January 8, 2008

Mr. Arnold Hanish, Chairman
Committee on Corporate Reporting
Financial Executives International
200 Campus Park Drive
Florham Park, NJ 07932-0674

Mr. Sam Ranzilla, Chairman
Professional Practice Executive Committee
The Center for Audit Quality
American Institute of Certified Public Accountants
601 13th Street, NW
Washington, DC 20005

Dear Sirs:

On December 6, 2007, the American Securitization Forum ("ASF") issued the "Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans" (the "ASF Framework"). The ASF Framework provides recommended guidance for servicers to streamline borrower evaluation procedures and to facilitate the effective use of all forms of foreclosure and loss prevention efforts, including refinancings, forbearances, workout plans, loan modifications, deeds-in-lieu and short sales or short payoffs. The ASF Framework is focused on subprime first-lien adjustable-rate residential mortgages that have an initial fixed interest rate period of 36 months or less, are included in securitized pools, were originated between January 1, 2005 and July 31, 2007, and have an initial interest rate reset date between January 1, 2008 and July 31, 2010 ("subprime ARM loans").

The ASF Framework categorizes the population of subprime ARM loans into three segments. Subprime ARM loans that meet the screening criteria in Segment 2 of the ASF Framework are eligible for a fast track loan modification under which the interest rate will be kept at the existing initial rate, generally for five years following the upcoming reset (referred to hereafter as "Segment 2 subprime ARM loans"). The ASF Framework indicates that for Segment 2 subprime ARM loans, the servicer can presume that the borrower would be unable to pay pursuant to the original terms of the loan after the interest rate reset, and thus, the loan is "reasonably foreseeable" of default in absence of a modification.

The Office of the Chief Accountant ("OCA") has been asked by preparers, auditors, ASF, the U.S. Department of the Treasury, and others whether modifications of Segment 2 subprime ARM loans that occur pursuant to the ASF Framework would result in a change in the status of a transferee as a qualifying special-purpose-entity ("QSPE") under paragraph 55 of FASB Statement No. 140, *Accounting for Transfers and Servicing of*

Financial Assets and Extinguishments of Liabilities ("Statement 140"). This letter expresses only the view of OCA on this accounting issue, and its limited application should not be extended by analogy or relied upon for any mortgage modification other than one occurring pursuant to the specific screening criteria in Segment 2 of the ASF Framework. This letter does not express any view or opinion regarding whether servicers are legally permitted to modify the terms of subprime ARM loans pursuant to the recommendations in the ASF Framework. This ability is determined by the contractual provisions set forth in the governing documents for the securitization trust and by any applicable laws. As with all staff guidance, this letter has not been approved by the Commission.

Application of Statement 140 to Modifications of Mortgages Held by QSPEs When Default is "Reasonably Foreseeable"

Statement 140 is a detailed accounting standard with many specific requirements, and its application can be a complicated process. Paragraphs 35-55 of Statement 140, as interpreted by the FASB Staff Implementation Guide: *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("Statement 140 Guide"), provides numerous conditions that must be met for a transferee to meet the QSPE exception in paragraph 9(b) of Statement 140. The basic underlying principle in this guidance is that assets transferred to a securitization trust should be accounted for as a sale, and recorded off-balance sheet, only when the transferor has given up control, including decision-making ability, over those assets. If the servicer maintains effective control over the transferred financial assets, off-balance sheet accounting by the transferor is not appropriate.

Paragraphs 35(b) and 35(d) of Statement 140 and the related interpretative guidance in Statement 140 and the Statement 140 Guide discuss the permitted activities of a QSPE. The objective is to significantly limit the permitted activities so that it is clear that the transferor does not maintain effective control over the transferred financial assets. However, neither Statement 140 nor the related interpretative guidance indicates whether it would be appropriate for a servicer to modify a securitized mortgage in a QSPE prior to an actual delinquency or default and, if so, the relevant disclosures that may be necessary when such modifications occur. At the request of the Committee on Financial Services of the U.S. House of Representatives, on July 24, 2007 the Chairman of the SEC issued a letter to the Committee to address this accounting issue, attaching a memorandum on the subject prepared by OCA (the "July 24, 2007 letter"). In a memorandum enclosed with the July 24, 2007 letter, OCA indicated that it believed mortgage modifications that occur when default is "reasonably foreseeable" would not invalidate the status of a trust as a QSPE provided the nature of the modification activities are consistent with those when a mortgage becomes delinquent or default has occurred. The view in the July 24, 2007 letter was consistent with a general agreement among participants at a June 22, 2007 Financial Accounting Standards Board ("FASB") educational forum. Additionally, at the time the July 24, 2007 letter was issued, based on representations of participants at the June 22, 2007 FASB educational forum, the Commission's staff did not believe that additional interpretative accounting or disclosure guidance was necessary regarding the contemplated types of securitized mortgage work-out activities.

