommends that readers consult [www.dbrs.com](http://www.dbrs.com) for the latest version of its methodologies.





# RMBS Insight: U.S. Residential Mortgage-Backed Securities Loss Model and Rating Methodology

## TABLE OF CONTENTS

Introduction	4
Modeling Methodology	6
Probability of Default	11
Loss Severity	18
Shrinkage, Concentration Risk and Small Pools	24
Rating Categories	26
Re-securitizations (or ReREMICs)	28
Transaction Structure and Cash Flow Analysis	29
Legal Structure Review	36
Appendix 1. Rating Process for U.S. RMBS Transactions	37
Appendix 2. Operational Risk Assessment	39
Appendix 3. Peak-to-Trough Home Price Forecast Model	44
Appendix 4. Model Validation	46
Appendix 5. Rating Category Models	48
Appendix 6. DBRS Idealized Default Table	51



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## Introduction

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### RMBS INSIGHT: THE RESIDENTIAL LOSS MODEL

DBRS introduces RMBS Insight, its new residential loss model that estimates loan-level default probability, loss severity and expected loss for a pool of mortgage loans. RMBS Insight evaluates mortgage pools on a loan-level basis and provides various risk reports of the entire pool or segments thereof. The sum of the loss estimates from each mortgage provides the estimate of losses for a pool of loans.

As detailed in Appendix 1 and Appendix 2 of this report, the RMBS Insight model also incorporates results from qualitative reviews on operational risk, third-party due diligence and representations and warranties, which are integral parts of the DBRS rating methodology. Any transaction-specific assumptions that deviate from this methodology will be detailed in the related rating reports and/or press releases.

### UNIQUE ASPECTS OF RMBS INSIGHT

#### *Comprehensive Coverage*

RMBS Insight consists of multiple sub-modules, or models, which cover the rating analytics of a variety of asset types that include newly-originated and seasoned pools, liquidating trust (of non-performing loans or NPLs), Federal Housing Administration (FHA) and Veterans Affairs (VA) securitizations, (interest rate) swap termination payments, as well as re-securitizations of real estate mortgage investment conduits (ReREMICs).

Since there are commonalities in analyzing all of these asset types, this methodology generally does not have a separate section for each product except for where the analytics differ. For example, the default and loss severity analysis of NPLs, swap termination payments and ReREMICs all conform to that of seasoned loans, with the exception of the cash flow treatment for NPLs and swap termination payments. Similarly, as a loan migrates from new to seasoned, the same origination attributes still matter and will be analyzed in conjunction with the seasoned characteristics. However, their impact on the default probability diminishes (on a sliding scale) as the loan ages or becomes more delinquent. By the time a seasoned loan becomes 90+ days delinquent, the origination attributes are of secondary importance.

#### *Consideration of Regional Economic Data*

The experience of the last decade has made it apparent that it is not credible to consider loan performance without factoring in house prices and unemployment rates. In our dataset, DBRS has analyzed a number of regional economic factors and their effect on actual loan performance on a Metropolitan Statistical Area (MSA) level. The following factors are incorporated into RMBS Insight at an MSA level:

1. Growth rate in civilian labor force.
2. Per-capita income.
3. Unemployment rate.
4. House price index.

#### *User-Input Assumptions and Variables*

Macroeconomic conditions, prepayment speeds and liquidation timelines change with time, servicers and asset pools. DBRS has analyzed these variables and incorporated their impact to loan performance into RMBS Insight.

RMBS Insight provides users with the option to forecast quantities of the variables listed below. In this way, the model is ideally set up for scenario analysis. These assumptions are based on actual observations and industry forecasts, or when DBRS deems that additional stresses are warranted.

1. Future changes in unemployment rates.
2. Future changes in house prices (in addition to the DBRS baseline forecast).



3. Voluntary prepayment rate (CPR).
4. Future changes in liquidation timelines.
5. Future changes in months in real estate-owned (REO) properties.
6. Roll rates from 180 Days delinquency to default.

### ***Rating Category Stress Algorithm – An Asset Correlation and Simulation Approach***

Rating category stress levels are predicated on models of joint loan behavior, both default and recovery. The parameters of these models are estimated from historical performance data. Working up from the loan-level produces results that are sensitive to the nature of the pool (or portfolio) being analyzed. The distributions of expected default, loan balance, and property location will all impact the rating stress levels. The stress levels themselves are determined so that the probability of exceeding the level is less than a target value, or confidence interval, as established by the DBRS published idealized default table in Appendix 6.

Because of the complexity of the relationships, a simulation approach is taken to determining the portfolio-level distributions of default and recovery. The simulation approach enables the resulting stress levels to fully realize the dependencies that have been modeled.

## **KEY ENHANCEMENTS FROM PRE-CRISIS**

### ***Effect of FICO***

Although FICO score is still a key risk factor, the effect of FICO has lessened for recent originations and therefore the reliance on FICO in the model is reduced.

### ***Incorporation of Home Prices***

Following the most recent credit crisis, it is clear that it is impossible to ignore the effect of home prices on pool performance. RMBS Insight incorporates home prices in the following manners:

1. The default model incorporates updated values of the owner's equity in the property.
2. The severity model incorporates updated estimates of property value.
3. Ratings levels are derived, in part, by the application of additional market value declines (MVD) to the models.

### ***Shrinkage Factor (or Deal Adjustment)***

DBRS introduces the shrinkage factor in its RMBS Insight Model. In our model validation, DBRS noticed that "good" loans (loans with good collateral attributes) in a subprime pool tended to perform worse than if the same loans were included in a prime pool. The worse performance is suspected to at least be partially driven by the assignment process (of these loans into a subprime pool) which may be a reflection of looser underwriting standards. The opposite is also true. When a "bad" loan showed up in a prime pool, it tended to exhibit better performance than if it was included in a subprime pool. The loan may represent an "exception" to the underwriting process that underwent additional scrutiny.

Applying a shrinkage factor in transactions pulls each loan closer to the average. A "good" loan in a subprime deal may not deserve the credit it would otherwise have received. Conversely, a "bad" loan in a prime deal may not be as bad as its collateral attributes have suggested.

### ***Concentration Risk in Loan Size and Geography***

The risk presented by concentrations is that of an increased chance of loss exceeding the expected level rather than an increase in the expected level of loss. As such, the effect of concentration risk appears in the BB to AAA rating scenarios and not the B level estimates. Concentration is measured by a Herfindahl index calculated on both a geographic and loan-size basis. The level of asset correlation is determined by the levels of concentration and credit quality. The asset correlation is an important factor in the determination of rating levels.



### *Small Pools*

For securitizations consisting of fewer than 300 loans, RMBS Insight incorporates a small pool adjustment. Small pools are typically more sensitive to certain large loans incurring losses and therefore may exhibit a risk in excess of the model estimate. Small pool adjustments vary by loan count and rating category.

### *Dynamic Cash Flow Assumptions*

The complexity of the capital structures in RMBS transactions requires testing various combinations of cash flow stresses to properly analyze a bond. DBRS incorporates a dynamic cash flow analysis in our rating process. A baseline of multiple prepayment scenarios, loss timing curves and interest rate stresses are generally applied to test the resilience of a bond. An appropriate rating is one that can withstand the combination of DBRS-modeled cash flow stresses without the rated class incurring any interest shortfalls or principal writedowns. DBRS generally runs 40 scenarios in each rating category to test the sensitivity of the rated securities to various cash flow stresses.

These enhancements are discussed in detail in later sections.

## GENERAL FINDINGS

In analyzing the data and developing RMBS Insight, there are a number of general findings that are of note. These observations are multivariate in nature. That is, they hold true even after adjusting for other risk factors.

- The three most important risk factors are:
  1. FICO score
  2. Current loan-to-value (LTV) and Current Combined LTV and
  3. Future equity in the home – forecasted based on a two-year horizon
  4. The effect of FICO scores has lessened for recent originations.
- Condos, second homes and investor properties have increased in risk for recent originations.
- Unemployment is an important risk factor.

## MODEL VALIDATION

Upon the completion of RMBS Insight, DBRS also conducted a validation of the model results by comparing them against actual historical performance. The validation is done for both probability of default and loss severity, and the results are detailed in Appendix 4 of this methodology.

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# Modeling Methodology

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## DATA

RMBS Insight consists of multiple sub-modules, or models that are built using statistical methods. The details are important with such modeling. The purpose of this section is to enumerate the key details of the methodology.

The following data sources are used to build and validate the RMBS Insight models:

- MBS Data LLC database of securitized loans.
- Regional economic data from the St. Louis Federal Reserve FRED II database.
- Case-Shiller home price indices.

The dataset covers the period between 2000 and 2010. The bulk of originations occurred in the middle of this period. There is loan performance data subsequent to 2007, but few originations. The period covers a wide range of economic conditions. It is well suited to indentifying the effects of house prices and unemployment on default and loss rates.



The MBS Data LLC dataset contains approximately 23 million origination records and 760 million historical remittance records. It is neither practical nor necessary to use all these loans to build the models. Instead, a sample is taken when building each of the statistical models. The sampling method for each model is detailed in later sections, starting from “Sampling” in “Probability of Default”.

## OVERVIEW

As part of its rating methodology for U.S. RMBS, DBRS analyzes mortgage probability of default by examining the following components:

1. Borrower characteristics and credit risk.
2. Mortgage loan characteristics.
3. Mortgaged property characteristics.
4. Regional economic characteristics: both in the past and forward-looking.

If a loan is seasoned (aged six months or more), then additional characteristics are considered:

5. Current pay status (delinquency, bankruptcy, foreclosure).
6. Payment history.
7. Loan modifications.
8. Payment shock.
9. Loan Age.

The relative weights of these characteristics are determined simultaneously by fitting the model to loan-level data via statistical techniques. The exact effect of changes in these characteristics on the probability of default depends on the values of the other characteristics. In addition, the effect of changes in the characteristics is generally non-linear. For example, the effect on default probability of loan-to-value (LTV) moving from 80% to 85% is not the same as LTV moving from 90% to 95%.

For a seasoned loan, the origination attributes still matter and will be analyzed in conjunction with the seasoned characteristics listed above. However, their impact on the default probability diminishes as the loan ages or becomes more delinquent. By the time a seasoned loan becomes 90+ days delinquent, the origination attributes are of secondary importance.

Furthermore, seasoned loans, depending on the origination vintage, may represent lax underwriting processes, weak policies and controls and inflated appraisals. Some of these risks are manifested in deal performance over time, and are therefore captured through the seasoned characteristics by the model. Additional haircuts on appraisals and slower prepayment speeds may be warranted to address these risks on seasoned loans.

We will discuss, in detail, these characteristics and their interactions in later sections.

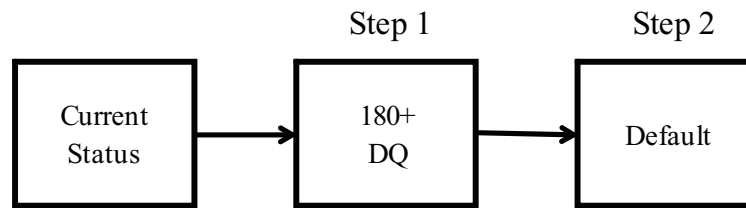
## MODEL STRUCTURE

### *Conceptual Default Process*

A conceptual map of the default process, as shown as Figure 1, is used to inform the model structure.



Figure 1. Conceptual Default Process



This is a simplified figure that views default as a two-step process. The first step in the process occurs when a loan moves from current to 180 days delinquent. The second step happens when a loan moves into default. Default in this context means “charged off” and removed from the trust. At default, the loss severity is known and final losses are determined. A seasoned loan drops into the process based on its current status. For example, a loan that is 210 days delinquent starts at the second step in Figure 1.

A value of 180 days delinquent is used for the first move in Figure 1. There are a number of alternatives such as:

1. The loan enters foreclosure,
2. A lower delinquency value,
3. Actual default – so Figure 1 would become a one-step process.

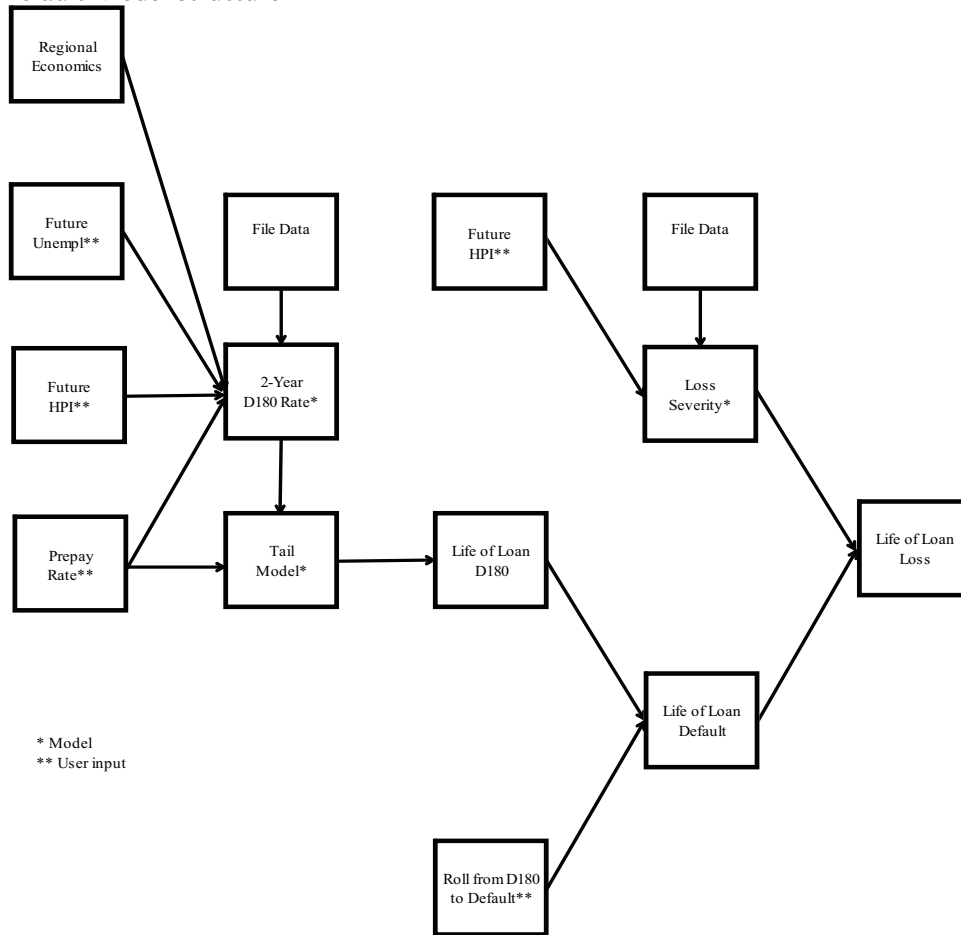
The value of 180 days is a practical one. In terms of foreclosure, even in normal times, there is a range of practice among servicers that creates noise unrelated to borrower behavior. In recent history, a group of loans had developed serious delinquencies but are not in foreclosure. These would look as if they had not taken the first step, when they are actually at a high risk of default. Alternatively, to the extent that foreclosure starts at a lower delinquency rate, there can be a significant probability of cure that would need to be considered. Finally, using the actual default causes unneeded difficulties in modeling. The time frame to default can be long and is highly variable. The step to 180 days delinquent occurs in a rather stable fashion. Waiting for the movement from 180 days delinquent to default adds little but time.

Using Figure 1 as a mental model of the default process, a number of models and user-input assumptions are assembled to produce the model structure. The model structure is shown in Figure 2.



### Default Model Structure

Figure 2. Default Model Structure



The structure here appears rather complex. The complexity of the modeling structure in Figure 2 is driven by two factors:

1. It shows the inputs required by the model and
2. There are a number of distinct models required to implement the process outlined in Figure 1.

In part, the complexity of the modeling structure is driven by the need to produce a life-of-loan forecast. It is not wise to target a life-of-loan 180-day delinquency value directly in modeling for two reasons:

1. It takes too long. One would have to wait for entire cohorts to work through their lifecycle.
2. The expected time a loan is on the books depends on other factors, such as the prepayment rate, which vary over time. The default rate in slow-prepay eras is higher, all else being equal, simply because loans are at risk for a longer period. It is important that this factor be explicitly built into the structure.

Instead, the life-of-loan 180-day delinquency rate is backed into. The basic concept is to produce a monthly, conditional 180-day delinquency rate. This is just like a conditional default rate (CDR) but where one defines 'default' to be 180-days delinquent. When combined with a prepayment assumption, the life-of-loan unconditional 180-day delinquency rate can be calculated. This value gives the probability a loan will become 180 days delinquent at some point during its life.



### *Derivation of Life-of-Loan Default Rate – The Delinquency Score Model and Tail Model*

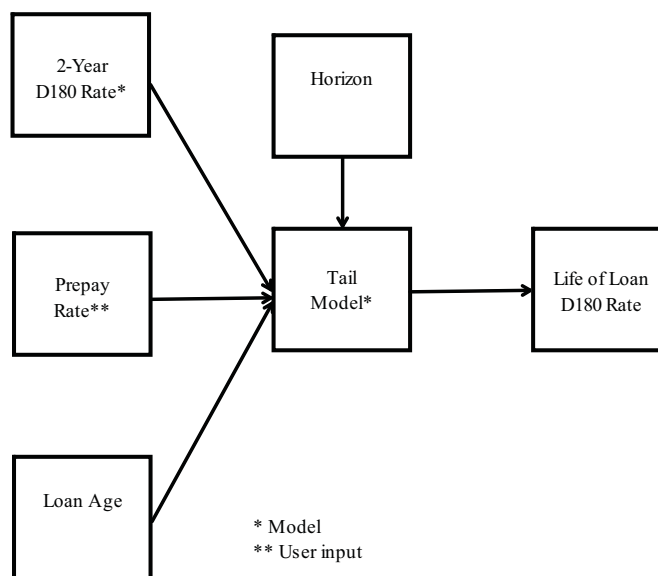
Two models combine to produce the monthly, conditional 180-day delinquency rate. The two models are:

1. The 2-Year D180 Rate Model (referred to as the Delinquency Score). This model estimates the probability a loan becomes 180 days delinquent in the first two years of the forecast.
2. The tail model. This model estimates, month by month, the 180-day delinquency rate for months 25 and on.

