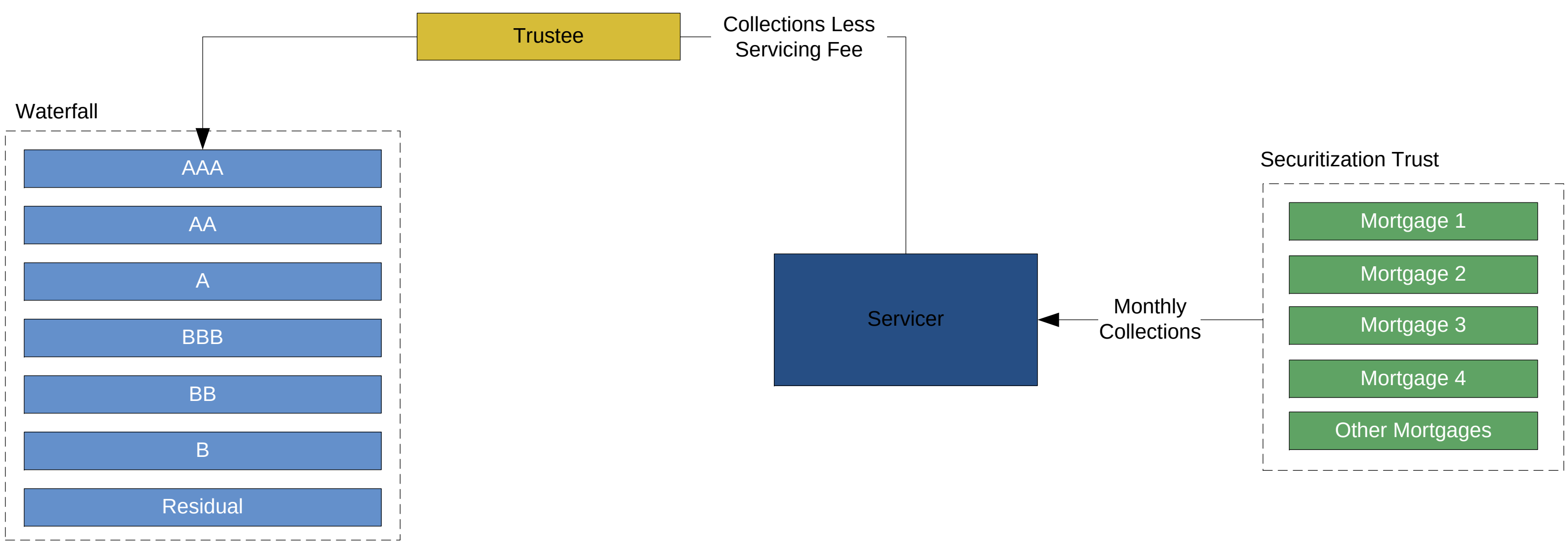
What Does a Mortgage Servicer Do?

- **Mortgage servicers** are hired by owners of whole loans (“Owners”) or trustees of a securitization trusts (“Trusts”) to:
  - **Collect payments from mortgagors**
  - **Provide customer service to mortgagors**
  - **Make escrow disbursements**
  - **Perform loss mitigation such as loan modifications and short sales**
  - **Foreclose on delinquent borrowers**
  - **Repair, market and sell foreclosed properties (i.e. REO)**
  - **Make required advances & remit to Owners or Trusts cash collected and provide reporting to Owners and Trusts**
- For securitization trusts, servicers work under a Pooling and Servicing Agreement (“PSA”) which obligates them to make advances, and guarantees that they can reimburse themselves from cash collected at the top of the waterfall (i.e. before all note holders receive payments)