Application of Statement 140 to Modifications of Subprime ARM Loans Pursuant to Segment 2 of the ASF Framework

Subsequent to the issuance of the July 24, 2007 letter, the ASF Framework was issued. As described above, the ASF Framework provides a standardized approach to facilitate the effective use of a variety of foreclosure and loss prevention efforts. As a result of the modifications of subprime ARM loans that may occur pursuant to Segment 2 of the ASF Framework, a new accounting issue has arisen related to whether those loans are "reasonably foreseeable" of default in absence of modification and, if so, the relevant disclosures that may be necessary when such modifications occur. The issue arises because those loan modifications will occur without a comprehensive loan-by-loan analysis, based on current information, as to whether default is "reasonably foreseeable." OCA recognizes that the guidance in Statement 140 regarding servicer discretion can be complicated to apply in practice and that specific accounting and disclosure guidance does not exist in Statement 140 regarding the nature of permitted modification activities of QSPEs. The FASB has had a project on its agenda since 2003 to address certain Statement 140 application issues, including those pertaining to servicer discretion.[1] The purpose of this letter is to express the view of OCA on modifications of Segment 2 subprime ARM loans in order to provide interim accounting and disclosure guidance until the FASB finishes its project.[2]

OCA has read the ASF framework and has concluded that it will not object to continued status as a QSPE if Segment 2 subprime ARM loans are modified pursuant to the specific screening criteria in the ASF Framework. Additionally, given the unique nature of the contemplated modifications and other loss mitigation activities that are recommended in the ASF Framework, OCA expects registrants to provide sufficient disclosures in filings with the Commission regarding the impact that the ASF Framework has had on QSPEs that hold subprime ARM loans.[3]

OCA reached this view based upon a consideration of several factors. First, OCA was recently informed by preparers, auditors, ASF, the U.S. Department of the Treasury, and others that there currently is a lack of relevant, observable market data that can be used to perform an objective statistical analysis of the correlation between the specific screening criteria in Segment 2 of the ASF Framework and the probability of default. Therefore, it would be impracticable to precisely quantify the percentage of Segment 2 subprime ARM

[1] A summary of this agenda project can be found on the FASB's website at: http://www.fasb.org/project/transfers_of_financial_assets.shtml
[2] Given the lack of clarity in Statement 140 on the permitted activities of QSPEs, OCA believes that interim guidance is necessary. For similar reasons, in November 2005, OCA provided an informal view in the aftermath of Hurricane Katrina. OCA indicated at that time that it would not object to continued status as a QSPE if servicers took certain limited actions (including payment extensions) to aid borrowers in areas devastated by Hurricane Katrina.
[3] See Appendix A to this letter for additional information regarding disclosures.

loans that would experience a default in absence of a modification. While historical default statistics are available for older subprime adjustable-rate residential mortgages, that information is not expected to be representative of the default characteristics of Segment 2 subprime ARM loans because of differences in underwriting characteristics, housing market conditions, and credit conditions. Therefore, OCA understands that a quantitative analysis of default probability using that historical data would be expected to significantly underestimate the percentage of Segment 2 subprime ARM loans that would default in absence of a modification. Secondly, although there is insufficient observable market data to form a conclusion based solely on quantitative information, OCA believes that it would be reasonable to conclude that Segment 2 subprime ARM loans are "reasonably foreseeable" of default in absence of a modification based upon a qualitative consideration of the expectation of defaults (made in the context of how defaults would be expected to differ from historical defaults of older subprime adjustable-rate residential mortgages).[4] Lastly, because the vast majority of modifications of Segment 2 subprime ARM loans are expected to occur beginning in early 2008, OCA believes this is an appropriate interim step at this time to address this issue given the complexity and lack of specific guidance on the accounting and disclosure for these types of modifications.

Reconsideration of Statement 140 Guidance on QSPEs

The view of OCA expressed in this letter represents an interim step in addressing one practice issue that exists in the application of paragraphs 9(b) and 35-55 of Statement 140. Concurrent with the issuance of this letter, OCA has requested the FASB to immediately address the issues that have arisen in the application of the QSPE guidance in Statement 140. OCA has requested that the FASB complete its project addressing the guidance in paragraphs 9(b) and 35-55 of Statement 140 in order to be effective no later than years beginning after December 31, 2008.