The heavy analytics are done by the 2-Year D180 Rate Model (Delinquency Score). Here is where the detailed modeling is done. The output of this model is an estimate of the probability the loan becomes 180 days delinquent sometime in the next two years. This model 'sets the course' for future performance. The tail model takes this level, along with loan age and the horizon (month into the forecast) and produces the monthly incidence rate for the remaining life of the loan.

Figure 3 displays graphically how these models work together to produce a life-of-loan 180-day delinquency rate.

Figure 3. Producing a life-of-loan 180-day delinquency rate



There are a number of model structures and techniques that could have been used to produce a monthly conditional 180-day delinquency rate. Conditional logistic models and proportional hazard models are two common ones. The 2-Year D180 rate (Delinquency Score) model uses a robust, well-validated technology. The model is easy to implement, track and validate. During the first two years, borrower defaults are most dependent upon the loan characteristics at the point of forecast. Afterwards, the impact of loan risk attributes diminishes, and defaults are more influenced by macroeconomic variables. On the contrary, periods shorter than two years offer less time for serious delinquency to occur. The technology behind the 2-Year D180 model is well-known to any modeler within the consumer finance industry.

### *From Life-of-loan 180-day Delinquency Rate to Ultimate Default*

Once the life-of-loan, 180-day delinquency rate has been estimated, it is time to move to the second step of the process outlined in Figure 1: moving the loan from 180 days to ultimate default and liquidation. This step is straight-forward. A user-input roll rate is applied to the life-of-loan 180-day delinquency rate. Again, one of the values of using 180-day delinquency rate in the first step is that there is not much left for modeling at this stage. At this point, the life-of-loan default rate has been produced.





### *Loss Severity*

A severity must be applied to the default rate to arrive at a loss rate. For second liens, DBRS applies a severity of 100% plus six months of interest, if advanced by the servicer, calculated at the note rate. For first liens, the severity is calculated as follows:

1. A recovery value is estimated from the statistical recovery model.
2. Interest advancing (if desired) is subtracted from the recovery.
3. Loss is calculated as the shortfall of recovery to loan balance outstanding.

The next sections consider the default and loss severity methodologies in detail.

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## Probability of Default

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### **DELINQUENCY SCORE**

#### *Model Specification*

The Delinquency Score, or the 2-Year D180 Rate Model, is similar in spirit to the kinds of scores one sees in consumer credit. The delinquency score is series of statistical models that are built on loan-level data. For each loan in the data set, there is an “as-of” date. This is the date of the forecast, everything after this date is the “future”.

Each loan in the modeling dataset consists of the following data:

1. Explanatory variables that are known – both at model build and when running a forecast – at the as-of date. These are values such as current delinquency status, FICO and LTV.
2. Explanatory variables that are known at model build but will be unknown when running a forecast. Future house prices and unemployment rates are examples of such variables.

The outcome for the loan, coded as a 1 – the loan became 180 days delinquent in the 2 years after the as-of date or a 0 – the loan did not.

The statistical method (in this case, logistic regression), finds the mapping from the first two that best explains the third. In practice, one will not know the values in (2). Instead, forecasts or scenarios for these values are used.



### Explanatory Variables

Table 1 gives the explanatory variables in the models, definitions and their types.

**Table 1. Variable Types in the Delinquency Score**

Explanatory Variable	Type	Description
Bankrupt	Categorical	Borrower is in bankruptcy
In Foreclosure	Categorical	Property is being foreclosed
Censor Age	Categorical	Month at which future 24 months is censored
Equity in 24 Months	NonLinear	Equity in the property 24 months after the as-of date
Product Variables	Categorical	Product type, IO indicator variables, etc.
FICO	Linear	FICO at origination
Unemployment Rate	Linear (Capped)	Unemployment rate at the as-of date
Change in Unemployment Rate	Nonlinear	Change in unemployment rate: 24 months from the as-of date
# Times 30 days DQ in last 36 Months	Nonlinear	Using MBA DQ definition
# Times 60 days DQ in last 36 Months	Nonlinear	Using MBA DQ definition
# Times 90+ days DQ in last 36 Months	Nonlinear	Using MBA DQ definition
DQ Score at Origination	Nonlinear	Output of delinquency score at origination (used for seasoned loans)
Loan Balance	Nonlinear	Current balance
Loan Age	Nonlinear	Loan age at as-of date (from first payment date)
Loan Modification	Categorical	Recapitalization or rate reduction
Payment Shock	Categorical	Teaser period end, or IO/Negam period ends, etc.
Property Type	Categorical	Single-family, multi-family, condo, townhouse, PUD, etc.
LTV/Combined LTV	NonLinear	LTV/CLTV at the as-of date
UPB to Income	Linear (Capped)	Ratio of balance to per capita income at MSA-level
Occupancy	Categorical	Primary, second or investor properties
Loan Purpose	Categorical	Purchase or refinance
State	Categorical	Property state
Growth in Civilian Labor Force	NonLinear	Trailing 1-year growth rate (MSA-level)
Documentation	Categorical	Full, limited, reduced, etc.
Vintage	Categorical	Year of first payment

There are two potential types of explanatory variables in the models: categorical and continuous. An example of a categorical variable is documentation type. It has different categories such as “full”, “stated”, and “reduced”. Continuous variables refer to characteristics such as FICO or LTV, where the values are continuous within a defined range.

### Sampling

The MBS Data LLC dataset contains information on approximately 23 million loans. It is neither practical nor necessary to use all of these loans to build a model. Instead, a sample is taken. In order to make the most effective use of the dataset, the sampling is stratified. The idea is to even out the sample on certain variables so that the model-build sample is not dominated by specific values of these variables. For instance, in the database approximately 10% of the loans are 2-year hybrid adjustable rate mortgages (ARM) whereas 7-year hybrid ARMs are about 0.25% of loans. Evening out the sample improves the ability to understand 7-year hybrids without impeding understanding the 2-year hybrids. A similar method is applied to the property states so that the dataset is not dominated by large states such as California or Florida.

The sample is stratified on these characteristics:

1. Loan Age.
2. Property State.
3. Loan Product.
4. Vintage.

The sample sizes in the modeling datasets are:

1. 234,000 for fixed first-liens at origination.
2. 212,000 for ARM first-liens at origination.



3. 234,000 for second-liens at origination.
4. 859,000 loans that are seasoned and not delinquent.
5. 126,000 loans that are seasoned and 30-60 days delinquent.
6. 41,000 loans that are seasoned and 90-150 days delinquent.

### *Segmentation and Interactions*

The delinquency score consists of six separate models. The segmentation used is:

- Forecast: Loan Origination
  1. First-lien fixed-rate loans.
  2. First-lien ARM loans.
  3. Second-lien closed-end loans.
- Forecast: Seasoned Loan
  4. The loan is not delinquent.
  5. The loan is 30-60 days delinquent.
  6. The loan is 90-150 days delinquent.

The primary segmentation is whether the forecast is for a newly originated loan or a seasoned loan. For newly originated loans, the secondary segmentation is along product types. The fact that second liens would react differently to the explanatory variables is to be expected. Similarly between fixed-rate loans and ARM loans, there is a natural self-selection into the products. A fixed-rate first lien does not offer the features that lower payments for those individuals who, for whatever reason, are looking to minimize initial payments or maximize loan amount. For seasoned loans, the secondary segmentation is along current delinquency status. The greater the delinquency, the fewer explanatory factors enter the model and the lower the weight applied to origination variables (e.g. FICO at origination, documentation type).

Another consideration in specifying the models is interactions. It is possible, for example, that the contribution to risk of a loan having “stated” documentation type depends on whether the borrower credit is subprime or not. In building these models, DBRS looked for interactions. If one finds that the effect of lots of the variables change with the levels of a categorical variable, it may make sense to build separate models for the different categories.

Beyond the segmentation, the Delinquency Score models do incorporate a number of interactions. Key interactions are:

- FICO by Vintage
 

The slope of FICO has flattened over time. That is, the change in risk for a change in FICO has declined.
- Property type by Vintage
 

Condos have increased in risk for more recent originations.
- Occupancy by Vintage
 

Second homes and investor properties have increased in risk in recent originations.
- Origination Delinquency Score by Loan Age
 

The origination delinquency score is an explanatory factor in the seasoned-loan delinquency score. The importance of the score fades as the loan ages.
- # of times 30 (60, and 90+) days delinquent in last 36 months by Age
 

Not surprisingly, the contribution to risk of 3 times 30 days delinquent depends on whether the loan is 6 months old or 60 months old.



### *Effects of Explanatory Variables*

Given the nature of the models, the most direct way to measure the effect of a variable is by examining the *odds ratio*. Take, for example, documentation type. The odds ratio comparing documentation type FULL to REDUCED is:

$$P[\text{FULL}]/(1-P[\text{FULL}]) / P[\text{REDUCED}]/(1-P[\text{REDUCED}])$$

Here, P[FULL] is the probability of a full documentation type loan becoming 180 days delinquent in the 2-year time horizon. For logistic regression, it turns out that the odds ratio constructed on the values of one explanatory variable does not depend on the values of any of the other explanatory variables. The odds ratio can be used to get a sense of the importance of the characteristics in the models. For categorical variables (e.g. documentation type, property type), the odds ratio is calculated for each value relative to a base value. For example, condo vs. single family, PUD vs. single family, multi-family vs. single family for property types. For continuous variables, we can calculate the odds ratio of a specific change in the variable (e.g. 50 point FICO movement).

### *Origination Model Factors*

Table 2 gives the odds ratios for the three models that forecast from origination. Note that an odds ratio greater than 1 indicates increased risk.

Scanning Table 2 for the largest and smallest values, one sees generally that FICO, LTV, and future equity are the three largest effects. Beyond these, specific values of variables present themselves as particularly good or bad. Low levels of documentation, interest only (IO), negatively amortizing (negam) loans, two-year hybrid ARMs, manufactured homes (MH), and investor properties present particularly high risk. Within the universe of ARM first-liens, hybrid ARMs with seven years or longer teaser periods present substantially less risk relative to shorter term ARMs.

**Table 2. Origination Model Factors**

Factor	Odds Ratio		
	ARM, 1st Lien	Fixed, 1st Lien	CES 2nd Lien
FICO	2.5 (50 point decrease)	2.0 (50 point decrease)	5.9 (50 point decrease)
Origination LTV/CLTV	1.7 (90%->130%)	4.7 (90%->130%)	4.8 (90%->125%)
Future equity (2 years from as-of date)	1.7 (\$45k to -\$12k)	2 (\$45k to -\$12k)	1.25 (\$45k to -\$12k)
Product type			
Negam (relative to Amortizing ARM of same teaser)	2.5		
IO (relative to Amortizing ARM of same teaser)	1.5	1.6	
Balloon (relative to 1 month ARM)	1.1	1	
2-Year teaser (relative to 5/1 ARM)	2.1		
7-Year teaser (relative to 5/1 ARM)	0.6		
10-Year teaser (relative to 5/1 ARM)	0.5		
Documentation Type (Base = Full)			
Limited	1.3	1.3	1.7
Low/Easy	1.6	1.7	1.9
Reduced	1.8	1.8	3
Stated	2	2	1.8
Origination balance	1.7 (\$150k->\$350k)	1.6 (\$150k->\$350k)	0.8 (\$40k->\$80k)
Property type (Base = SFD)			
PUD	1	1	1
Condo	1.1	1.1	1.1
Multifamily	1.4	1.4	1.4
Co-op	1.2	1.2	
Townhouse	1	1	
Manufactured Homes	2	2	2
Occupancy (Base = primary residence)			
Second Home	1.2	1.2	1.8
Investor property	1.7	1.8	2.2
Loan purpose (Purchase vs. Not)	1.3	1.2	1.6
Growth rate in civilian labor force (MSA-Level)	0.9 (0%->3%)	0.9 (0%->3%)	
UPB to per capita income (MSA-level)	1.2 (move from 8x to 16x)	1.2 (move from 8x to 16x)	
Unemployment rate (MSA-level)	1.4 (5 point move)	1.2 (5 point move)	
Property State	1.6	1.6	1.8
Loan Vintage	1.6	2.1	1.5
Amortization term (40 Year vs. Not)	1.1	1.5	

The odds ratios indicate increased risk of certain attributes relative to the base characteristics. It is of note that they should be reviewed only within their respective columns (or asset types). Reading across columns will not produce meaningful comparisons. In addition, the odds ratio for continuous variables can only be shown here based on a select range. Ratios outside of these ranges will differ from what has been exhibited in the tables. For example, the effect on default probability of LTV moving from 60% to 100% is not the same as LTV moving from 90% to 130%.

On a small number of variables, DBRS revised the odds ratio (i.e. increased the penalty factor) from what was directly derived from the regression analysis. These variables generally represent truly adverse characteristics such as MH, IOs and negatively amortizing loans. It was done for two reasons. The population of MH loans in the whole dataset was somewhat limited. In the case of mortgages with payment shocks, the loans either haven't reached its payment reset date or the interest rate environment has been too benign for the full effect of payment shock to be seen.



### Seasoned Model Factors

Table 3 gives the odds ratios for the seasoned loan models.

**Table 3. Seasoned Model Factors**

Factor	Odds Ratio		
	Current	30-60 Days DQ	90-150 Days DQ
Delinquency Status		2.2 (60 vs. 30)	2.1 (120 vs. 90) 5.9 (150 vs. 90)
# times 30 Days*	1.3 (0 vs. 1)	1.1 (0 vs. 1)	
# times 60 Days*	1.8 (0 vs. 1)	1.3	
# times 90 Days*	2.2 (0 vs. 1)	1.4	1 (0 vs. 1)
Origination Score*	1.1 (2% to 4%)	1.1	
Future Equity (2-year from as-of-date)	1.4 (\$57k -> \$3k)	1.4 (\$44k -> \$0)	1.4 (\$37k -> -\$9k)
Future Change in Unemployment	1.5 (0% to 5%)	1.5 (-0.5% to 4.9%)	1.6 (-0.3%->5.2%)
Current UPB	1.2 (\$100k->\$325k)	1.3 (\$50k->\$190k)	1.3 (\$150k->\$350k)
IO flag	1.6	1.3	1.5
ARM flag	1.7	1.3	1.2
Balloon flag	1.9	1.4	1.3
Second lien flag	1.7	1.6	1.2
Bankruptcy flag	1.3	1.1	1.1
Foreclosure flag			1.3
Payment shock flag (Base=No payment shock event)			
Teaser period ends	1.3	1.1	
IO/Negam period ends	1.7	1.5	
Modification flag** (Base=No modification)			
Re-capitalization	1.3	1.5	
Rate reduction	1.2	1.2	
Loan age	0.5 (18->48 months)	0.4 (18->48 months)	
FICO 680 to 730***	0.7		
Multi-family vs. Single Family***	1.4		

There are several interesting things to note about the seasoned models. Firstly, the more delinquent the loan is, the fewer variables that are useful in explaining the behavior of the loan. Secondly, the majority of characteristics that don't change with loan seasoning (e.g. documentation type, occupancy) enter through the loan origination model. However, their impact on default probability diminishes as the loan ages or becomes more delinquent. By the time a seasoned loan is 90+ days delinquent, the origination score does not matter.

### Modifications

For modified loans, DBRS generally needs at least two years of proven payment histories, post modification, to even consider their current status. For loans that have shorter than two years of history, even if they have remained performing, DBRS does not consider them to have demonstrated a consistently improved payment pattern, and therefore, their delinquency status will be reverted to their pre-modification status (unless their current delinquency status is worse than the pre-modification status, then their current delinquency will be used).

For modified loans that have been performing for two years or longer, a penalty is still warranted. In our analysis, we noticed increased risk of a modified loan relative to a loan that has not been modified, and such risk is more pronounced for re-capitalization (1.3 to 1.5x) than for rate reduction modifications (1.2x). Of course, existing performance data post modification has been limited so far. As servicers accumulate more modification data, DBRS will consider specific servicer's modification experience and performance data when evaluating pools, and note such considerations in the related transaction reports.



For ease of exposition, Tables 2 and Table 3 omit the interactions in the models.

## THE TAIL MODEL

Once the probability of a loan becoming 180 days delinquent in the first two years of the forecast has been estimated, this must be projected into a life-of-loan value. The tail model is a key component of that calculation, as shown in Figure 3 earlier. Like all the models that make up the loss model, it is built using statistical techniques on the data from MBSData LLC.

The output of the tail model is a month-by-month *conditional* probability that the loan becomes 180 days delinquent. The model is conditional on two events:

1. The loan has not prepaid.
2. The loan has not already become 180 days delinquent. This is to avoid double counting. It treats being 180 days delinquent as an 'absorbing' state like default – a loan can enter only once.

The tail model takes the following inputs:

1. The delinquency score.
2. The age of the loan at the start of the forecast.
3. The age of the loan month by month.

The tail model was built using standard regression techniques applied to randomly selected pools of loans constructed to have varying levels of 180-day delinquent behavior. Approximately 63,000 monthly observations were produced. For each randomly assembled pool, the following characteristics are calculated:

1. Trailing 2-year 180-day delinquency rate of the pool (Delinquency Score).
2. The starting age of the pool.
3. The current age of the pool month by month.
4. The conditional 180-day delinquency rate month by month. This is the dependent variable in the regression.