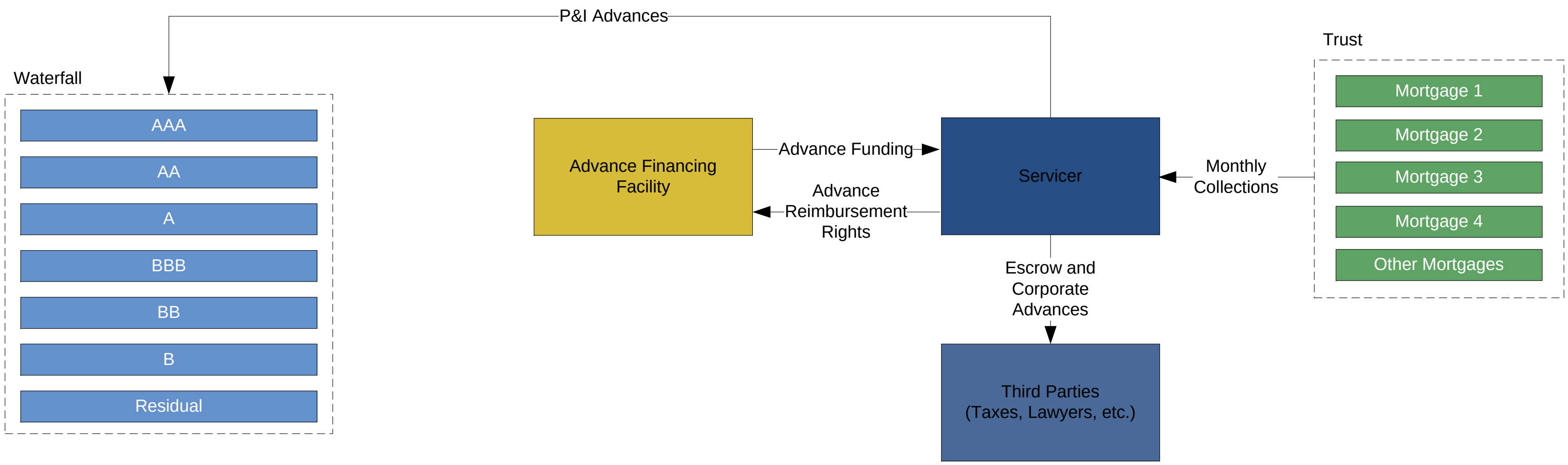


What is a Servicer Advance Receivable?

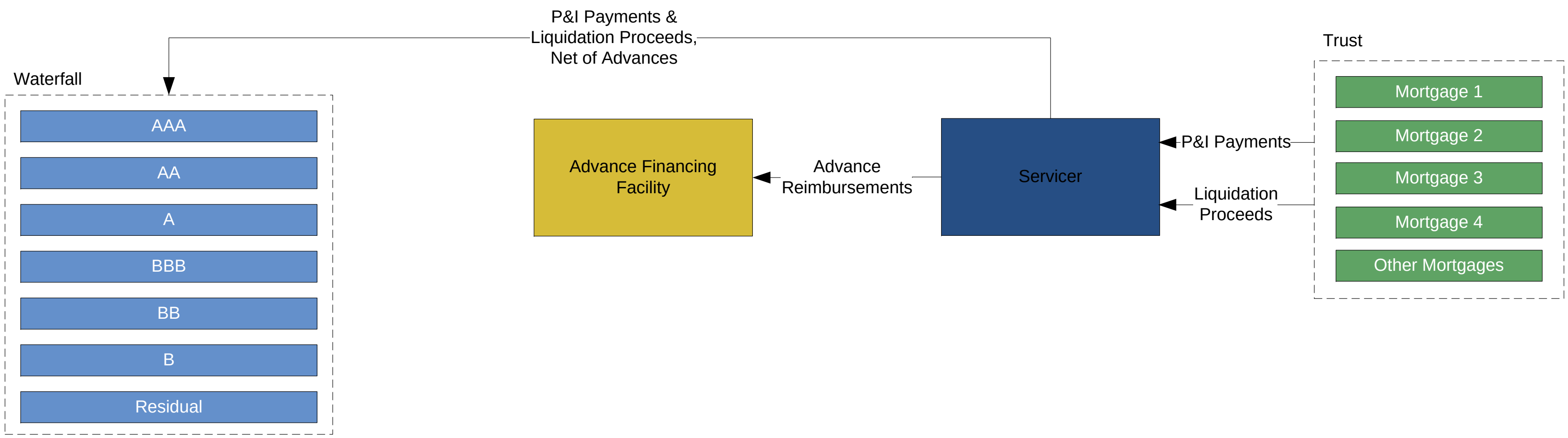
- In most mortgage-related securitization trusts, **to the extent there is a shortfall in monthly collections from a particular borrower/obligor**, the servicer is required, **if it reasonably believes that such advance ultimately will be recoverable from the individual loan/obligor**, to make an advance for missed payments, and to advance costs necessary to protect and foreclose on the underlying mortgaged property
  - In the course of servicing, advances of principal and interest are required to be made directly to the Trust accounts to provide liquidity (not credit support). Other expenses associated with delinquent loans like real estate taxes, hazard insurance and foreclosure costs are made to third-parties, again purely to provide liquidity and preserve the lien on the underlying mortgaged property for the Trust
  - Typically, servicing advances are recovered first from collections and liquidation proceeds at a loan-level, and then if those funds are insufficient, from cash collected from all other loans in a Trust
  - The servicer collects all payments of P&I and proceeds from property liquidations and deposits those funds in the collection account for the Trust
  - Eligible advances receivables are required to be repaid in the order made. Under the PSA, a new servicer would have to repay the old advances on a loan before reimbursing the new advances on a loan
- The right to be paid for servicing advances is senior to the AAA securities issued by the underlying MBS trusts
- Servicer advances can be divided into three general categories, including:
  - *P&I Advances:* advances for delinquent principal and interest payments
  - *Escrow Advances:* advances for delinquent real estate taxes and hazard insurance payments
  - *Corporate Advances:* advances for property protection and foreclosure costs including attorney fees, property maintenance fees, etc.