Further questions about these matters should be directed to James Kroeker, Deputy Chief Accountant (202-551-5360), Paul Beswick, Senior Advisor to the Chief Accountant (202-551-5364), or Ashley Carpenter, Professional Accounting Fellow (202-551-5307).

Sincerely,

Conrad W. Hewitt

Conrad Hewitt
Chief Accountant

cc: Henry M. Paulson, Jr., Secretary, U.S. Department of Treasury
Robert H. Herz, Chairman, Financial Accounting Standards Board
Mark W. Olson, Chairman, Public Company Accounting Oversight Board
George P. Miller, Executive Director, American Securitization Forum
Jonathan L. Kempner, President and CEO, Mortgage Bankers Association

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[4] See the letter issued by the U.S. Department of Treasury in Appendix B.

Appendix A – Disclosures in Filings with the Commission

Registrants are individually responsible for determining the nature and extent of disclosures that are necessary to provide users of the financial statements with sufficient information to understand their business, financial condition, results of operations, and related risks and uncertainties. Registrants make judgments about the nature and extent of disclosures provided in filings with the Commission based on the disclosure objectives and minimum disclosure requirements outlined in the Commission's rules and generally accepted accounting principles. In order to meet those disclosure objectives and requirements, the Office of the Chief Accountant and the Division of Corporation Finance believe that registrants that have transferred subprime ARM loans to QSPEs should consider whether the following information should be included in filings with the Commission.

Disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

In order to meet the objective of the disclosures required in MD&A, the SEC staff would generally expect MD&A to include sufficient information regarding the nature of the ASF Framework, its impact on the loss mitigation strategies employed for subprime ARM loans that are included in QSPEs, and its impact on the level of servicer discretion related to subprime ARM loans that are included in QSPEs. To meet this objective, registrants that have transferred subprime ARM loans to QSPEs should consider whether to disclose the following information within the MD&A section of its filings with the Commission:

- A general description of the ASF Framework, including the criteria used by the registrant to define what constitutes a subprime mortgage and a statement that a uniform definition of a subprime mortgage does not exist, the subprime ARM loans that are included in the ASF Framework, and the borrower segmentation categories that are included in the ASF Framework.

- A statement that the adoption of the loss mitigation approaches in the ASF Framework did not impact the off-balance sheet accounting treatment of QSPEs that hold subprime ARM loans.

- The total dollar amount of assets owned by QSPEs that hold subprime ARM loans as of the date of the latest balance sheet. Additionally, the following supplemental information about major categories of assets is relevant when the registrant is also the servicer of the QSPE:

- The dollar amount of subprime ARM loans that fall within each of the three segments of the ASF Framework as of the latest balance sheet date;
- A description of the nature of loss mitigation activities for subprime ARM loans that fall within each of the three segments of the ASF Framework, including the dollar amounts of refinancings, modifications, and other loss mitigation activities for the quarterly and year-to-date periods; and
- The dollar amount of other assets (including re-possessed real estate) owned by QSPEs that hold subprime ARM loans as of the latest balance sheet, and a description of the change in the amount of those assets for the quarterly and year-to-date periods.

- The total principal amount of beneficial interests issued by QSPEs that hold subprime ARM loans (segregated by third party and retained interests) as of the date of the latest balance sheet, and the impact that loss mitigation efforts have had on the fair value of the registrant's retained interests and other forms of financial support provided by the registrant.

Registrants are encouraged to provide additional quantitative or qualitative disclosures necessary to facilitate a sufficient understanding of the activities of QSPEs that hold subprime ARM loans subject to the ASF Framework. Registrants should also consider including within the disclosures about critical accounting policies under FRR-60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*, information about the permitted activities of QSPEs, including the loss mitigation approaches in the ASF Framework.