**Figure 4. Tail Model Shapes (D180 Shapes, Start Age = 24 Months)**

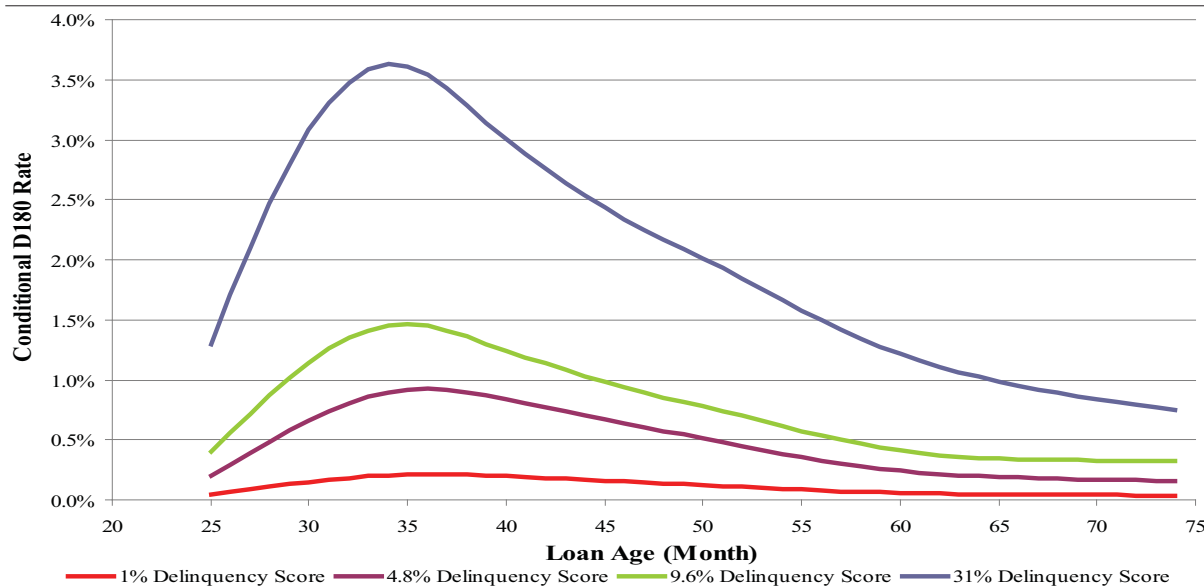


Figure 4 above shows the output of the tail model for a selection of delinquency scores for a pool that is scored from origination. Since the delinquency score gives the performance expectation for the first 24 months, the graphs start from month 25. Within each graph, the curves are plotted for delinquency scores of 31%, 9.6%, 4.8% and 1%. Firstly, you can see that Figure 4 shows a definite peak. This is because there is an age effect in the model.



While the tail model is a key component in producing the default forecast for years three and after, the calculation is more complex since this curve is conditional. To produce a default forecast for each month requires the expected balance present at that month. The expected balance present incorporates the following calculations:

1. The loan has not previously been 180 days delinquent.
2. The loan has not voluntarily prepaid.
3. The scheduled balance.

By default, the tail model assumes 0% voluntary CPR over the forecast horizon when calculating the *conditional* probability that the loan becomes 180 days delinquent. Depending on the product type and actual prepayment speeds of a securitized pool (prime loans typically prepay faster than subprime loans), the model allows users to input more realistic CPRs that will naturally reduce default occurrence for the asset pool.

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## Loss Severity

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### THE LOSS SEVERITY CONCEPT

The model described in this section applies only to first liens. For second liens, DBRS applies a severity of 100% plus six months of interest, if advanced by the servicer, calculated at the note rate. Severity is calculated indirectly via a recovery amount, which is the amount available to repay the loan – that is, it has netted out all the related costs at the time of liquidation.

Loss severity is calculated as follows:

1. A recovery value is estimated from the statistical recovery model.
2. Interest advancing (if desired) is subtracted from the recovery.
3. Loss is calculated as the shortfall of recovery to loan balance outstanding.

Just as with the default models, the loss severity model is constructed using statistical methods. Loan-level data on recoveries is joined to characteristics of the property. In the MBSData universe, there are over 1 million loans that have gone to loss. The modeling dataset consists of approximately 102,000 loans and an equal number held out for validation. Loans were stratified by liquidation year. The quantity that is estimated is the percentage of the updated appraisal that is recovered. The focus of the analysis is recovery from the sale of the house because this is the fundamental driver of losses.

### THE RECOVERY MODEL

#### *Forecasting the Updated Property Value at Liquidation*

As a starting point, DBRS first needs current appraisals at the as-of date, which are the origination appraisals for new loans, and the current appraisals for seasoned loans<sup>1</sup>. This value is also known as *as-of date appraisal*.

In order to derive a recovery amount, one must first estimate an *updated property value at liquidation*. The projection is based on the following factors:

1. The number of months each subject loan takes to migrate through the delinquency, foreclosure and REO timeline. The length of this period will depend on how delinquent the subject loan is at the as-of-date. The estimation is further explained in the next section titled “Estimating Time to Liquidation”.
2. DBRS home price forecast for this time period on a MSA-level. DBRS developed its own home price forecast model based on a data analytic approach. Using month-by-month Case-Shiller home prices

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1. The RMBS Insight Model does have the capability to bring property values current for seasoned loans using Case-Shiller home price indices, but we would generally ask that these values be furnished to DBRS for the purpose of the rating.





to identify and calculate the regional peak-to-trough declines prior to 2000, DBRS selected counties that have experienced a two-year price increase prior to the peak of at least 10%, and a decline of 10% or more following the peak. The model then looks for consistencies in the length and severity of the decline to forecast future price drops from the most recent housing market peak. This model is further detailed in Appendix 3 “Peak-to-Trough Home Price Forecast Model”.

3. Market value decline by rating category. DBRS applies a market value decline (MVD), ranging from 28% at AAA to 5% at B, to all rating levels, as detailed in the “Rating Categories” section later on.

From here, the percentage of this updated property value that will be recovered is estimated via the Recovery Percentage statistical model.

#### ***Distressed Sale Discount***

First, a 30.8% haircut is applied to the updated property value. This haircut is meant to address property sales in a liquidation scenario, which often represent distressed sales and therefore beaten-down prices. The value, one of the terms of the recovery model, has been estimated from past liquidations. In addition, the haircut also includes liquidation costs such as maintenance, repairs, attorney and real estate agent fees, etc.

#### ***Further Property Value Adjustment***

Once the distressed sale discount is applied, further value adjustments, calculated based on the updated property value, are made based on the following characteristics. These adjustments are generally negative.

1. Expensive and inexpensive properties.
2. Months in REO.
3. Property type.
4. Occupancy.
5. FICO.
6. Months since loan origination.
7. Property State.

These adjustments are made because each of them has a significant impact to the actual recovery percentage. Based on our analysis, each month in REO reduces the recovery amount by 1.8%. Months in REO are a user-specified input, which DBRS assumes to be six months by default in the current real estate environment.

Expensive and inexpensive properties tend to recover less as a percentage of updated property value. Two property types are called out as different: MH and multi-unit, each of which produces lower recoveries. Strictly speaking, the rest of the listed characteristics aren't property characteristics; however, they do impact the recovery value in our dataset. Investor homes and second homes have reduced recovery rates. Homes associated with higher-FICO borrowers have improved recovery rates. Recovery declines with increased time since loan origination. Additionally, a handful of States (OH, IL, PA, MI) had reduced recovery rates.

If mortgage insurance is present, the model will add back the amount of the insurance coverage, subject to a haircut of 33%. The 33% value, one of the terms of the recovery model, has been estimated from past liquidations. To the extent actual rescission rates provided to DBRS are different from the assumed 33%, or when DBRS deems that different stresses are warranted due to mortgage insurance companies' historical rescission experience, this haircut rate can be adjusted.

Table 4 below shows a simplified example of “AAA” and “B” loss severity calculation with assumed characteristics. In this hypothetical example, the projected HPA is assumed to be -7% as estimated by our Peak-to-Trough Forecast Model, actual home price forecast varies by MSA. Also interest advances are not considered for the purpose of this example.

**Table 4. Loss Severity Calculation - A Simplified Example\***

	"AAA" Loss Severity	"B" Loss Severity
Property Value at Origination	\$ 250,000	\$ 250,000
Less: Projected HPA = -7%	\$ (17,500)	\$ (17,500)
Less: MVD by Rating Category ("AAA": 28% / "B": 5%)	\$ (65,100)	\$ (11,625)
<b>Updated Property Value at Liquidation</b>	<b>\$ 167,400</b>	<b>\$ 220,875</b>
Distressed Sale Discount (-30.8%)	\$ (51,559)	\$ (68,030)
Further Property Value Adjustments		
1) Expensive and inexpensive properties:	\$ (7,777)	\$ (1,467)
2) Months in REO: Six months	\$ (17,075)	\$ (22,529)
3) Property type: Single family	\$ -	\$ -
4) Occupancy: Investor property	\$ (15,655)	\$ (20,656)
5) FICO: 700	\$ 16,405	\$ 21,646
6) Months since loan origination: 18 months	\$ (7,700)	\$ (10,160)
7) Property State: California	\$ -	\$ -
Property Resale Value	\$ 84,038	\$ 119,679
Unpaid Principal Balance (UPB)	\$ 200,000	\$ 200,000
Loss Amount (UPB less Property Resale Value)	\$ 115,962	\$ 80,321
<b>Loss Severity (Loss Amount / UPB)</b>	<b>58%</b>	<b>40%</b>

\* Interest advances are not considered for the purpose of this example.

## ESTIMATING TIME TO LIQUIDATION (FOR CALCULATING AN UPDATED PROPERTY VALUE AT LIQUIDATION)

In order to calculate an *updated property value at liquidation*, the model needs to project how long it takes for liquidation to happen. Liquidation timeline varies for loans in different delinquency status. The closer a loan is to REO, the shorter it takes to be liquidated. DBRS estimates *updated property value at liquidation* as follow:

For loans that are already in REO:

1. Use the user-specified months in REO
2. Bring the *updated appraisal* to that date

For loans that are 180 days delinquent but are not yet in REO:

1. Take the state-by-state timeline to REO, adjusting for current level of delinquency.
2. Add the user-specified months in REO.
3. Bring the *updated appraisal* to that date

For loans that are under 180 days delinquent:

1. Month-by-month, take the monthly estimate of the probability the loan goes D180,
2. Add the state-by-state timeline to REO,
3. Add the user-specified months in REO.
4. Bring the *updated appraisal* to that date

For loans under 180 days delinquent, it is more complex to project a time to liquidation because one does not know when exactly a loan will default. In this case, DBRS projects a liquidation timeline (for the purpose of deriving an updated appraisal) every month based on our estimation of monthly probability of a loan becoming 180 days delinquent, as detailed in the "The Tail Model" section.



## STATE-BY-STATE TIMELINE FROM CURRENT TO REO

DBRS used a unique method in estimating the state-by-state timeline. We did not limit the scope of the review to only loans that have reached REO because there is a large inventory of delinquent loans that have not yet done so and as a result, such a calculation would be biased on the low side. Likewise, choosing a static pool that has had sufficient time to fully move to REO would mean using data that is so old that it does not appropriately reflect what is currently happening in the market. Instead, the DBRS method uses the most recent data possible to derive the monthly rate at which loans move to REO and then calculates the average timeline based on those rates. The expected time to REO is calculated from a state-specific hazard curve that is derived from the MBS Data LLC database. The hazard curve gives the conditional probability a loan moves into REO the  $k^{\text{th}}$  month since it became 180 days delinquent (D180) given it has not done so prior to that month. The most recently available data was used to calculate the probabilities of the hazard curve. For instance, we started within the universe of loans that became D180 in 2010. In this dataset, there is generally sufficient data today to calculate the probability a loan moves to REO in the first six months since the loan becomes 180 days delinquent. There is no data yet today on a D180 loan moving to REO on the 24<sup>th</sup> month. Hence, we had to expand the universe to loans that became D180 prior to 2010 to fill in the dataset. Once the hazard curve is calculated, the average time a loan takes to move to REO is calculated. Any loans that have not moved to REO by month 43 are flushed out of the pipeline.

All loans that became 180 days delinquent during 2010 are used. When calculating the probability of moving to REO for month  $k$  since the loan became D180, the number of loans that still have not done so already is found. If this is not at least 1000 loans, loans that became D180 during 2009 are folded into the analysis until at least 1000 loans are available. If there are still not 1000 loans available for the analysis, loans that became D180 during 2008 are added to the dataset. In this way, the need for data is balanced with the desire for the data to be as recent as possible.

**Table 5. State-by-State Timeline From Current to REO**

State	Months	State	Months	State	Months	State	Months
AL	22	ID	20	MS	25	PA	28
AR	23	IL	26	MT	23	RI	25
AZ	16	IN	24	NC	24	SC	24
CA	22	KS	22	NE	21	TN	24
CO	21	KY	25	NH	24	TX	24
CT	28	LA	28	NJ	30	UT	23
DC	25	MA	27	NM	25	VA	22
DE	29	MD	26	NV	19	VT	27
FL	26	ME	28	NY	32	WA	25
GA	20	MI	16	OH	23	WI	24
HI	26	MN	21	OK	24		
IA	25	MO	19	OR	24	US*	24

\* Insufficient data in the States that are missing from this table. The US average assumed for these states.

Once the D180 to REO timelines are calculated, we added 6 months to the results to capture the period from current to D180. Table 5 gives the resulting number of months from Current to REO by State based on DBRS estimate derived above. The months from Current to REO can be adjusted if actual timelines are extended or reduced, or when DBRS deems that additional stresses are warranted. Such option is available as a user input field.



## INTEREST ADVANCING

If the servicer will be advancing interest in a securitization, interest advancing at the note rate will be included in the loss calculation. Unless otherwise specified that the servicer will only be advancing for a certain period of time (for example up to 60 days), the number of months interest is advanced will by default follow the state-by-state timeline from current to REO.

Table 5 above defines the state-level timeline at our “B” base case. DBRS varies these base timelines by rating category. For each rating level higher than a “B”, two incremental months will be added to the timeline of the previous rating category.

## LOSS SEVERITY FOR FHA LOANS

FHA loans are insured by the Housing and Urban Development (HUD). Their loss severity calculations differ from that of a traditional mortgage, and are analyzed based on the insurance coverage by the HUD. Once a FHA loan defaults, the servicer submits a claim to the HUD for reimbursements. A claim can be reimbursed or denied. DBRS generally assumes a portion of the claims will be denied based on servicer’s historical denial rates. If a loan is denied, DBRS treats the loan as if there is no insurance and loss severities will be calculated assuming it is a traditional mortgage.

### *If Claims Are Paid*

If a claim is reimbursed, the FHA insurance typically covers 100% of the outstanding principal balance and a substantial portion of the interest and foreclosure costs. The HUD reimbursements do not cover the following:

1. Interest payments for 60 days.
2. Approximately 1/4<sup>th</sup> to 1/3<sup>rd</sup> of the foreclosure expenses depending on the servicer’s rating with the HUD, and
3. The difference between the interest accrued at the note rate and the debenture rate during the liquidation process.

DBRS analyzes each of the three categories of proceeds not reimbursed by the HUD, the sum of which equals the loss amount at the “B” base case. Loss amounts are stressed assuming longer FHA timeline and increased claim denial rate for each higher rating category, as detailed below.

1. Interest payments for 60 days at the current note rate of the loan.
2. Approximately 1/4<sup>th</sup> to 1/3<sup>rd</sup> of the foreclosure expenses depending on the servicer’s rating with the HUD – DBRS usually assumes a 1/3<sup>rd</sup> of the foreclosure expenses will not be reimbursed because servicer’s rating with the HUD may change in the future. Assuming a 1/4<sup>th</sup> quotient may be underestimating the costs to the extent the servicer rating is downgraded. DBRS uses the same foreclosure (or liquidation) expenses as described in the “Recovery Model” section. Recovery for FHA loans is augmented by 2/3 of a value of fixed costs consistent with that seen in the data.
3. During the period between the loan default to the claim date, the difference between the interest accrued at the mortgage note rate and the interest accrued at the debenture rate, to the extent the mortgage note rate exceeds the debenture rate. A loan is in default if the borrower fails to make a payment and such failure continues for a period of 30 days.

### *FHA Timeline (From Loan Default to Claim Date)*

The servicer on the transaction furnishes, to DBRS, the state-level FHA timelines based on FHA loans in its own portfolios<sup>2</sup>. We then apply further delays to these timelines by rating category, as specified in Table 6 below.

**Table 6. Delays to Servicer Timeline By Rating**

<b>Rating Category</b>	<b>Delays to Servicer Timeline (Months)</b>
AAA	16
AA	14
A	12
BBB	10
BB	8
B	6

***Debenture Rate***

The debenture rate is based on the United States Treasury securities adjusted to a constant maturity of 10 years. For loans originated before January 23, 2004, the debenture rate applicable to a claim is the higher of the rate in effect on i) the date the loan was endorsed for insurance, or ii) the date the commitment to insure the loan was issued. The debenture rate applicable to a claim for loans endorsed for insurance after January 23, 2004 is based on the debenture rate in effect at the month in which the default on the loan occurred.

For loans originated before January 23, 2004, or post January 23, 2004 but have defaulted already, DBRS uses the published debenture rates for the applicable dates. For any performing FHA loans endorsed after January 23, 2004, DBRS stressed debenture rates in accordance with the DBRS methodology on interest rate stresses – Unified Interest Rate Model for U.S. RMBS Transactions. Please refer to the [Unified Interest Rate Model for U.S. RMBS Transactions](#) for more detail of the interest rate stresses applied by DBRS.

***If Claims Are Denied***

HUD can fully deny or curtail FHA claims for different reasons that include missing insurance certificates, excessive damage to properties, title issues, any deviation in practices by the originator or servicer from the program guidelines, late due diligence, late conveyance, late title package, etc.

DBRS reviews the historical claim denial rates for the servicer on the transaction to determine the “B” base case stress. Multiples at the AAA rating level range from 4.0 to 6.0 times the base case denial rates. Such variations in multiples are dependent on the operational assessment of the servicer and a review of third-party due diligence. The latter includes an analysis of servicer’s compliance with minimum standards under the FHA guidelines.

Loss severities for a denied loan will be calculated in the same way as a traditional mortgage with comparable loan characteristics.

***Combining Claims Paid and Denied***

For each FHA loan, DBRS estimates two sets of loss severities assuming a claim is either paid or denied. A final loss severity is calculated giving weights to the denial rate at each rating category. For example, if the loss severity for a loan is estimated at 60% without FHA insurance and 10% with insurance, and the assumed denial rate equals 5% at a “B” base case. Then the final loss severity at B for this FHA loan will be 12.5% (60% x 5% + 10% x 95%).



## LOSS SEVERITY FOR VA LOANS

VA loans are insured by the Department of Veteran Affairs (VA). Like FHA loans, their loss severities are also analyzed based on the insurance coverage. The VA insurance covers losses up to certain limits depending on the outstanding balance of the defaulted loan, as indicated in Table 7. The guaranty limits for the VA loans are as follows:

**Table 7. VA Guaranty**

<b>Loan Amount</b>	<b>VA Guaranty</b>
< \$45,000	50% of Loan Amount
\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of Loan Amount
\$144,000 to \$417,000	25% of Loan Amount
> \$417,000	The lesser of a) 25% of the VA county loan limit or b) 25 % of the Loan Amount

Estimating loss severities for VA loans are done in a similar manner as for FHA loans. At the “B” base case, the loss amount equals the proceeds not covered by the VA guaranty, as set forth in Table 7. Increased claim denial rates are assumed for higher rating categories. Finally, DBRS combines the loss severities for claims paid and denied based on the respective denial rate at each rating level.