Advance Cash Flows

Advances



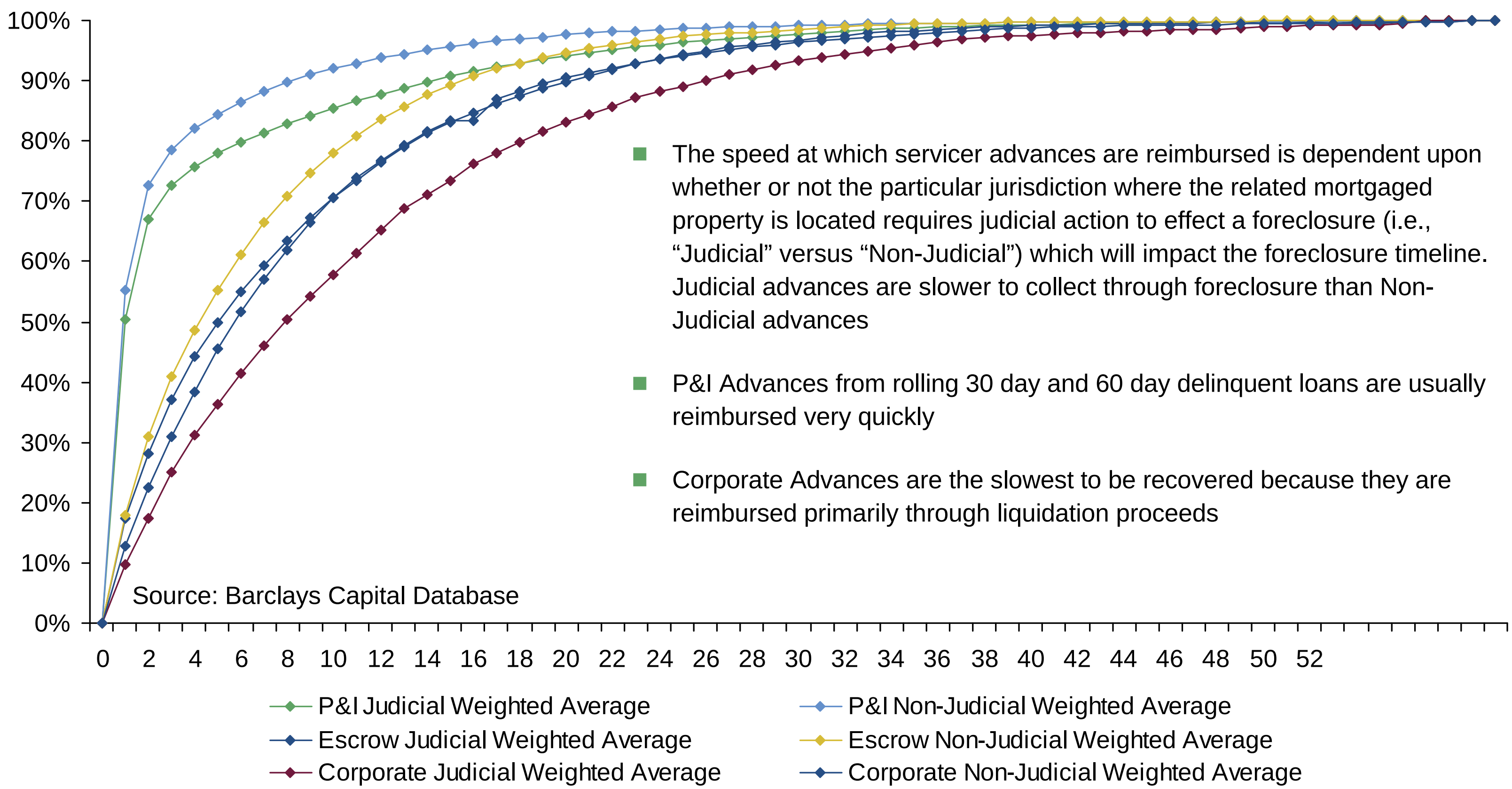
Recoveries



How Do Servicer Advance Receivables Perform?

- The repayment profiles for historical advance data is shown on the following graph:

Weighted Average Advances Over Time



- The speed at which servicer advances are reimbursed is dependent upon whether or not the particular jurisdiction where the related mortgaged property is located requires judicial action to effect a foreclosure (i.e., “Judicial” versus “Non-Judicial”) which will impact the foreclosure timeline. Judicial advances are slower to collect through foreclosure than Non-Judicial advances
- P&I Advances from rolling 30 day and 60 day delinquent loans are usually reimbursed very quickly
- Corporate Advances are the slowest to be recovered because they are reimbursed primarily through liquidation proceeds

Frequently Asked Questions

- **Why don't advances remain outstanding for the life of the mortgage?**
  - Servicing advances are designed to provide liquidity to the Trusts in the event a mortgage borrower is delinquent on their monthly payment. The servicer is allowed to reimburse itself from the next available P&I payment from the delinquent borrower, or from liquidation proceeds of the underlying home, or failing that, from all funds provided by all borrowers and loan liquidations in a given trust
  - Because of the senior right to be repaid coupled with the fact that advances tend to be made toward the end of the liquidation process, the average life of servicer advances is considerably shorter than that of the related mortgage

- **What happens if home prices fall by a significant amount?**