Disclosures in the Notes to the Financial Statements

In order to meet the disclosure requirements of APB Opinion No. 22, *Disclosure of Accounting Policies,* the SEC staff generally expects that a registrant's disclosure of its accounting policies would include a discussion of the permitted activities of off-balance sheet QSPEs, including the ability of the servicer to modify subprime mortgages when default is "reasonably foreseeable," and the adoption of the specific screening criteria in Segment 2 of the ASF Framework for purposes of determining the subprime ARM loans that are "reasonably foreseeable" of default.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

January 7, 2008

Mr. Conrad W. Hewitt
Chief Accountant
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Mr. Hewitt,

Thank you for your letter dated December 4, 2007 regarding the American Securitization Forum's Streamlined Foreclosure and Loss Avoidance Framework (ASF Framework). We look forward to your perspective regarding the consistency of the ASF Framework with Financial Accounting Standards Board Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In your letter, you requested more data regarding the correlation between the pre-defined screening criteria as described under the ASF Framework and the notion of "reasonably foreseeable" default. In response to your query, the Treasury Department has prepared the attached information with data provided by the Federal Deposit Insurance Corporation and a large mortgage servicer.

We are pleased that mortgage investors and servicers worked through the ASF to develop this streamlined process for fast-tracking refinancings and loan modifications where doing so is in the interest of both homeowners and investors. We believe the ASF Framework is an important tool to prevent avoidable foreclosures. Unfortunately, there is no simple solution that will undo the housing excesses of the last few years. We are committed to avoiding preventable foreclosures whenever possible while ensuring the health of the mortgage market.

Thank you for all of your efforts. Please let me know if you have any questions regarding the attached information.

Sincerely,

Robert K. Steel
Under Secretary of the Treasury

Effectiveness of the American Securitization Forum Streamlined Foreclosure and Loss Avoidance Framework at Identifying Loans Where Default is Reasonably Foreseeable

I. Overview

On December 6, 2007, the American Securitization Forum (ASF) published a Streamlined Foreclosure and Loss Avoidance Framework (ASF Framework) to enable mortgage servicers to streamline their loss avoidance and loan modification practices. The ASF Framework applies to subprime, owner-occupied, two- and three-year adjustable-rate mortgages, and is meant to expedite consideration of these loans for refinancing or modification.

Under most pooling and service agreements, servicers have an obligation to implement all available loss-mitigation options, including loan modifications, to maximize cash flow to the investment trusts. Under current loan modification practices, servicers gather additional income and expense data from borrowers – effectively re-underwriting loans to determine if borrowers need a modification. While this process is effective in analyzing borrowers' financial capacity, it is a time consuming process that requires significant borrower contact. This burden will increase substantially over the next two years, due to the large number of resetting subprime mortgages and the expected increase in defaults.

Faced with this costly administrative burden, servicers, issuers and investors designed the ASF Framework to increase the efficiency and effectiveness of servicer loss-mitigation practices so they can analyze and process the increasing volume of subprime mortgage resets more quickly. Approximately 1.8 million owner-occupied, subprime two- and three-year adjustable-rate mortgages are expected to reset in 2008 and 2009.

The purpose of the ASF Framework is to streamline the procedures servicers use to identify borrowers who are candidates for refinancings or loan modifications. The parameters of the ASF Framework were designed to improve administrative efficiency while still maximizing cash flow by appropriately identifying the following: borrowers that can refinance into a sustainable mortgage; borrowers that should be modified into a more affordable mortgage; and borrowers that require in-depth, case-by-case analysis. Consistent with these goals, the ASF Framework was designed to fast-track into loan modifications only those borrowers who have demonstrated the ability to pay their starter rates, are unable to refinance, and are unable to afford their reset rates. The Federal Deposit Insurance Corporation (FDIC) and a major servicer both provided data that reflect whether the criteria the ASF Framework uses to identify borrowers for modifications are effective in preventing modifications where they are not needed (i.e., where the borrowers can afford the reset rates). Minimizing these false positives is consistent with maximizing the cash flow to investment trusts. Absent the ASF Framework, investors and servicers face a potential increase in false-negatives; i.e., loans entering foreclosure where modifications would have been a better outcome for investors.

The ASF Framework uses a number of screens to determine the appropriate loss-mitigation option for these subprime loans:

Test for ability to afford the starter rate: The ASF Framework first evaluates a borrower's ability to afford the starter rate, as demonstrated by a borrower not being more than 30 days delinquent, and having not been more than once 60 days delinquent in the last 12 months, both under the OTS method. Borrowers who have not demonstrated they can afford the starter rate will require in-depth, case-by-case analysis by their servicer to evaluate potential loss-mitigation options.

Test for capability to refinance: The ASF Framework next evaluates (first-lien) loan-to-value (LTV) to determine if a borrower has the potential to refinance. If a borrower has an LTV at origination greater than 97 percent, the ASF Framework assumes a refinancing is not possible. A borrower with an LTV below 97 percent may require additional information and analysis to determine if a refinancing is possible. If a borrower is deemed unable to refinance, the servicer may then consider the borrower for a fast-track modification.