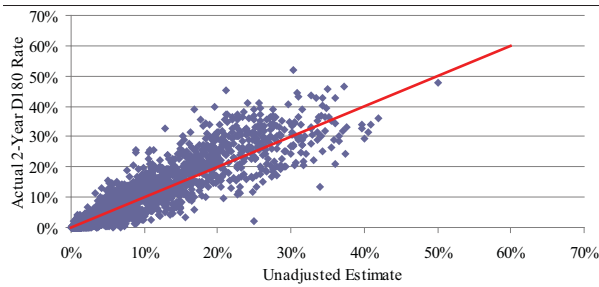
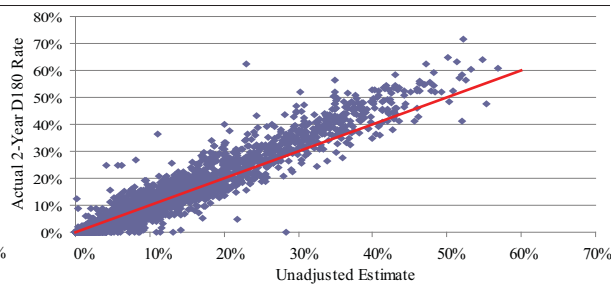
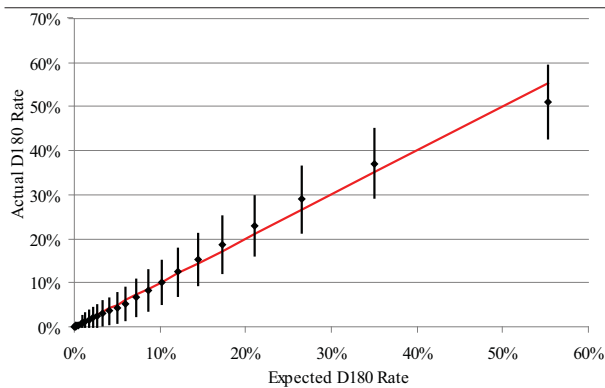
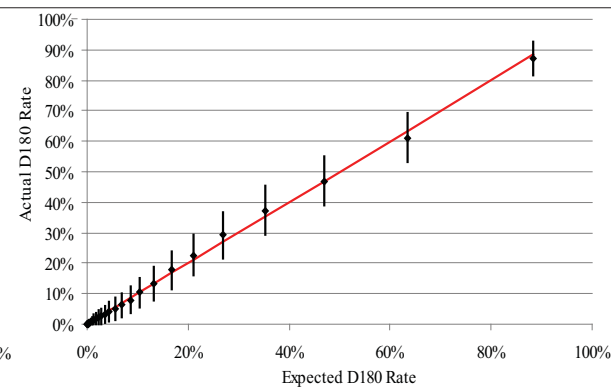
## Shrinkage, Concentration Risk and Small Pools

### SHRINKAGE (OR DEAL ADJUSTMENT)

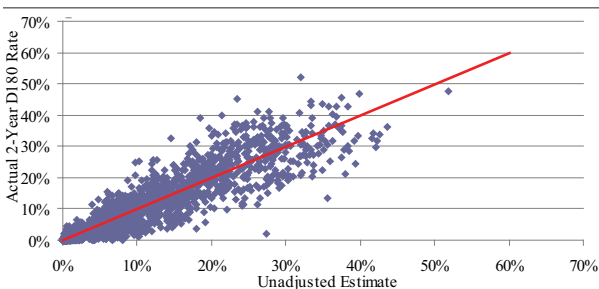
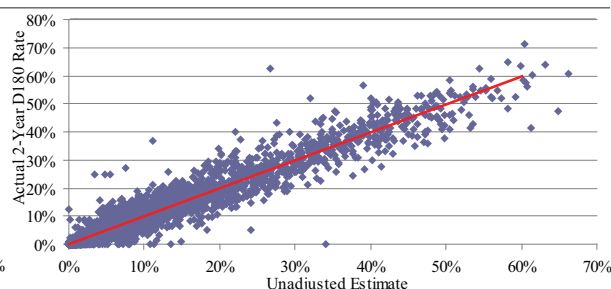
The scoring models incorporate data about the loan, borrower characteristics and economic data. Interestingly, there is an additional piece of information that can be considered. That information is the mean score of the portfolio. Figure 5a shows the actual versus estimated 2-year 180-day delinquency rate for 3,289 deals comprised of 9.9 million loans scored from origination (Origination Score). Figure 5b is the corresponding graph for 3,045 deals comprised of 3.4 million loans scored at 30 months of seasoning (Behavioral Score). Examination of the graphs shows that estimates for deals with high expected 180-day delinquency rates tend to come in under the actual rate. It is also the case that deals with low expected 180 delinquency rates tend to come in over the actual rate. This phenomenon does not represent a general issue with the score as it stands. Figure 6a shows the decile plot of actual versus estimated 180-day delinquency rate of the origination score constructed at the loan level for these deals. Figure 6b shows the same plot for the behavior score. Both graphs are satisfactory. Rather, it seems that the action of assigning loans to deals produces the effect. That is, other than loan characteristics, there must be information in the assignment process that drives the performance differentials.

Simply put, “good” loans (loans with good collateral attributes) in a subprime pool tended to perform worse than if the same loans were included in a prime pool. The worse performance is suspected to at least be partially driven by the assignment process (of these loans into a subprime pool) which may be a reflection of looser underwriting standards. The opposite is also true. When a “bad” loan showed up in a prime pool, it tended to exhibit better performance than if it was included in a subprime pool. The loan may represent an “exception” to the underwriting process that underwent additional scrutiny.



**Figure 5a. Origination Score****Figure 5b. Behavioral Score****Figure 6a. Decile Plot of Origination Score****Figure 6b. Decile Plot of Behavioral Score**

The solution is to fit a model that incorporates information about the deal. This is done through the use of the deal average score. A loan-level logistic model that has two factors is fit. The two factors are the log odds score of the loan and the log odds average score of all the loans in the deal. Figure 7a shows the actual versus estimated 180-day delinquency rate for the 3,045 deals scored from origination after the adjustment; Figure 7b shows the corresponding graph for the behavioral model. There is a distinct reduction in the deal-assignment affect.

**Figure 7a. Adjusted Origination Score (after shrinkage)****Figure 7b. Adjusted Behavioral Score (after shrinkage)**

Applying this shrinkage factor in transactions pulls each loan closer to the average. A “good” loan in a subprime deal may not deserve the credit it would otherwise have received. Conversely, a “bad” loan in a prime deal may not be as bad as its collateral attributes have suggested.

## CONCENTRATION RISK IN LOAN SIZE AND GEOGRAPHY

The risk presented by concentrations is that of an increased chance of loss exceeding the expected level rather than an increase in the expected level of loss. As such, the effect of concentration risk appears in the BB to AAA rating levels and not the B level estimates. The level of concentration is a key factor determining the level of asset correlation which, in turn, is an important factor in the determination of rating levels.



In RMBS Insight, concentration is measured by a Herfindahl index calculated on both a geographic (MSA level) and loan-size basis. The asset correlation model is a parametric model which is a function of the two concentration measures and credit quality. The parameters are fit from data. The data consists of the scoring model output (Delinquency Score Model) and the actual outcome of 2891 deals.

### SMALL POOLS

For securitizations consisting of fewer than 300 loans, RMBS Insight incorporates a small pool adjustment. The rationale is that small pools are more sensitive to certain large loans incurring losses and therefore may exhibit a risk in excess of the model estimate.

The following steps are performed in order to build in a degree of safety against small pools. At the "B" rating level:

1. The 75<sup>th</sup> percentile of the 2-year D180 distribution is calculated.
2. The 2-year D180 rate is the weighted average between the unadjusted value and the 75<sup>th</sup> percentile value.
3. The weighting is linear between 100% weight to the 75<sup>th</sup> percentile for a portfolio of 100 loans (or less) to 0% at 300 loans.

For higher ratings categories, the target percentile is increased.

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## Rating Categories

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In RMBS Insight, the approach to ratings categories has two components: one based on identifiable risks and the other based on unidentifiable risks.

### IDENTIFIABLE RISK

Identifiable risks are those related to variables that are incorporated into the loss model. For these risks, it is a straightforward analysis to gauge the effect on the forecast to changes in the input variables. The effect of most of the variables on the forecast is uninteresting from the standpoint of ratings categories since their values are known with certainty. Origination LTV, FICO and documentation type are such examples. There are other inputs, however, whose values are forward looking. The primary forward-looking variables are derived from house prices. The default models and the loss severity (or recovery) model include variables that are functions of future house values. In the case of the default models, the future value of the property is used to calculate the future owner's equity. In the case of the recovery model, future house value is used directly.

Associated with each rating category is a market value decline scenario, as exhibited in Table 8. All future house values are adjusted downward by this percentage. The adjustment is applied in addition to a) the peak-to-trough home price forecast scenario, b) distressed sale discount and c) further property value haircuts by property and loan characteristics as described in the loss severity section. The distribution of the average peak-to-trough decline can be found from the peak-to-trough model and incorporating the observed contemporaneous correlation in the series. The MVD values for the ratings categories are percentiles of this distribution.



**Table 8. Market Value Decline by Rating Category**

Rating Category	Market Value Decline*
AAA	28%
AA	25%
A	20%
BBB	15%
BB	9%
B	5%

\* The market value declines by rating category are applied in addition to:

- a) Peak-to-trough home price forecast.
- b) Distressed sale discount of -30.8%.
- c) Further property value haircuts by property and loan characteristics.

## UNIDENTIFIABLE RISK

Even if all the inputs to the model, such as house prices, are known, there is still variation between the estimates and the actual values. An examination of Figures 7a and 7b in the “Shrinkage” section makes this clear.

There are a number of causes of variation between the estimate and the actual:

1. Uncertainty in the model coefficients.
2. Inherent variability in portfolio outcomes.
3. Model misspecification and incomplete or incorrect data.
4. Model drift.

A traditional confidence interval around an estimate focuses on Cause 1 and makes statements about the unknown mean portfolio loss rate. Confidence intervals are of little interest in this setting. The focus of interest is not making statements about the mean portfolio outcome but the single outcome of the portfolio at hand. Making statements of this nature involves incorporating Cause 2. Such statements are referred to as prediction intervals. An example of a confidence interval is a statement like: “A 95% confidence interval for the mean home size in the United States is 2650 to 2750 square feet.” An example of a prediction interval is a statement like: “A 95% prediction interval for the size of a house whose address is randomly selected from the tax rolls is 2500 to 2900 square feet.” Prediction intervals are wider than confidence intervals.

Any model is an abstraction of reality. It is a simplification based on incomplete data. Simplification necessarily introduces error. Error is also introduced as the values of relevant variables that are not captured vary. These are examples of Cause 3. It is also common for the relationships captured in the model to change over time. This is referred to as model drift – Cause 4.

These risks are referred to as unidentifiable. Though unidentifiable, they can, to varying degrees, be quantified. Methods to handle Causes 1 and 2 are well known. The philosophy behind quantifying Cause 3 is this: that the error relates to processes by which loans are originated and chosen to be included in deals as well as uncaptured regional economic effects. The combined effect of these processes manifests itself as an observable correlation of defaults within a deal.



Appendix 5 “Rating Category Models” details the models DBRS uses to derive the rating categories. They are:

1. Peak-to-trough model of house prices (to address the identifiable risk).
2. D180 correlation model (to address the unidentifiable risk).
3. Recoveries correlation model.

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## Re-securitizations (or ReREMICs)

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### SUMMARY

RMBS performance deterioration has triggered a trend in mortgage securitization: the use of re-securitizations (or ReREMICs) as a restructuring tool. Following substantial downgrade actions in recent vintages, the surge in ReREMICs was primarily motivated by the desire to create securities with increased credit support to ensure rating stability and improved liquidity.

Typically, a ReREMIC is viewed as a pass-through of interest, principal and losses from one or more underlying certificates to a newly created ReREMIC. Recent ReREMICs, frequently backed by originally AAA-rated underlying certificates, often employ a simple A/B (or senior/subordinate) structure, with Class B providing additional credit support to Class A via subordination. In most ReREMICs, interest payments on Class A and B are distributed on a pro-rata basis and principals are paid sequentially.

### RATING APPROACH

When rating ReREMICs, DBRS uses RMBS Insight to assess the probability of default, loss severity and expected losses on the underlying pool, as described in previous sections.

Furthermore, ReREMICs are often backed by seasoned and distressed underlying transactions issued in 2005 to 2007. In most cases, the origination and underwriting process, representations and warranties and due diligence reviews within the transactions were weak in quality. A portion of these qualitative risks, along with servicing capability, are manifested in deal performance over time, and are therefore captured through the seasoned characteristics by our model. Additional haircuts on FICOs, appraisals, mortgage insurance and slower prepayment speeds may be warranted to address these risks on seasoned loans.

A cash flow analysis is always performed for ReREMIC ratings, as detailed in the next section.

### CHALLENGES AND CONCERNS

Rapid deterioration in the housing market and a bleak economic outlook have made it challenging to rate certain ReREMICs. DBRS renders the following types of ReREMICs not ratable.

- Underlying bonds backed by second liens and HELOCs
- Underlying bonds backed by pools with loan count lower than 200

In situations where no updated borrower information is available or when property values have declined significantly, it is very difficult to predict borrower behavior in second liens and HELOCs, even if they are currently performing. Nor can one ascertain the expected losses in pools with loan count lower than 200, for the tail risk and performance volatility.

Certain other types of ReREMICs may be ratable, however these ReREMICs may not warrant the highest ratings from DBRS.

- Underlying bonds with a class factor of 1 (often times non-front-pay seniors) with high delinquencies and losses.
- Underlying pools with high loss expectations (most subprime and some Alt-A transactions).



In a ReREMIC, DBRS cash flow analysis considers how fast an underlying bond is paying down relative to how rapidly the losses are being applied from the bottom of the capital structure. A bond with a class factor of 1, so far locked out from principal distribution, is far more sensitive to cash flow assumptions than a front-pay senior. When evaluating bonds with a factor of 1, DBRS will determine how long it will take for such a bond to start receiving principal under various prepayment scenarios. Typically a bond that will not start to receive principal within 2 years may not warrant the highest ratings, especially if the transaction is experiencing high delinquencies and losses.

Additionally, for underlying transactions with high loss expectations, it is often not possible to achieve the highest ratings after applying conservative cash flow assumptions.

Finally, DBRS does not assign ratings below “A” in any ReREMICs, due to the sensitivities to performance volatility at the lower rating categories.

#### *Servicing Practices and Their Impact to Interest Payments*

Since a ReREMIC is a pass-through of interest, principal and losses from the underlying certificates, its interest entitlement is usually capped at the actual interest amount collected on the underlying securities. In other words, a ReREMIC trust can not pay out more interest than it receives from its collateral, and sometimes, what is collected on the underlying securities can be as low as zero.

When rating ReREMICs, DBRS is assessing the ability of the trust making the full principal payment by the legal final maturity date of the transaction. These transactions typically define interest rate as the lesser of the bond coupon and the available interest funds. Hence, the DBRS rating does not provide an opinion on the timeliness or amount of interest payments the investor may receive. The trust’s only obligation is to pass through the interest proceeds net of fees from the underlying securities.

Continued deterioration in securitization performance has prompted changes in servicing practices that were not anticipated pre-crisis. Loan modification, mostly in the form of interest rate reduction, was a loss mitigation technique meant only for a limited number of distressed borrowers, not as a solution to colossal defaults as it is today. In addition, large scale modifications often allowed servicers to recoup past servicing advances at the top of the waterfall, reducing the interest amount distributable to the bond holders. Finally, driven by unprecedented level of delinquent mortgages and extending foreclosure timeline, a declining trend in servicing advances have been observed and will most likely continue in the foreseeable future. Consequently, ReREMIC investors these days are more likely to experience lower interest receipts for reasons described above.

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## Transaction Structure and Cash Flow Analysis

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### TRANSACTION STRUCTURE

RMBS transactions are typically structured into credit tranches, representing varied credit risk ranging from AAA (seniors), AA to B (subordinates). The following are typical structures and features in RMBS transactions.

#### *Pure Sequential and Pro-rata Structure (Without Triggers)*

In a sequential pay structure, all incoming principal cash will be used to pay down the AAA classes. The subordinate bonds are “locked out” from any principal payments until the seniors are paid in full. This ensures increased credit support for the AAA bonds. In a pro-rata structure, subordinates pay down concurrently with the seniors, resulting in a reduction in the absolute amount of subordination to the senior classes.



### *Shifting Interest Structure*

In a shifting interest structure, scheduled principal is allocated to all classes on a pro-rata basis. Unscheduled principal (or prepayments) however, is distributed based on a schedule. For years after issuance, in addition to its own allocation of prepayments, the senior classes are also entitled to a percentage of the subordinates' share of prepayments. The entitled percentage steps down with time, until zero, provided if the transaction is performing well, as measured by delinquency and loss triggers. Shifting interest structures are often utilized in prime (and some Alt-A) securitization.

### *Senior Subordinate and Over-collateralization (Sr-Sub OC) Structure*

In non-prime transactions, loans bear higher interest than their prime counterparts to compensate for the greater credit risk. The higher rate usually results in a sizeable strip of excess cash (or excess spread), after paying bond coupons and other fees. Excess spread is used to pay additional principal to the bonds on top of the principals actually received on the collateral, thus creating overcollateralization (OC).

In a Sr-Sub OC structure, principal payments are usually allocated sequentially to the senior and subordinate classes. Such allocation continues until the step down date. Principal will be distributed pro-rata among all classes at such date, provided that the transaction is performing well. At that time, OC is also allowed to step down subject to an OC floor.

### *Triggers*

Triggers are important as they may alter principal allocations in a transaction. In a Sr-Sub OC structure, trigger may also impact the OC size and therefore the level of credit support. Triggers are usually tied to delinquency, in the form of a rolling 60+-day delinquency rate, and cumulative losses.