  - On average, Servicing advances generally represent less than 10% of the Unpaid Principal Balance ("UPB") in a Trust, and less than 12.5% of the underlying value of the associated mortgaged property, assuming an LTV of 125%
  - If the servicer estimates that future advances on a loan are potentially not recoverable from the estimated proceeds of the property, the servicer is generally not required to make any future advances
  - If the servicer is unable to reimburse itself for advances made on a loan from collections and liquidation proceeds from that loan then it may reimburse itself using cash from other loans in the Trust
  - Servicer advances are senior to all cash flows to the Trust making it very difficult to suffer a credit loss

- **How are advances senior to the AAA Notes issued by the RMBS Trust?**
  - Under the Pooling and Servicing Agreements, the servicer is allowed to reimburse itself for recoverable servicing advances from a loan's proceeds prior to paying interest
  - To the extent the loan proceeds are insufficient, the servicer is allowed to tap all collections. As such, repayment of advances is senior to all notes in the Trust, including the AAA notes

- **What happens if the RMBS trustee appoints a new servicer?**
  - Should the servicer default on its obligations under the Pooling and Servicing Agreement (PSA) with the respective Trusts, the Trustee can replace the servicer and appoint a successor
  - The FIFO provision in the PSA would require that the existing advances be repaid by the new servicer before collections are diverted to repay any new advances
  - Industry practice is for the new servicer to pay off the advances of the old servicer otherwise the new servicer would be unable to finance their advances since the lien of the old servicer's financing source would prime the new servicer's financing source