Under the FHA Secure program, a borrower with an LTV up to 97 percent may be eligible for a refinancing. In the current market environment, outside of the FHA Secure program, most refinancing products require an LTV below 97 percent. Hence the ASF Framework established 97 percent LTV as the first test to evaluate a borrower's ability to refinance.

Tests for ability to afford reset: Once the servicer has determined the borrower is unable to refinance, the servicer then applies three tests to determine financial difficulty: 1) borrower's payment must increase by more than 10 percent, 2) borrower's current FICO must be less than 660, and 3) borrower's FICO must not have increased by more than 10 percent since origination. A borrower who fails to meet these tests may still qualify for a loan modification, but the servicer may need to gather additional information from the borrower to qualify the borrower for a modification.

The ASF Framework incorporated the FICO score of 660 as an initial indicator of financial stress for borrowers based both on servicers' default experience with borrowers and also on the banking regulators' report "Questions and Answers for Examiners Regarding the Interagency Expanded Guidance for Subprime Lending Programs Issued January 31, 2001," which identifies a credit score of 660 as one that generally indicates a higher default probability.

II. Limitations of Using Historical Data to Evaluate Future Application of the ASF Framework

The ASF Framework applies to subprime, two- and three-year adjustable-rate mortgages, originated between January 2005 and July 2007 and facing an initial reset between January 2008 and July 2010. The data provided by FDIC and the major servicer help assess the baseline default and foreclosure occurrences for the subset of these loans that qualify for a modification under the ASF Framework. It is extremely difficult to estimate the counterfactual of what will happen to these loans if they do not receive the modification. This difficulty arises because historical data of similar loans are likely not representative of the underwriting, housing, and credit market conditions of the current vintages of loans eligible for the ASF Framework.

Evaluating a borrower's ability to afford the reset rate requires time to determine if a borrower ultimately remains current or defaults. While data from older loans where significant time has passed since reset provide sufficient time to determine if borrowers ultimately defaulted, those loans were originated under higher quality underwriting standards and experienced home price appreciation since origination. Such data would therefore likely underestimate the defaults of loans qualifying for the ASF Framework, because more recent vintages were originated with weaker underwriting standards and faced lower home price appreciation or even depreciation.

The worsening condition of more recent subprime mortgages is demonstrated by the significantly higher default percentage for the 2005 and 2006 vintages than for previous vintages. Even at one year before the rate reset, the number of foreclosure starts as a percentage of loans originated is much higher for recent vintages, moving from 2.1 percent for the 2004 vintage to 3.4 percent for the 2005 vintage to 9.2 percent for the 2006 vintage (i.e., foreclosure rates were approximately 1.6 and 4.4 times greater for the 2005 and 2006 vintages.) The more than four-fold increase in the foreclosure start rate one year before reset from the 2004 to 2006 vintage is likely driven by both deteriorating underwriting standards as well as declining housing prices. In fact, the cumulative foreclosure start rate for the 2006 vintage is higher than for the 2004 vintage, even though the former has yet to reset and the latter has already reset. Hence, data for the older vintage's likely significantly underestimate the ultimate defaults of the recent loans qualifying for the ASF Framework. Data from more recent vintages that were originated with lower quality underwriting and that faced price depreciation do not provide sufficient time post-reset to determine if a borrower ultimately remained current or defaulted.

It is also important to note that the current case-by-case system of evaluating loans for modification will also result in some false positives (i.e., modifying loans that would not otherwise default), especially given the increase in the administrative burden that will result from the large number of impending resets. The relevant measure would be the false positive rate for loans eligible for the ASF Framework's fast-track modification relative to the false positive rate under current practices. Unfortunately, such a comparison is not feasible.

III. Historical Default Data

Both the FDIC and a major subprime servicer provided data that reflect the baseline default and foreclosure rate for the population of loans expected to be eligible for the fast-track modification under the ASF Framework.

Both data sources attempt to approximate the ASF Framework's criteria for modification eligibility and then quantify the subsequent outcomes of these loans. Both data sources therefore examine owner-occupied, subprime two- and three-year adjustable-rate mortgages that are still active at the reset date. They further restrict the sample to include only those loans that had a FICO (at origination) of less than 660. The data only record FICO at origination, so cannot include the ASF Framework's condition that a borrower's FICO must not have increased by more than 10 percent since origination, making the data less precise at forecasting default than the actual Framework should be in practice. Also, the FDIC data (but not the private servicer's data) cannot measure whether the borrower's payment increase is more than 10 percent post-reset (note: typical rate increases for these loans is closer to 30 percent). Both of these limitations will lead to a more conservative assessment by understating the number of defaults and foreclosures of loans that qualify for a fast-track modification under the ASF Framework.