### *Loss Allocation*

In a RMBS transaction, losses are first absorbed by excess spread and overcollateralization (when applicable), followed by the non-rated class (if any), and finally reverse sequentially from the lowest- to the highest-rated bonds. Once the subordinates are written down, loss allocation is typically pro-rata among all the senior classes.

## **CASH FLOW ANALYSIS**

For transactions that may be impacted by cash flow stresses<sup>3</sup>, RMBS or ReREMICs, DBRS undertakes a detailed structural analysis (currently in Intex) to ensure timely payments of principal and interest to the bonds. The cash flow modeling assumptions DBRS uses for rating RMBS transactions focus on the following risk factors:

1. Prepayment speeds
2. Timing of losses
3. Interest rate stresses (when there is a mismatch between the collateral and bond coupons)

The complexity of the capital structures in RMBS transactions requires testing various combinations of cash flow stresses to properly analyze a bond. DBRS incorporates a dynamic cash flow analysis in our rating process. As indicated in Table 9 below, a baseline of five prepayment scenarios (under two Intex conventions – Standard and Max<sup>4</sup>), two loss timing curves and two interest rate stresses are generally applied to test the resilience of a bond. An appropriate rating is one that can withstand the combination of DBRS-modeled cash flow stresses without the rated class incurring any interest shortfalls or principal writedowns. As warranted, transactions may be further stressed to include weighted average coupon (WAC) deterioration as well as delinquency vectors to test the impact of triggers. DBRS generally runs 40 scenarios in each rating category to test the sensitivity of the rated securities to various cash flow stresses.

3. Certain transactions may not be affected by cash flow stresses. These structures are typically sequential-pay, without triggers and the principal and interest waterfalls are kept strictly separate.

4. Standard: The standard prepayment rate consists of voluntary prepayments only. Prepayment amount and default amount are applied to the loans independently. Max: Intex will first apply the defaulted amount, then apply the prepayment amount such that the total amount applied is equal to the larger of the prepayment or the default amount.

**Table 9. DBRS Base Cash Flow Scenarios**

Scenario	Intex Prepayment			
	Prepayments	Convention	Loss Timing	Interest Rate*
1-5	5 - 25% CPR	Standard	Front-loaded	Upward
6-10	5 - 25% CPR	Standard	Front-loaded	Downward
11-15	5 - 25% CPR	Standard	Back-loaded	Upward
16-20	5 - 25% CPR	Standard	Back-loaded	Downward
21-25	5 - 25% CPR	Max	Front-loaded	Upward
26-30	5 - 25% CPR	Max	Front-loaded	Downward
31-35	5 - 25% CPR	Max	Back-loaded	Upward
36-40	5 - 25% CPR	Max	Back-loaded	Downward

\* Where there is a mismatch between the collateral and bond coupons.

This section will examine each risk factor and how it affects collateral and bond cash flow.

## PREPAYMENT SPEEDS

Prepayment speed measures the rate at which borrowers make their principal payments prior to the scheduled maturity date. In a shifting-interest structure, high prepayment speeds allow subordinate bonds to pay down quickly thus reducing the absolute amount of credit support they provide to the senior classes. Such scenarios, when combined with a back-loaded loss timing curve, are especially precarious for the outstanding senior bonds. In addition, prepayments reduce the outstanding principal balance of a mortgage pool, thus reducing excess spread. The faster the prepayment speeds, the quicker excess spread is depleted.

### *Interest Rate Movements and Refinance Tendency*

Historical data shows a correlation between a borrower's prepayment behavior and interest rate movements. Generally, in a declining interest rate environment, borrowers are motivated to refinance and may do so if their credit profile allows. Conversely, prepayment speed typically slows as interest rates rise.

The recent housing and economic crises have created an interesting phenomenon. Despite the historically low interest rates, voluntary prepayments, particularly in the non-agency market, remain extremely low. Faced with blemished credit histories, insufficient home equity or tougher underwriting standards, many existing borrowers find it difficult to refinance.

### *Payment Shock after Reset*

After the reset date, prepayment behaviors can vary by product type. For example, interest rates on hybrid ARMs may increase substantially. Due to payment shocks that can occur as the rate resets from the initial fixed rate, borrowers are more likely to prepay their mortgages at or shortly after the respective reset dates. Again, this observation may not hold true in an environment where refinancing options are limited.

### *Dynamic Prepayment Curves*

The current low prepayment environment presents a challenge in stressing RMBS transactions as slow speeds could lead to overly optimistic valuations of excess spread. Conversely, high prepayment speeds stress excess spread properly, but may also deplete collateral too quickly to allow 100% of the expected losses to pass through the capital structure. As such, DBRS finds it prudent to apply a dynamic prepayment stress.



In a typical transaction today, DBRS applies five prepayment stresses (under two Intex prepayment conventions) that generally range from 5% to 25% CPR. As expected, these speeds will be adjusted or expanded should the overall prepayment environment change. The stresses will also be validated against issuers' actual prepayment experience for each type of transaction. For example, prime transactions generally prepay faster than Alt-A and subprime pools. Depending on future economic and housing environments, adjustments will be made as needed to shift the speeds faster or slower.

## TIMING OF LOSSES

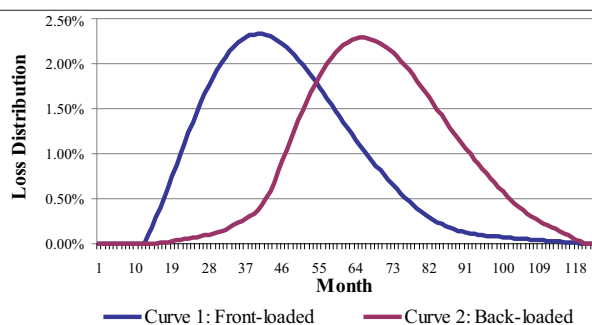
The timing of losses is a key factor in cash flow analysis. In most transactions the servicers generally advance the principal and interest (P&I) payments on delinquent mortgages, so DBRS assumes that defaults and losses will occur simultaneously.

Depending on which part of the capital structure is being stressed, faster or slower realization of losses can have a different impact on the bonds. For example, when stressing certain non-accelerating seniors (NAS)<sup>5</sup>, front-loaded losses may deplete credit enhancement faster, but may also cause all subordinated bonds to be written off sooner, triggering the NAS bond to emerge from its lockout period prematurely and start paying down sooner.

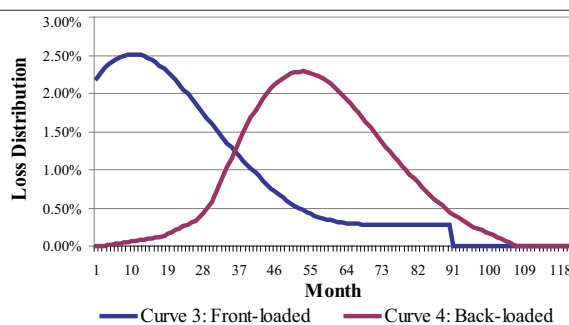
Traditionally, a loss curve spans over seven to 10 years, the bulk of the losses happen between years two and five. During the most recent housing crisis, it is not uncommon to observe a more back-loaded loss timing pattern, particularly for 2005 and prior vintages. Many of these loans did not incur losses until well into their 5<sup>th</sup> to 7<sup>th</sup> years. To capture such sensitivities, it is imperative to test multiple loss timing curves when rating a transaction.

DBRS usually estimates two base loss timing patterns for a new origination pool: front- and back-loaded curves, as shown in Figure 8a below. These curves illustrate how losses will be distributed throughout the life of a transaction, generally 10 years. The area under each curve adds up to 100%.

**Figure 8a. DBRS Loss Timing Curves (New Origination Pools)**



**Figure 8b. DBRS Loss Timing Curves (30-Month Seasoned Pools)**



For seasoned transactions, DBRS also estimates two loss timing patterns, retaining the shape of Curve 1 and 2 in Figure 8a. The front-loaded pattern, Curve 3 (derived from Curve 1) will be seasoned by the weighted average age of the pool. The back-loaded pattern, Curve 4 (derived from Curve 2), assumes all future losses starts at month 1 after transaction issuance. Figure 8b above illustrates an example of the two loss timing patterns for a transaction that is 30 months seasoned.

These curves can be further back-loaded if warranted. For example, a seasoned transaction with an exceedingly high delinquency pipeline and low corresponding cumulative losses may suggest difficulties in disposing the properties, due to servicers' ineffective liquidation technique or the properties' distressed locations.

5. NAS bonds receive principal according to a schedule and are typically locked out of principal distribution for three years following issuance. However, once all the subordinate bonds are written off, they will receive their principal distribution on a pro rata basis with other senior classes.





### *Transactions without P&I Advances*

In transactions where the servicers do not advance cash for delinquent mortgages, any principal and interest payments will be shut off as soon as a loan becomes delinquent. Any recoveries or liquidation proceeds from that loan will not be available for an extended period of time. In our analysis, DBRS approximates delinquency timing curves by front-loading our standard loss timing curves, as described in the previous paragraph, by an average liquidation timeline, currently at about 24 months. The length of this period is dependent on the liquidation timeline for the mortgage pool and may vary by transaction with different state concentrations.

## INTEREST RATE MISMATCH

Interest rate mismatch risk occurs when the interest rate on the underlying mortgage collateral adjusts differently from the interest coupon on the bonds. For example, assume that the underlying mortgage loans are either fixed-rate or hybrid ARMs, and the bonds are based on one-month LIBOR, if LIBOR rises, excess spread decreases. Interest rate mismatch also exists for securitizations in which the mortgage loans and bonds adjust based on different indices. If the two indices were to converge, excess spread would decrease. It is important to quantify the effect of this mismatch by stressing interest rates.

Mismatch can also occur when there are hedging instruments such as interest rate swaps in the transaction. Typically the issuer agrees to pay the swap counterparty a specified fixed rate while receiving one-month LIBOR from the counterparty. To the extent LIBOR is greater than the specified fixed rate, the issuer (or the RMBS trust) benefits as they receive more than they pay. The trust loses money if the opposite happens. It is important to perform various interest rate stresses because the hedges can become unbalanced between outstanding assets and liabilities overtime.

DBRS generally applies two sets of interest rate stresses (upward and downward) for each transaction. Please refer to the [Unified Interest Rate Model for U.S. RMBS Transactions](#) for more detail of the interest rate stresses applied by DBRS.

## LIQUIDATING TRUST SECURITIZATIONS

Liquidating trust securitizations are primarily backed by liquidation proceeds of non-performing assets. DBRS uses RMBS Insight to assess the probability of default, loss severity and expected losses on the mortgage pool, as described in previous sections. Cash flow analysis for these securitizations is unique due to the nature of the mostly delinquent asset pools.

The expected cash flow in a liquidating trust securitization can come from two main sources: liquidation proceeds of the delinquent assets or regenerated payments if the assets are re-performing due to modification or a credit cure. DBRS generally assumes that the assets will go through the natural course of foreclosure and liquidation, unless there is strong evidence of the servicer's ability to revitalize the delinquent mortgages.

DBRS formulates conservative assumptions for the expected timing of liquidation proceeds for each delinquency bucket. By and large, the REO properties, particularly those already in contract or have been listed, will be the first in line to be liquidated, followed by foreclosure, bankruptcy and 90+-day delinquencies, and finally 60- and 30-day delinquencies. Table 10 gives a base liquidation timeline for each delinquency bucket. These timelines can adjust based on the judicial and non-judicial state composition and servicer-specific liquidating timelines.

**Table 10. DBRS Base Liquidation Timeline**

<b>Delinquency Status</b>	<b>Liquidation Starts</b>	<b>Duration*</b>
REO in Contract	Month 3	~ 1 Year
REO Listed	Month 5	~ 1 Year
REO Not Listed	Month 7	~ 1.5 Years
Foreclosure	Months 13-19	~ 2 Years
Bankruptcy	Months 13-19	~ 2 Years
90+ DQ	Months 19-22	~ 2 Years
30 & 60 DQ	Months 22-25	~ 2 Years
Sub-performing Loans	24-30 months after becoming delinquent	

*\* To capture "tail" risk, DBRS assumes only 90% of the loans in each delinquent bucket would follow the base timeline listed here. The other 10% will linger on for an additional year.*

There is always "tail" risk in non-performing pools, that is, for various reasons, some properties will not be liquidated within a realistic timeframe. DBRS assumes that only 90% of the loans within each delinquent bucket would follow the base timeline, the other 10% of the loans will linger on for an additional year.

#### ***Reserves for Interest and Fees***

Non-performing loans take time to migrate through the foreclosure pipeline to ultimate liquidation, meanwhile, interest payments and servicing and trustee fees are due from day one. Therefore, reserves are often needed to ensure timely interest payments and transaction fees before the expected liquidation proceeds begin. Aged REO properties or cash flowing mortgage assets (see "Sub-performing Loans" below) may help reduce the reserve amounts to the extent they can cover interest and fee shortfalls early on in a transaction.

In addition, in a liquidating trust securitization, a portion of the principal cash (liquidation proceeds), which otherwise would have been used to amortize the bond balance, is almost always "borrowed" first to cover interest payments and fees, thus prolonging the pay-down of the rated bonds. Under such scenarios, an increased amount of credit support will be needed to account for the "borrowed" principal, resulting in higher credit enhancements than what the expected losses are for the pool, at each rating category.

#### ***Sub-performing Loans in Liquidating Trust Pools***

DBRS has noticed that some liquidating trust pools may include a portion of sub-performing (or cash flowing) loans. The benefits of including such loans are obvious. They serve to reduce expected losses and more importantly, to fill the interest gap and sometimes lower the amount of reserves.

Sub-performing loans are not contractually current. Sometimes these loans are "performing" because they have been modified or they are merely cash flowing (i.e. making reduced or delayed monthly payments). Default patterns for such loans can be very different from those of contractually current mortgages.

When analyzing the sub-performing loans, DBRS has made the assumption that a significant portion of these loans, if not all, would become delinquent shortly after closing, sometimes as soon as within one year since issuance. The actual timeline to default will depend largely on whether a sub-performing loan has been modified, how long ago the modification took place and what type of modification. Upon a sub-performing loan becoming delinquent, its liquidation proceeds will not begin until 24 to 30 months from that date.





## SWAP TERMINATION PAYMENTS

Interest rate swaps were commonly used in RMBS transactions to protect the capital structure against rises in interest rates. Typically, the trust pays a fixed rate payment to the swap counterparty in exchange for a floating rate (LIBOR) payment by the counterparty to the trust. Currently LIBOR rates have fallen to nearly zero, if these swap contracts were to terminate today due to a trust failure to pay, the swap counterparty will be entitled to a termination payment from the trust.

When rating swap termination payments, DBRS is assessing the ability of the trust making the swap termination payments to the counterparty by the legal final maturity date of the transaction.

In most RMBS transactions, the swap termination payments owed to the counterparty are senior in the payment priority to the certificate holders if the trust is the defaulting party. In addition, the size of the available collateral cash flow from each distribution date (and from future distribution dates if the termination payment is not paid in full in a given period) often significantly exceeds what is needed to pay off the termination payments. Therefore, these termination payments have long been regarded as secure cash flow, certainly as good as, if not better than, interest owed to the senior certificates. Due to the considerable deterioration in RMBS performance, some transactions may not be able to fully pay off the swap termination payments, especially in stressed rating scenarios.

When rating swap termination payments, DBRS uses RMBS Insight to assess the probability of default, loss severity and expected losses on the underlying pool, as described in previous sections. An enhanced cash flow analysis is then performed to assess the risk that the collateral may exhaust, due to fast prepayments and/or loss occurrence, before the interest rate swaps expire.

The DBRS cash flow analysis for rating swap termination payments includes running multiple fast and slow voluntary prepayment speeds and passing through expected losses in a front-loaded pattern under various rating scenarios, as described earlier in the section. Once the cash flow is run, the stressed collateral cash flow is compared against each period's potential swap termination payment to determine if there is sufficient coverage to make the termination payment by the legal final maturity of the trust.

To calculate the swap termination payments, DBRS first derives the net swap cash flow for each period by comparing a) the fixed stream of payments from the trust to the swap counterparty against b) the LIBOR payments which the counterparty would expect to pay to the trust. Next DBRS aggregates the net swap cash flow for all future periods to derive the total potential swap termination payments.

In certain underlying documents, there is a penalty rate assessed for any unpaid swap termination payments in each period. DBRS uses the unified interest rate model to stress such penalty rate.

A rating is only assigned when under such rating scenario, there is sufficient coverage of collateral to ultimately pay the swap termination payment should the trust default on swap payment obligation on any distribution date.

For transactions with high loss expectations and/or a swap expiration longer than 12 months, the swap termination payments may not achieve the highest ratings. Additionally, DBRS does not assign ratings below "A" in any swap termination payments, due to the sensitivities to performance volatility at the lower rating categories.



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## Legal Structure Review

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### LEGAL STRUCTURE REVIEW

DBRS reviews each transaction and the related documentation to determine if the DBRS legal criteria are satisfied. Counsel for the issuer must provide opinions opining on the likelihood of certain legal outcomes.

### BANKRUPTCY REMOTENESS

The primary aim of securitization is the legal separation of a pool of assets (and their associated cash flows and contractual rights) from an asset seller or originator. This separation is achieved by transferring assets from the sellers to an entity that is created specifically for this purpose, a special-purpose entity (SPE). The SPE is designed to be independent of the liabilities and risks associated with the sellers and can therefore issue securities backed purely by the cash flows and credit strength of the assets sold to the SPE.

The separation of the assets from the financial risk of the originators is fundamental to a structured finance transaction. The assets must be transferred in a manner such that, in the event of the bankruptcy of the seller, the assets would not be part of its bankruptcy estate or subject to an automatic stay under Title 11 of the U.S. Code (the Bankruptcy Code). The primary goal is to ensure that the assets are beyond the reach of a seller's creditors. Bankruptcy remoteness is an essential concept in structured finance. Attaining bankruptcy-remote status is dependent on the legal structure of the transaction, the transaction documentation, the relationship between a seller and the SPE and the relevant laws of the applicable jurisdiction(s).

### OTHER CONSIDERATIONS

While bankruptcy remoteness is one essential factor in the DBRS legal criteria, it is not the only consideration. The DBRS legal criteria seek to ensure that the structure of a transaction protects holders of RMBS and sufficient resources are always available to allow the SPE to meet its obligations of the rated securities. DBRS's legal review addresses various other issues that may arise during the life of the transaction, such as the proper servicing of the assets and collection of the cash flows they generate. The legal structure is also reviewed to confirm that insolvency, legal status or existence of claims against any entity involved in the transaction do not threaten cash flow to rated security holders.

For details on the legal structure review, please refer to the DBRS methodology "[Legal Criteria for U.S. Structured Finance Transactions](#)".



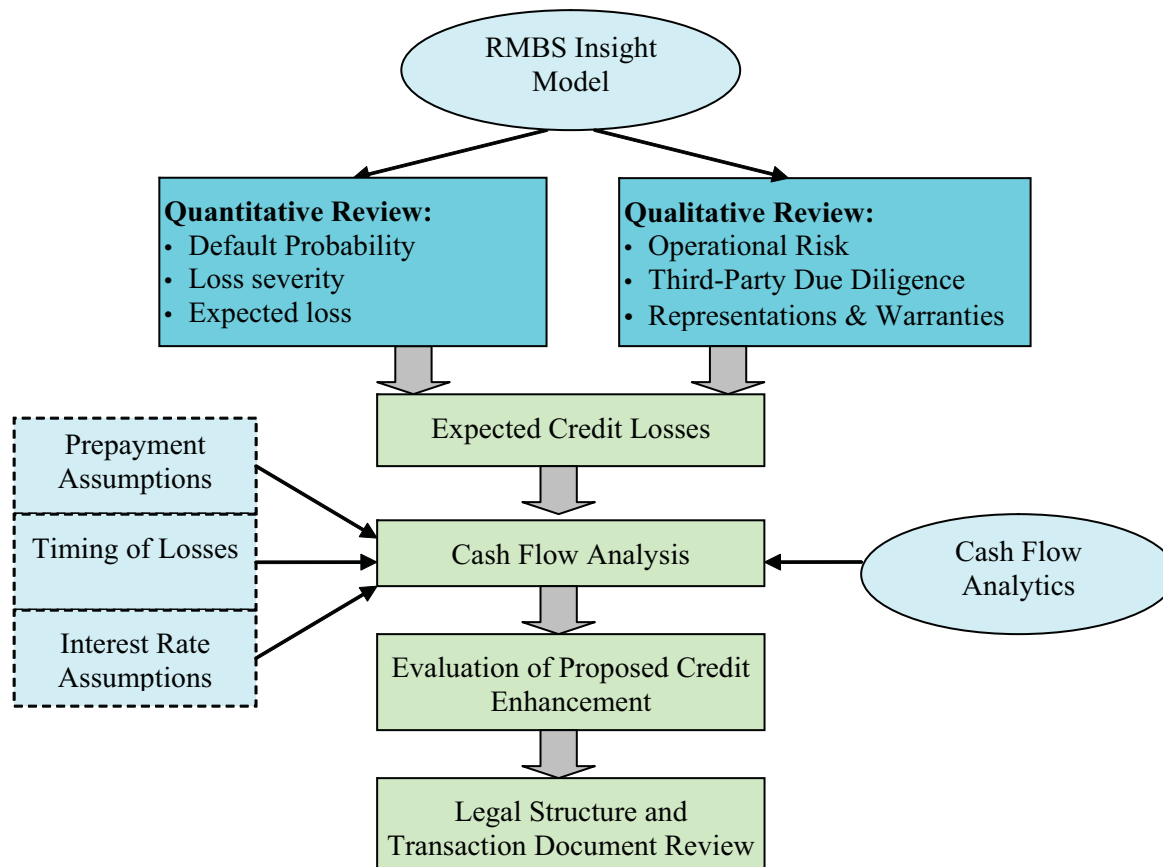
## Appendix 1. Rating Process for U.S. RMBS Transactions

### RATING PROCESS

The DBRS methodology for rating U.S. residential mortgage-backed securities (RMBS) reflects the following analytical considerations:

- Quantitative review: Loan-level default probability and loss severity analysis.
- Qualitative review:
  - Operational risk assessment.
  - Third-party due diligence review.
  - Representations and warranties review.
- Cash flow analysis (for transactions that may be impacted by cash flow stresses)<sup>6</sup>.
- Evaluation of the form and sufficiency of proposed credit enhancement for the respective ratings.
- Legal structure and transaction documents review.

The following diagram describes the process for analyzing a mortgage transaction:



1. DBRS conducts a loan-level analysis using the DBRS proprietary U.S. RMBS model, RMBS Insight<sup>7</sup>. The model analyzes default probability, loss severity and expected credit losses of a mortgage pool.

6. Certain transactions may not be affected by cash flow stresses. These structures are typically sequential-pay, without triggers and the principal and interest waterfalls are kept strictly separate.

7. The RMBS Insight Model is a substantial component of the DBRS rating process. A material deviation from the rating implied by the model would be a three-notch or greater rating difference.



2. RMBS Insight also incorporates the results from the following qualitative reviews:
  - DBRS assesses the operational risk by evaluating the quality of the mortgage originator and servicer.
  - DBRS reviews third-party due diligence results to assess the accuracy of the data provided by the issuer and whether the mortgage loans were originated in compliance with applicable underwriting standards and legislations.
  - DBRS reviews the proposed representations and warranties for the transaction and the related counterparty strength.
3. For transactions that may be impacted by cash flow stresses, DBRS performs a cash flow analysis by incorporating stress assumptions on prepayments, timing of losses and interest rates to ensure timely payments of interest and principal distributions to the holders of the rated bonds.
4. DBRS evaluates the form and sufficiency of proposed credit enhancement for the respective ratings.
5. DBRS reviews the legal structure of the transaction and the associated legal opinions.



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## Appendix 2. Operational Risk Assessment

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### ORIGINATOR REVIEW

The originator review process is done to assess whether the loans have been originated in accordance with the seller's underwriting guidelines and that the originator is in compliance with applicable laws and regulations. For multi-originator transactions, the review is typically done on originators that encompass 15% or more of a transaction, however, this threshold may be lowered if a transaction contains a product that is deemed to be high risk or if the originator has had a history of poor performance. The assessment includes a review of the items noted below and is supplemented by the results of a third-party due diligence review performed for the transaction. (For details on due diligence reviews, please refer to the DBRS methodology "[Third-Party Due Diligence Criteria for U.S. RMBS Transactions](#)"). For seasoned transactions, an originator review is generally not conducted as DBRS believes that the performance history of the loans is more indicative of the credit risk than the dated origination and underwriting practices. Moreover, many of the originators active from the pre-crisis era may have long exited the business. Those who continue to originate may have significantly changed their practices and controls over time.

DBRS begins the initial originator review process by scheduling a date to conduct an on-site visit of the company. Once a date is confirmed, DBRS sends a sample agenda that outlines the topics to be covered during the meeting which includes items such as organizational charts, financial statements, underwriting guidelines and performance statistics. During the on-site review, DBRS meets with senior management to discuss the origination operations, tour the facilities and review system demonstrations, as appropriate. DBRS assesses the information gathered through the review process, along with its surveillance data and industry statistics to determine if an originator is acceptable. In instances where DBRS determines that the originator is below average, issuers may incorporate certain structural enhancements into a proposed transaction such as additional credit support or a third party firm to provide the requisite representations and warranties (reps and warrants) in order for DBRS to be able to rate the transaction. In the event that DBRS determines that an originator is unacceptable, it may decline to rate the deal.

The originator review process typically involves a review and analysis of the following:

1. Company and Management
2. Financial Condition
3. Controls and Compliance
4. Origination and Sourcing
5. Underwriting Guidelines
6. Valuation Practices
7. Technology

#### *Company and Management*

DBRS believes that no origination operation can be successful without a strong seasoned management team that possesses demonstrated expertise in the product(s) they are originating. As a result, DBRS views favorably those originators whose management team possesses greater than ten years of industry experience. Additionally, DBRS believes the participation of the credit risk management, quality control, legal and compliance departments in all aspects of the origination and underwriting process is important in order to identify and mitigate risk. Furthermore, adequate capacity and resources to handle fluctuations in loan volume are of paramount importance.

#### *Financial Condition*

DBRS reviews the originator's financial condition to determine whether the lender has sufficient resources to make the appropriate representations and warranties on the loans being included in a securitization.



In cases where DBRS does not maintain a public rating of the originator, the DBRS Financial Institutions Group provides an internal assessment (IA) of the relevant institution. In certain cases, DBRS may rely on public ratings assigned and monitored by other credit rating agencies.

For entities with credit rating below “BBB”, DBRS believes that a comprehensive and satisfactory due diligence performed for securitizations should reduce the occurrence of future repurchase claims due to breaches of representations and warranties. In such instances, DBRS places a greater reliance on due diligence to compensate for the weaker financial strength of the origination entity.

Some items that are reviewed as part of this process may include:

- Company ownership structure
- Management experience
- Corporate rating of any parent company (if applicable)
- Internal and external audit results
- Revenue sources and lines of credit
- Costs to originate
- Litigation (past, present and expected)
- Existing business strategy and strategic initiatives
- Recent or planned mergers or acquisitions
- Recent or planned transfers or acquisitions
- Securitization history and future plans

Any financial stress identified can elicit originator problems either immediately, as in the case of a bankruptcy, or lead to a slow degradation of the performance of the collateral. Therefore, the originator’s financial condition weighs on all aspects of DBRS analysis of RMBS transactions including the evaluation of proposed credit enhancement levels and the presence of proposed structural safeguards.

### ***Controls and Compliance***

DBRS believes internal assessments and quality-control reviews are critical in recognizing procedural errors that may not be easily detectable. These reviews can be used to identify trends, training opportunities and exception practices. Frequent checks can assist management in quickly instituting changes to areas needing improvement, as well as benchmarking those results to performance. In addition to the aforementioned reviews, a monitoring process should be in place to ensure that the originator is in compliance with all applicable laws, rules and regulations and that all employees in customer-facing positions are appropriately trained.

DBRS views favorably those originators that are in good standing with FNMA, FHLMC, FHA, VA and GNMA and are not the subject of any regulatory or state investigation(s). Minimal or no repurchases due to breaches of representations and warrants are considered of paramount importance as well as robust procedures for vendor selection and oversight. Additionally, strong controls for managing potential conflicts of interest associated with parties to a transaction are also important.

### ***Origination and Sourcing***

DBRS reviews the origination and sourcing channels to determine if the originator has a clearly defined strategy. Approval and monitoring processes for third party originators including brokers, correspondents and conduits are also reviewed to determine if the originator has strong procedures and controls. Underwriting practices that include regular performance tracking and post closing quality control reviews are viewed favorably by DBRS. Furthermore, procedures that ensure new loan setup accuracy and data integrity are fundamental to ensuring minimal errors. As a result, DBRS views favorably those originators with a high level of automation and a low tolerance for missing documentation. Additionally, DBRS reviews the originator’s efforts towards compliance with regulatory guidelines and industry best practices. Furthermore, the originator’s portfolio is reviewed for changes in size, product type or delinquency (such as first payment defaults).



### *Underwriting Guidelines*

An originator's appetite for risk and the underlying quality of its underwriting guidelines can have a significant impact on deal performance. Therefore, DBRS uses both a qualitative and quantitative approach to conduct its originator reviews and make comparisons among originators. Historical loan performance, repurchase volume and mortgage insurance claim denial rates are just some of the components that are incorporated into determining the quality of an originator.

DBRS views favorably those originators that have robust guidelines and use reliable means to accurately assess a borrower's income, employment and assets. Furthermore, sophisticated technology and strong fraud-detection procedures can help prevent early payment defaults as well as accurately determine debt-to-income ratios. An originator's use of exception and override practices can also help to access the quality of the originations. Additionally, separation of the origination and underwriting functions in addition to a compensation structure that emphasizes quality over loan volume can help to ensure predictable performance.

### *Valuation Practices*

The accuracy of appraisals can severely reduce losses to RMBS investors. As a result, DBRS considers a comprehensive property evaluation process a necessity. Employing licensed appraisers that have no interest in the property and receive no benefit from or compensation for the mortgage loan's approval or disapproval are viewed favorably by DBRS. Since many firms outsource this function, comprehensive appraiser approval and monitoring processes as well as employing an appraisal review function into the origination process is also considered essential. An originator's use of real estate brokers providing broker price opinions and automated valuation models (AVMs) is also evaluated to determine the criteria and frequency by which they are used. DBRS views favorably those firms that use these items to monitor the accuracy of their appraisal process.

### *Technology*

Technology resources are an integral component of the originator review process. While DBRS does not subscribe to specific systems architecture, adequate systems controls, consumer privacy protection and backup procedures, including disaster recovery and business continuity plans, are considered critical processes and should be in place. Furthermore, originators must ensure that any offshore vendors are monitored and a backup plan is in place to ensure minimal downtime. Over the past few years, leveraging the Internet has enabled many firms to operate effectively in the mortgage business. Originators have used the Internet for marketing, customer service and the dissemination of pertinent information, such as applications and appraisal requests. As a result, DBRS expects originators to have the appropriate staff and controls in place to ensure website availability, account maintenance and enhancements. Sophisticated technology, with robust functionality, is viewed favorably by DBRS as it often helps bring large efficiencies to the origination operations in addition to more predictability in terms of loan performance.

## **SERVICER REVIEW**

The servicer review process evaluates the quality of the parties that service or conduct backup servicing on the loans being securitized. DBRS meets with senior management at the servicing entity to discuss the servicing operations, tour the facilities and review system demonstrations, as appropriate. DBRS assesses the information gathered through the review process, along with its surveillance data and industry statistics to determine if a servicer is acceptable. In instances where DBRS determines that the servicer is below average, issuers may incorporate certain structural enhancements into a proposed transaction such as additional credit support, dynamic triggers or the presence of a warm or hot backup servicer in order for DBRS to be able to rate the transaction.





The servicer review process typically involves an analysis of the following:

1. Company and Management.
2. Financial Condition.
3. Loan Administration.
4. Customer Service.
5. Escrow.
6. Default Management.
  - Collections
  - Loss Mitigation
  - Bankruptcy
  - Foreclosure
  - Real Estate Owned (REO)
  - Advancing
7. Investor Reporting.
8. Technology.

For non-performing transactions, the process focuses on the company's strategy for handling various types of delinquent loans and its success rate in getting those loans to re-perform through foreclosure or sold through the REO process as quickly as possible.

For details on the servicing review process, please refer to the DBRS methodology "[Operational Risk Assessment for U.S. RMBS Servicers](#)".

## OPERATIONAL RISK FRAMEWORK

In order to evaluate operational risk consistently across all newly originated RMBS pools<sup>8</sup>, DBRS developed a framework that incorporates operational measures into the RMBS Insight model. The framework takes into consideration key aspects of our originator and servicer assessment, the results of the third-party due diligence review and the strength of the representations and warranties provider.

By stratifying historical performance by originator and servicer, DBRS was able to determine the variances across the RMBS performance spectrum (from the best- to the worst-performing transactions). Loans that are securitized near origination and that have sufficient information to be scored are identified. To qualify for the analysis, an originator must place a significant number of loans with at least three servicers who also service a significant number of loans from at least three originators. A loan-level logistic regression model is fit that has three explanatory variables: (1) the log odds of the 2-year D180 score; (2) a factor variable for originator; (3) a factor variable for servicer. The dependent variable for the analysis is a binary indicator of whether the loan became 180 days delinquent in the first two years after origination. Having fit the model, the range of the effect of originator (servicer) is calculated from the parameters associated with originators (servicers). In this way, the marginal or additional effect of origination (servicing) is captured after adjusting for the known loan characteristics and the servicer (originator).

Based on above analysis, the performance variance by originator and servicer generally fall between the +/- 25-35% range for originators and servicers (excluding a small number of irregular deals). For the purpose of this framework, DBRS limits the effect (i.e. benefits or penalties) to +/- 20%.

8. This framework is generally applicable to newly-originated loans. For seasoned loans, operational risk has usually manifested in deal performance over time, and is therefore captured through the seasoned characteristics by RMBS Insight.





DBRS reviews the following categories for originators<sup>9</sup>. Each category carries a different weight and sum to 100%:

1. Company and Management<sup>10</sup>
2. Controls and Compliance
3. Origination and Sourcing
4. Underwriting Guidelines
5. Valuation Practices
6. Technology
7. Quality of Information Provided to DBRS
8. Exception Rate from Third-Party Due Diligence
9. Historical performance of similar products

DBRS also reviews the following categories for servicers. Each category carries a different weight and sum to 100%:

1. Company and Management
2. Controls and Compliance
3. Loan Administration
4. Customer Service
5. Escrow
6. Collections
7. Loss Mitigation
8. Bankruptcy
9. Foreclosure
10. Real Estate Owned (REO)
11. Advancing
12. Investor Reporting
13. Technology
14. Quality of Information Provided to DBRS

DBRS constructed detailed proprietary scorecards that measure the quality of each of the above categories. They are evaluated and assigned a grade of above average, average and below average. Within the scorecards, certain scoring factors are deemed more important than others by DBRS, therefore they are further ranked high, medium and low importance. Accordingly, the originator and servicer is each scored separately, and adds up to a maximum score of 100 each.

Based on the originator and/or servicer score, benefits or penalties may be applied to loss expectations for a pool, through the adjustment of delinquency score. An originator (or servicer) score of 50 represents average quality and generally warrants neither a benefit nor a penalty. Any adjustment, up or down, is bounded by +/-20%, as derived above in the performance variance<sup>11</sup>. Any benefits to loss expectation need to be supported not only by a high originator or servicer score, but also by strong performance histories of similar products by the same originator or servicer.

Irrespective of the scores, DBRS may choose not to rate a transaction should there be overriding concerns with any originator or servicer.

9. For these categories, DBRS included related aspects from third-party due diligence and representations and warranties reviews that support the originator assessment.

10. This category includes the financial condition of the originator, who is typically also the provider of representations and warranties.

11. DBRS limits the benefit at 25% should the originator and servicer's combined credits exceed 25%.



## Appendix 3. Peak-to-Trough Home Price Forecast Model

RMBS Insight includes a base home price forecast. The forecast is at the series level of the Case-Shiller index. The forecast is the output of a model built to estimate the peak-to-trough level of house price declines. The approach taken in building the model is to commonalities between past incidents during which prices have fallen substantially.

### DATA

The modeling data set consists of 20 series from the Case-Shiller data which exhibited a steep fall in house prices after a two-year increase, with the peak occurring prior to the year 2000. The 20 geographies are mostly located in California, Texas and the Northeast. The peaks occur in the early 1980's to the early 1990's. Table 11 gives the 20 geographies used and summary data.

**Table 11. The 20 Geographies**

Series	MSA	County	State	Peak Month	% Increase Prior 2 Years	% Total Decline
1 CAC037Q	Los Angeles-Long Beach-Glendale, CA	Los Angeles	CA	199005	32	-29
2 CAC045S	N/A	Mendocino	CA	199005	31	-18
3 CAC047S	Merced, CA	Merced	CA	199011	35	-16
4 CAC065Q	Riverside-San Bernardino-Ontario, CA	Riverside	CA	199005	30	-30
5 CAC067Q	Sacramento--Arden-Arcade--Roseville, CA	Sacramento	CA	199008	46	-25
6 CAC071Q	Riverside-San Bernardino-Ontario, CA	San Bernardino	CA	199008	30	-27
7 CAC077Q	Stockton, CA	San Joaquin	CA	199008	30	-20
8 CAC099Q	Modesto, CA	Stanislaus	CA	199005	41	-20
9 CAC113S	Sacramento--Arden-Arcade--Roseville, CA	Yolo	CA	199011	48	-16
10 CTC003S	Hartford-West Hartford-East Hartford, CT	Hartford	CT	198808	38	-22
11 CTC005S	N/A	Litchfield	CT	198902	16	-19
12 CTC009S	New Haven-Milford, CT	New Haven	CT	198811	25	-18
13 CTC011S	Norwich-New London, CT	New London	CT	198905	22	-18
14 CTC013S	Hartford-West Hartford-East Hartford, CT	Tolland	CT	198811	39	-21
15 MAC013Q	Springfield, MA	Hampden	MA	198908	16	-24
16 MEC001O	Lewiston-Auburn, ME	Androscoggin	ME	198911	27	-14
17 NJC029Q	Edison-New Brunswick, NJ	Ocean	NJ	198805	44	-22
18 OKC109Q	Oklahoma City, OK	Oklahoma	OK	198308	17	-30
19 TXC135O	Odessa, TX	Ector	TX	198302	21	-37
20 TXC329O	Midland, TX	Midland	TX	198205	32	-36

### APPROACH

The approach is to look for consistencies in the behavior of house prices after the peak. To facilitate the search, the variables are expressed in terms that are comparable across situations. The following variables are defined:

- The proportion of the total decline yet to be experienced. This metric allows comparisons between markets, yet the total price decline can easily be calculated from it since the decline-to-date is known. This variable is monthly.
- The ratio of price decline to date to the increase in the two years prior to the peak.
- The number of months since the peak.

### MODEL

The dependent variable of the model is the proportion of the total decline yet to be experienced. The other two variables are the explanatory variables. The effects are introduced in a nonlinear way via linear splines.



The model is fit by averaging the coefficients across 5000 bootstrap samples. Each sample selects a single observation from each of the 20 geographies. A bootstrapping approach was selected to avoid the dependency of errors within a geography.

Within the Case-Shiller universe, there are 302 series (single family, total index) that have experienced a peak prior to 2010 and whose increase in prices in the two years prior to the peak was at least 10%. To evaluate the stability of the model, the total peak-to-trough decline is estimated by the model at four time periods. The results are presented in Table 12. As seen, the model projection has been very stable since June, 2008. This suggests that the current declines are following a pattern similar to those seen in the past.

**Table 12. Model Stability**

<b>Forecast Date</b>	<b>Projected Peak-to-Trough Decline (%)</b>
12/2010	34.3
6/2009	38.0
6/2008	37.7
6/2007	21.1

## MODEL STRESSES

The distribution of the geographic average of future decline can be estimated from the model. The values across geographies are certainly correlated. The average correlation of the percent change in house price across the geographies is 50%. That value is used when calculating the standard error of the mean. The ability to estimate percentiles of the house price distribution is an important component of the ratings categories methodology.



## Appendix 4. Model Validation

### SUMMARY

Upon the completion of RMBS Insight, DBRS conducted validations of the model results by comparing them against actual historical performance. The validation is done for both probability of default and loss severity.

### PROBABILITY OF DEFAULT VALIDATION

Referring to Figure 1 in the “Modeling Methodology” section, a validation of the default model is tantamount to validating the probability that the loan ever becomes 180 days delinquent. The remainder of the calculation to arrive at default – the roll from 180 days delinquent to default – is a user input.

The process of producing the validation is as follows:

1. A random sample of 5,000 loans is taken from each of the target populations.
2. The actual proportion of loans ever to become 180 days delinquent, charged off or REO is calculated.
3. The actual CPR experience of the pool is calculated.

RMBS Insight is run using the actual CPRs and without shrinkage. The latter is not applicable as the loans are not from a single deal. Setting the “D180->Default” roll rate to 1 results in a default estimate that is the same as the loan ever becoming 180 days delinquent. Note that RMBS Insight will automatically index the house prices from origination using Case-Shiller data. The model 180 day delinquency rate is the lifetime total balances expected to become 180 days delinquent as a percentage of the starting pool balance.

To demonstrate RMBS Insight’s ability to operate in disparate economic climates, Table 13 shows the results for the 2003 and 2007 vintages. Each row represents the forecast and actual performance of 5,000 loans scored from origination. The actual 180 day delinquency rate is total balances actually becoming 180 days delinquent (or charged off or in REO) to date. The data is as of April 30th, 2011. The “Difference” column gives the estimated remaining percentage of the original pool to become 180 days delinquent. The “Future D180 Rate” is the future expected 180 delinquency rate as a percentage of loans that are under 180 days delinquent in the current pool. Finally, the “DQ 180+” column gives the percentage of the current pool balance that is 180+ days delinquent.

Examining Table 13, one is first struck by the dramatic difference in performance between the two vintages. The forecast for the 2007 vintages is 7 to 19 times higher. Secondly, RMBS Insight tracks the actual performance very well. Note that the 2003 vintage was not entirely immune from the recession and housing bust – events not anticipated by a forecast from 2003. In considering the 2007 vintage, it is important to realize that the final results are not known. However, the vintage is much farther through the process of producing loans that are 180 day delinquency curve than it is the default curve.

**Table 13. Cumulative 180 Day Delinquency Rates by Vintage and FICO Range (From Origination)**

Category	Model	Ever 180 Days DQ (% of Original Pool Balance)		Future D180 Rate <sup>1</sup>	DQ 180+ <sup>2</sup>
		Actual To Date	Difference		
2003 Vintage (all Loans)					
FICO					
FICO <= 625	10.2%	12.7%	-2.5%	--	15.8%
FICO: 626-679	5.3%	7.6%	-2.3%	--	11.4%
FICO: 680-719	2.8%	2.5%	0.3%	2.7%	5.3%
FICO: >=720	1.6%	1.4%	0.2%	1.8%	3.6%
2007 Vintage (all Loans)					
FICO					
FICO <= 625	70.5%	58.0%	12.6%	35.1%	39.8%
FICO: 626-679	65.2%	56.0%	9.2%	26.0%	39.0%
FICO: 680-719	50.3%	45.6%	4.7%	11.7%	30.8%
FICO: >=720	29.9%	25.3%	4.6%	10.9%	18.6%

<sup>1</sup> Future 180 day DQs as a % of loans that are under 180 days DQ, as of 4/30/2011.<sup>2</sup> Percent of the current pool balance that is 180+ days DQ.

## LOSS SEVERITY VALIDATION

The validation of the recovery model is conducted in a similar manner. The recovery model is run on samples of loans that have been liquidated. For each loan, the origination appraisal is updated to the liquidation date using the Case-Shiller home price index. The recovery model is applied and loss is calculated. The average severity for each group is calculated as total loss divided by total balance at charge-off. Each group in the tables is a random sample of 5,000 liquidations taken from each of the target populations.

Table 14 gives the results for loans liquidated in two years: 2007 and 2010. The results are segmented by FICO range. The average loan age at the time of liquidation is also given. Noticeable is the large increase in severity and average loan age between the two periods. There is also a notable relationship between the FICO ranges and average severity.

**Table 14. Severity by Liquidation Date and FICO Range**

Category	Severity		Loan Age
	Model	Actual	
2007 Liquidation			
FICO			
FICO <= 625	38.7%	37.2%	32
FICO: 626-679	33.0%	30.8%	29
FICO: 680-719	27.2%	26.3%	28
FICO: >=720	19.2%	23.1%	28
2010 Liquidation			
FICO			
FICO <= 625	68.5%	69.6%	49
FICO: 626-679	63.7%	63.0%	48
FICO: 680-719	59.5%	56.9%	47
FICO: >=720	56.1%	53.5%	46



## Appendix 5. Rating Category Models

### MODELS

The models used to drive the ratings categories are:

1. Peak-to-trough model of house prices (to address the identifiable risk).
2. D180 correlation model (to address the unidentifiable risk).
3. Recoveries correlation model.

The D180 correlation model is discussed first, then the recoveries correlation model and finally the algorithm for arriving at ratings categories.

The D180 correlation is estimated through an analysis of the same data that produced Figure 7a in the “Shrinkage” section. To the extent that the variation in Figure 7a exceeds that which can be attributed to Causes 1 and 2, it is ascribed to correlation between the loans.

The ‘basic’ correlation model is specified as follows. Let

$$X_j = \begin{cases} 1 & \text{if } j^{\text{th}} \text{ loan is 180 days delinquent within 2 years.} \\ 0 & \text{otherwise} \end{cases}$$

and

$$P[X_j = 1] = p_j$$

for  $j=1, \dots, n$ .

Now define

$$X_j = I(T_j \leq F^{-1}(p_j)),$$

where,

$$T_j = aZ_j + bZ$$

$$a^2 + b^2 = 1,$$

$$Z_j, Z \text{ are iid } N(0,1)$$

$I(\cdot)$  is 1 if the quantity in the parentheses is 1 and 0 otherwise.

$F^{-1}$  is the inverse function of the standard normal distribution.

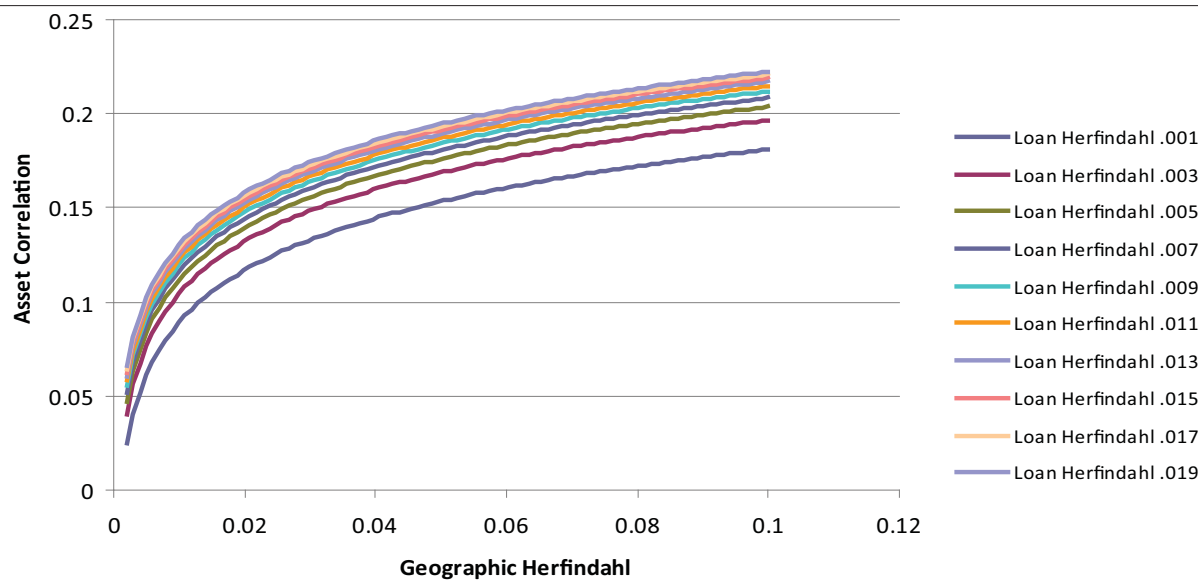
We see that  $X_j$  satisfies the two conditions at top and note that

$$T_j \text{ is } N(0,1)$$

$$\text{Cor}(T_j, T_k) = b^2$$

$Z$  can be referred to as the latent variable – its value is unobserved but can be inferred given a value for  $b$ . A (normalized) Herfindahl index based on geography (MSA level) and loan size is calculated for each of the deals. A parametric model which is a function of the two concentration measures and credit quality is fit using the specification above. The data for the model fit are the expected and actual outcomes for 2891 deals. The expectation is the output of the delinquency score. The parameters determine the asset correlation for each deal which in turn specifies the value of  $b$  for the deal. Given  $b$  for deal  $j$  permits the estimation of  $Z$  for that deal. The parameter values are chosen so the  $Z$ 's satisfy the model assumptions for them.

Figure 9 shows the correlation between  $X_i$  and  $X_j$  as a function of the Herfindahl indices implied by the data. As can be seen, the data supports the premise that correlation (and hence risk) increases with concentrations.

**Figure 9. Asset Correlation by Concentration**

In interpreting the estimated D180 correlations, there are two important factors to consider:

1. Any correlation has a large effect.

Moving from a model of no correlation to a model of correlation has a large impact on the statistical properties of the portfolio default distribution. In particular,

- The mean is no longer a consistent estimator and the portfolio variance does not collapse toward zero.
- The Central Limit Theorem no longer applies. There is a limiting distribution. It is not normal.

2. The correlation is conditional on the future value of house prices.

- One would find a much larger correlation if one estimated the correlation from score values in which the future house prices vary from the actual. The effect of that exercise would be to move house price risk from being an identifiable risk to an unidentifiable risk.

The recoveries correlation model is similar in spirit to the D180 model. Specifying the recovery rate distribution is really specifying the distribution of the residuals from the recovery rate model. A correlation-based model is used. The model specification is as follows:

$$e_i = (\sqrt{s} * L + \sqrt{1-s} * L_i) * b, \quad i=1, \dots, n$$

where,

$e_i = R_i - E[R_i]$ , is the residual between the recovery on the  $i^{\text{th}}$  loan and its expected value (model output),

$L, L_1, \dots, L_n$  are iid Logistic (0,1) random variables (0 is the location parameter, 1 is the scale parameter; L has mean 0 and variance  $\pi^2/3$ ),

b is the scale parameter,

s is the recovery correlation.

The logistic distribution is used because it is seen to be a good fit to the data.

It is important to remember that since  $E[R_i]$  is a function of future house prices, that this distribution is conditional on future house prices.



## IMPLEMENTATION OF CORRELATION MODEL

The D180 and recoveries distribution are very complex. There is no closed form solution for either of them. They depend on the complete set of loan-level values. For example, a single large loan in a portfolio can have a material impact on the balance-weighted portfolio-average D180 distribution. Even though neither distribution can be written down, both can be determined via simulation methods. For the D180 distribution, simulating the  $Z_i$ 's and  $Z$  generates a realization of the  $X_i$ 's. These can then be averaged to produce a realization from the balance-weighted, portfolio-average D180 distribution. Repeating the process permits estimation of any desired percentile of the distribution.

## IMPLEMENTATION OF RATING CATEGORIES

The probabilities associated with the rating categories are from the DBRS published idealized default table.

The process for producing the default estimates for each rating is as follows:

1. The MVD scenarios are derived from the peak-to-trough model. Given a probability,  $p$ , the  $(1-p)^{\text{th}}$  quantile of the national average MVD distribution is found. The value of  $p$  for each rating category is chosen from the DBRS published idealized default table, matching the tenor to the weighted-average life of the collateral.
2. For each MVD, the balance-weighted, portfolio-average D180 rate and the balance- and default-weighted, portfolio-average recovery rate distributions are found via simulation.
3. The appropriate value of 2-year D180 for each category is found. The value satisfies the requirement that the unconditional probability the D180 rate exceeds it equals the target probability (from the DBRS published idealized default table). The unconditional probability is given by:

$$P[D > t] = \int P[D > t|h] f(h) dh$$

Where,

$D$  is the 2-year D180 rate,

$P[D > t|h]$  is the probability the 2-year D180 rate exceeds  $t$  given the MVD is  $h$  (this is the output of the correlation model discussed above),

$f(h)$  is the pdf of house prices (MVD). This distribution is the output of the peak-to-trough model.

For computational efficiency, the integral is approximated by dividing the MVDs into buckets

4. Similarly, the unconditional balance and default weighted recovery distribution is given by:

$$P[R \leq t] = \int P[R \leq t|h] f(h) dh$$

Where,

$R$  is the balance and default weighted portfolio average recovery rate,

$P[R \leq t|h]$  is the probability the recovery rate is less than  $t$  given the MVD is  $h$   $f(h)$  is the pdf of house prices (MVD). This distribution is the output of the peak-to-trough model.

For computational efficiency, the integral is approximated by dividing the MVDs into buckets.

5. Once the portfolio-level D180 and average recovery rates are determined for each rating category, they are pushed down to the loan level and the remainder of the model is run.

In pools with high base case expected losses, gap between any two rating categories can be compressed and therefore can be subject to rating volatility. In RMBS Insight, DBRS implements a minimum step-up in losses between any two rating categories for high-loss pools. Specifically, for pools with expected losses exceeding 40%, a minimum step-up in losses of 5% is necessary. The step-up phases in linearly starting with pools with expected losses of 10% (3% minimum) to 40% (5% minimum). For example, a pool with expected loss of 25% will have a minimum step-up of 4.5% in between any two rating categories.





## Appendix 6. DBRS Idealized Default Table

Rating	Maturity in Years									
	1	2	3	4	5	6	7	8	9	10
AAA	0.0110%	0.0264%	0.0460%	0.0699%	0.0987%	0.1330%	0.1736%	0.2212%	0.2765%	0.3405%
AA (high)	0.0161%	0.0390%	0.0691%	0.1071%	0.1539%	0.2107%	0.2784%	0.3580%	0.4501%	0.5554%
AA	0.0212%	0.0517%	0.0922%	0.1442%	0.2091%	0.2883%	0.3832%	0.4948%	0.6237%	0.7703%
AA (low)	0.0281%	0.0709%	0.1297%	0.2055%	0.2994%	0.4123%	0.5445%	0.6962%	0.8672%	1.0571%
A (high)	0.0419%	0.1095%	0.2045%	0.3280%	0.4801%	0.6602%	0.8671%	1.0991%	1.3543%	1.6306%
A	0.0487%	0.1287%	0.2419%	0.3893%	0.5704%	0.7841%	1.0283%	1.3005%	1.5978%	1.9173%
A (low)	0.0945%	0.2420%	0.4391%	0.6815%	0.9643%	1.2825%	1.6309%	2.0045%	2.3990%	2.8101%
BBB (high)	0.1860%	0.4685%	0.8333%	1.2659%	1.7521%	2.2792%	2.8359%	3.4126%	4.0013%	4.5956%
BBB	0.2318%	0.5818%	1.0305%	1.5581%	2.1460%	2.7776%	3.4384%	4.1166%	4.8024%	5.4884%
BBB (low)	0.3732%	0.8912%	1.5142%	2.2099%	2.9528%	3.7230%	4.5053%	5.2884%	6.0636%	6.8252%
BB (high)	1.0800%	2.4384%	3.9327%	5.4686%	6.9863%	8.4500%	9.8400%	11.1473%	12.3697%	13.5091%
BB	1.3627%	3.0573%	4.9001%	6.7721%	8.5997%	10.3408%	11.9738%	13.4908%	14.8921%	16.1826%
BB (low)	2.2346%	4.7297%	7.2541%	9.6836%	11.9572%	14.0507%	15.9604%	17.6938%	19.2641%	20.6863%
B (high)	3.6297%	7.4056%	11.0204%	14.3419%	17.3292%	19.9866%	22.3389%	24.4186%	26.2592%	27.8922%
B	4.8503%	9.7471%	14.3160%	18.4179%	22.0296%	25.1805%	27.9201%	30.3028%	32.3799%	34.1974%
B (low)	10.0776%	17.6609%	23.5135%	28.1371%	31.8670%	34.9314%	37.4891%	39.6528%	41.5044%	43.1047%
CCC (high)	18.7898%	30.8505%	38.8426%	44.3357%	48.2625%	51.1831%	53.4376%	55.2363%	56.7119%	57.9502%
CCC	22.2746%	36.1264%	44.9743%	50.8151%	54.8208%	57.6837%	59.8169%	61.4696%	62.7949%	63.8884%
CCC (low)	61.1373%	68.0632%	72.4872%	75.4076%	77.4104%	78.8419%	79.9085%	80.7348%	81.3974%	81.9442%
C	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%

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**Exhibit D**

## Lesson: QAS Overview

The following is a high-level account of Fannie Mae's current National Underwriting Center (NUC) Quality Assurance review process. (See Figure 1 for a visual representation.) This process is subject to change at any time in Fannie Mae's discretion.

### 1.0 NUC Review Process

1. Loans are selected for review by the National Underwriting Center (NUC).
2. Loan files are requested from the lender.
3. The lender provides the loan file to Fannie Mae via paper or a business-to-business data exchange.
4. NUC reviews the loan file for completeness, and requests any missing documents.
5. Supplemental documents are submitted by the Lender as requested by the National Underwriting center.
6. An underwriter reviews the loan file and records any defects both significant and informational.
7. If significant defects are identified the underwriter would recommend that the loan be repurchased by the lender.
8. Upon validation of the significant defect(s) and determination that the loan does not meet Fannie Mae criteria, a request for repurchase is sent to the lender.
9. The lender responds with a Concur or Rebut.

QAS serves as the conduit to streamline this communication process for both NUC and the lender community.

### 2.0 Underwriting Performance Review Types

The primary types of underwriting reviews performed by Fannie Mae's National Underwriting Center are:

- **PPR:** Post Purchase Reviews
- **EPD:** Early Payment Default
- **LOS:** Loss Mitigation Review
- **PFR:** Post Foreclosure Review
- **RV:** Recourse Violation
- **MBS:** Mortgage Back Securities

## Lender



**Exhibit E**

## Repurchase and Rescission Process Overview

October 15, 2010

### A New Reality for Repurchase and Rescission Requests

In today's mortgage market, repurchase and rescission requests from investors and mortgage insurance companies (MI companies) have become commonplace. This has been driven by the increase in delinquent borrower accounts, as well as the liquidation of foreclosed properties. These macro-economic changes have prompted increased investigation into potential breaches of representations and warranties.

Wells Fargo is committed – just like you are – to honoring contractual obligations with investors and mortgage insurance (MI) companies\*. We want to ensure that the resolution process for Repurchase and Rescissions is as smooth and swift as possible.

Some demands can be rectified simply by obtaining missing documents. But more often, as you know, the demand process is more complex. Demands are generally received in connection with misrepresentation of income, occupancy, employment, or regarding undisclosed debt or mortgages, and valuation concerns.

### Improvements to the Process

Because of the complexity of each demand, the numerous ways to resolve them, and the seriousness of these issues to both of our businesses, Wells Fargo is taking steps to improve the demand process.

Here are some changes and tools we're implementing to improve the process:

- **Enhancing communication and collaboration** with our clients by:
  - Engaging you as early as possible.
  - Working closely with you to clear deficiencies discovered on the loan during investor audits.
- **Repurchase and Rescission Scenarios Exhibit** – This document provides insight on how Wells Fargo approaches many of the most common demand issues.
- Improving our demand process (outlined below), effective October 18, 2010

*\*In this communication, investors and MI companies are collectively referred to as "investors" and reference will be made to both repurchase demands and MI rescissions jointly as "demands".*

## Overview of Wells Fargo's Demand Process – Effective October 18, 2010

### Step 1

**Wells Fargo receives a deficiency notice or demand from the investor.** Typically, Wells Fargo has 60 days to resolve the issue.

### Step 2

**Wells Fargo notifies the Seller** and provides supporting documentation when available. At this time, the **Seller is given twenty-one calendar days to provide an explanation**, facts or documentation to demonstrate that the mortgage loan complies with the requirements. If the Seller does not respond within 14 days of the initial notice, Wells Fargo will follow up with the Seller.

[<Return to Top>](#)

(Continued on page 2)



## Repurchase and Rescission Process Overview

October 15, 2010

### Overview of Wells Fargo's Demand Process *(Continued)*

#### Step 3

**Wells Fargo will begin internal research** (concurrently with Step 2) to resolve the loan issues. During this process, Wells Fargo will **determine if there is a missing document** and if the document can be located.

**For all other issues**, Wells Fargo will perform research to determine if there is evidence that proves or disproves the validity of the issue. For example, if the investor provided a review appraisal indicating a value deviation, Wells Fargo will order an independent appraisal review of the origination appraisal and the investor's review appraisal from a third party vendor.

#### Step 4

**The Seller responds to Wells Fargo's request** and either agrees with the investor's findings or provides an explanation, missing documents or information for Wells Fargo to utilize in drafting an appeal to the demand or MI rescission notification.

**If an appeal is not practical**, based on all the information collected, Wells Fargo will notify the Seller, allowing them a final opportunity to provide additional documentation.

**If an appeal is submitted to an investor**, the Seller will be notified of the result of the appeal. If the Seller provided a response that specifically addressed the investor's issues and the investor deems the information to be insufficient to rescind the repurchase demand or MI rescission, **the Seller will be given seven (7) calendar days** to provide **new documentation** to support a second appeal. *(Please note: Even if documents are provided by the Seller, the appeal may not be successful).*

**If attempts to refute the demand or MI rescission are unsuccessful**, Wells Fargo will be obligated to repurchase the loan from the investor or accept the MI rescission. Likewise, Wells Fargo will issue a demand to the Seller for the repurchase of the mortgage loan pursuant to the provisions of the Loan Purchase Agreement or reimbursement for costs and expenses, if applicable.

#### Questions?

- Send repurchase letter questions to our mailbox at [IRMRepurchaseResponses@wellsfargo.com](mailto:IRMRepurchaseResponses@wellsfargo.com). The mailbox is monitored daily with replies to inquiries completed within 3 business days, or
- You may contact a member of your regional sales team.

[<Return to Top>](#)

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## Repurchase and Rescission Scenarios Exhibit

When an MI rescission or repurchase demand is received by our Wells Fargo Repurchase Operations team, Wells Fargo will research the issues to determine if there was a breach of a representation or warranty, or non-compliance with a term of the Mortgage Insurance policy.

- If there is **no** breach, the analyst will appeal the repurchase demand or MI company decision.
- If there **is a** breach, the analyst will recommend the loan for repurchase. If the loan is recommended for repurchase, the recommendation is escalated for a second level review. The final determination to repurchase or appeal the demand is made in the second level review.

The matrix on the following pages provides insight into how Wells Fargo analysts review each demand to help determine if there is a breach of a representation and warranty. Examples provided in the matrix are not all inclusive, but represent some of the more common and complicated types of MI rescissions or repurchase demands.

**Note:** This information is provided as general guidance only and does not change, alter or modify any contractual obligations between Wells Fargo and the Correspondent Seller. Individual cases may vary. Information provided below is subject to change at any time and without notice.

	Scenario	Action/test performed by Wells Fargo	How you can help
1	<b>Undisclosed Debt</b>  <b>Definition:</b> The borrower has additional debt that was obtained prior to the closing of the subject loan, but it is not reflected on the origination credit report or application. It is not included in the qualifying ratios for the subject loan.	<ul style="list-style-type: none"> <li>▪ Was debt included in the original underwriting calculations?</li> <li>▪ What date was the debt opened? If it was opened in the same month as the loan closing date, the exact date must be verified to ensure that the debt was opened <b>prior to closing</b>.</li> <li>▪ Does the new DTI, including the undisclosed debt, exceed the allowable DTI for the program?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide evidence that the debt was included in the qualifying debt ratio.</li> <li>▪ Provide documentation that the debt was opened after the subject loan closing date.</li> <li>▪ Provide debt ratio calculations documenting that the debt ratio would have remained at an acceptable level.</li> <li>▪ Provide documentation that the debt or a portion of the debt was eligible for exclusion from the debt ratio (e.g. provide lease if the property was a rental).</li> </ul>



## Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help
2	<p><b>Occupancy Misrepresentation</b></p> <p><b>Definition:</b> The occupancy of the subject property is misrepresented in an effort to obtain more favorable financing options.</p>	<p>The decision to repurchase for this breach is based on an evaluation or weighting of the evidence presented. As a general principle, Wells Fargo considers occupancy misrepresentation documented if the answer is "yes" to at least two of the following:</p> <p><b>Closing Documentation</b></p> <ol style="list-style-type: none"> <li>1. Does the appraisal indicate that the property is tenant-occupied?</li> <li>2. Is the homeowner's declaration page reflecting a landlord policy?</li> <li>3. For a refinance - is the documentation provided to verify income and/or assets reflecting a different address for the borrower?</li> <li>4. Is the distance between the subject property and the borrower's employment unreasonable for commuting?</li> </ol> <p><b>Post-closing Documentation</b></p> <ol style="list-style-type: none"> <li>5. Is the property tax statement for the borrower reflecting a different mailing address?</li> <li>6. Did the borrower change their mailing address for servicing communication?</li> <li>7. Does a reverse directory search of the borrower's home phone reflect a different home address?</li> <li>8. Is there documented verification that the utilities are not and have not been in the borrower's name?</li> <li>9. Are there public records (driver's license, voter registration, homestead exemption) that indicate the borrower never moved into the property?</li> <li>10. Do the bankruptcy discharge papers indicate a different home address for the borrower for the timeframe following closing?</li> <li>11. Is there documented communication between the borrower and a third party investigator indicating the borrower never occupied the subject property?</li> </ol>	<ul style="list-style-type: none"> <li>▪ Provide documentation that proves that the borrower occupied/occupies the subject property.</li> <li>▪ If the borrower intended to occupy the property, but did not, provide an explanation for the extenuating circumstances that prohibited the borrower from moving into the property.</li> <li>▪ Offer an explanation and documentation to refute the evidence provided (e.g. the address that the borrower is utilizing for servicing correspondence and property tax records is actually their business address).</li> </ul>



## Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
3	<b>Income Misrepresentation</b>  <b>Definition:</b> The income information and/or documentation that were provided at origination were either altered or falsified.	<ul style="list-style-type: none"> <li>Does the new income documentation provided reflect the same time period as the 1003 application?</li> <li>Is the new income documentation re-verifiable? If re-verification is not possible, is the investor's documentation clear and complete?</li> <li>Was the original documentation altered or falsified?</li> <li>Does the DTI utilizing the new income exceed an allowable DTI for the program?</li> </ul>	<ul style="list-style-type: none"> <li>Provide documentation that the verification provided does not represent the same time period as the 1003 application.</li> <li>Provide new documentation (verbal or written) that supports the original income documentation.</li> </ul>
4	<b>Employment Misrepresentation</b>  <b>Definition:</b> The employment status (self employed vs. W-2; Full time vs. Part time), dates or job title are misrepresented on the loan application and supporting documentation.	<ul style="list-style-type: none"> <li>Does the documentation provided reflect the same time period as the 1003?</li> <li>Are the differences in employment substantial? E.g. was the verified profession essentially the same as the stated profession (supervisor vs. manager).</li> <li>Is the documentation re-verifiable? If re-verification is not possible, is the investor's documentation clear and complete?</li> </ul>	<ul style="list-style-type: none"> <li>Provide documentation that the verification provided does not represent the same time period as the application.</li> <li>Provide new documentation that supports the original verification.</li> </ul>



## Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
5	<p><b>Valuation/Appraisal Misrepresentation</b></p> <p><b>Definition:</b> The original appraiser did not follow USPAP or FIRREA standards when developing the origination appraisal.</p>	<p>Wells Fargo will order an independent third party review of the origination appraisal and the review appraisal from a vendor (at Wells Fargo expense).</p> <p>As part of the review process, the vendor will:</p> <ul style="list-style-type: none"> <li>▪ Obtain a property detail report for the subject property that contains an aerial photo of the subject property and additional sales,</li> <li>▪ Verify the sale date, price and history for all sales referenced within any of the appraisal reports provided,</li> <li>▪ Verify the appraiser's licensure,</li> <li>▪ Ensure that the appraiser was appropriately licensed as of the effective date of the appraisal and make note if the license had been revoked at any time,</li> <li>▪ Analyze market conditions as of the effective date of the appraisal and pull additional market trend data if necessary,</li> <li>▪ Summarize all items of note, in the form of an e-mail, to be addressed by the original appraiser. MLS sheets for the sales that have been utilized will also be requested, in addition to any other additional local market support that is available. Items of note will include, but are not limited to: <ul style="list-style-type: none"> <li>○ Concerns or discrepancies noted by the local market review,</li> <li>○ Concerns noted within the MI Rescission letter or Demand Request,</li> <li>○ Reviewer concerns not noted by the local market review or rescission letter.</li> </ul> </li> </ul> <p>After a response is received from the original appraiser, the vendor makes a determination about whether or not the value was supported as of the effective date of the appraisal.</p> <p>The Wells Fargo analyst will determine the following:</p> <ul style="list-style-type: none"> <li>▪ Does the review support the original value?</li> <li>▪ Does the reviewer state that the original appraisal contains USPAP or FIRREA violations?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Encourage the origination appraiser to provide the Wells Fargo vendor with all requested documentation.</li> <li>▪ Provide an independent review appraisal that supports the original appraisal.</li> </ul>



## Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
6	<b>Missing Docs</b>  <b>Definition:</b> One or more required documents were not delivered to the investor.	<ul style="list-style-type: none"> <li>Was the document applicable or required?</li> <li>Can the document be located on the Wells Fargo imaging system?</li> <li>Can the document be retrieved by contacting the original provider (e.g. missing title policy)?</li> </ul>	<ul style="list-style-type: none"> <li>Provide the document that is being requested.</li> <li>Provide evidence that the document was not required or applicable.</li> <li>Can the document be retrieved by contacting the original provider or a third party vendor (e.g. missing title policy)?</li> </ul>
7	<b>Compliance</b>  <b>Definition:</b> Investor determines that the loan did not meet State, Federal or Agency guidelines or regulations.	<p>Wells Fargo's Compliance Department will conduct a compliance review specific to the compliance issue raised by the investor.</p> <p>Their review includes:</p> <ul style="list-style-type: none"> <li>A determination as to whether the cited regulation applies to the loan,</li> <li>Testing the loan according to the appropriate regulations.</li> </ul> <p>Wells Fargo determines the following:</p> <ul style="list-style-type: none"> <li>Did the loan pass the compliance test?</li> <li>If the loan did not pass, do the specified regulations provide for a curing of the issue?</li> </ul>	<ul style="list-style-type: none"> <li>Provide the original compliance testing calculations and results indicating a pass for the issue identified by the investor.</li> <li>Provide evidence that the regulation is not applicable to the loan.</li> <li>Provide proof that the issue was cured prior to delivery, if allowable and applicable.</li> <li>Provide documentation to prove that the loan passes the compliance test (For example, if failure is fee based, provide documentation that certain fees can be excluded from the test, such as bona fide discount points).</li> </ul>



## Repurchase and Rescission Scenarios Exhibit

### Frequently Asked Questions

**1) Why wasn't my response used in the appeal to the investor?**

**Answer:** Wells Fargo has a direct contractual relationship with its end-investors, and Wells Fargo believes it is more effective and efficient for Wells Fargo to communicate directly with the end-investors with one concise message. Your responses are instrumental in the analysis of the repurchase demands, as well as the drafting of thorough appeals to the end-investors' findings.

**2) Why can't Wells Fargo share servicing notes and/or any subsequently pulled borrower credit reports with the correspondent clients?**

**Answer:** Servicing notes and borrower credit reports contain the borrower's sensitive, non-public financial information. The disclosure of this information is heavily regulated. Wells Fargo takes its responsibility to protect this sensitive borrower information very seriously. Wells Fargo's disclosure policies ensure compliance with consumer privacy laws and the Fair Credit Reporting Act.

**3) Why is there sometimes such a significant period of time between when Wells Fargo purchases the loan and when they advise me of a breach?**

**Answer:** Frequently, issues that occurred during the origination of the loan are not apparent until much later (often times during the foreclosure process).

**4) On a loan where the underwriting was completed on a "prior approved" basis, why am I liable for defects with the appraisal such as appraiser fraud?**

**Answer:** For these loans, under the terms of the contract between the Seller and Wells Fargo, the Seller retains liability for issues connected with the appraisal that are not underwriter error.

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