The two data sources take different approaches to limiting the sample to only those loans that are unable to refinance. The FDIC restricts the data to those loans with an LTV (at origination) above 97 percent, whereas the private servicer does not. However, because the fast-track modification can be considered by the servicer only if a borrower is unable to refinance, both data sets restrict the samples to those loans that did not subsequently refinance after reset.

The remaining loans that are active at first reset (and that subsequently did not refinance) provide the relevant population of loans for assessment. For these populations (by month of vintage), each data set then measures the number that subsequently default. Default is defined as 60 or more days delinquent, in Real Estate Owned ("REO") status, bankruptcy, or in foreclosure.

Results

The FDIC relies on First American's LoanPerformance Mortgage Securities Database, which is a representative, loan-level sample of more than $2 trillion worth of active nonagency securitized mortgages. (See www.loanperformance.com for details about the data.) This database represents about 85 percent of all nonagency mortgage securities and approximately 76 percent of all mortgages in the United States.

The FDIC had data through September 2007. In order to assess default and foreclosures one year post-reset, the FDIC data counts the relevant loans that reset in September, 2006. There were 6,124 loans that reset during this month, of which 1,929 refinanced (while current) within the next year. Of the remaining 4,195 loans, 2,500 (60 percent) defaulted within a year of the first reset.

Not surprisingly, older vintages have a still higher default rate, as more time has elapsed for these at-risk loans to default. For example, for the relevant loans that reset in March 2006 (1.5 years of elapsed time post-reset), the default rate is 68 percent. For the relevant loans that reset in September 2005 (two years of elapsed time post-reset), the default rate is 76 percent. For the relevant loans that reset in March 2005 (2.5 years of elapsed time post-reset), the default rate is 81 percent.

The private servicer relies on proprietary data on the loans that it services. The data are through November 2007. These data only examine the one-year window post-reset for those loans that reset in November 2006. There were 1,512 two-year subprime adjustable-rate mortgages that reset during this month that were active at the time of reset, of which 351 refinanced (while fewer than 60 days delinquent) within the next year. Of the remaining 1,161 loans, 657 loans (57 percent) were at least 60 days past due during the year. Using a 30-day delinquency standard, of the original 1,512 loans that were active at reset, 152 refinanced (while fewer than 30 days delinquent) within the next year. Of the remaining 1,360 loans, 1,147 (84 percent) were at least 30 days past due during the year. With additional time, undoubtedly the default rate will continue to climb.

While default and foreclosure rates do typically vary across securitizations, the ASF Framework considers the payment history, LTV and FICO for each loan individually, on a case-by-case basis. Once that data has been considered in evaluating each loan, there is likely to be far less systematic variation from securitization to securitization and it is reasonable to conclude individual securitizations would perform in a similar manner to the data presented here.

IV. Estimation of Future Performance of ASF Framework

As noted above, the FDIC data indicate that, of the loans that reset in March 2005, 81 percent subsequently defaulted over the next 2.5 years. The data did not measure vintages that reset before 2005, so one cannot measure the default rate over longer elapsed times. However, based on the monthly vintage data, one can compute a simple linear forecast of default rates moving forward.

The FDIC data track default rates every six months post reset, as well as at the latest recorded date (September 2007). For those vintages with more than one year recorded post-reset, the monthly increase in the default rate was 1.53 percentage points per month. For each monthly vintage, one can extrapolate on a linear basis past the one year post-reset rate using this monthly increase. Across monthly vintages, this leads to a three-year default rate of between 92 percent and 98 percent.

Given that the loans in the private servicer sample were originated in 2004 and 84 percent were at least 30 days past due and 57 percent were at least 60 days past due within one year post-reset, it is reasonable to expect far higher default rates one year post-reset for the loans qualifying for the ASF Framework, since these loans were originated from 2005 through 2007. As noted above, only 2.1 percent of the 2004 vintage had started foreclosure a year after origination, whereas 3.4 percent and 9.2 percent had started foreclosure a year after origination for the 2005 and 2006 vintages, respectively.

V. Conclusion

Based on the data of historical subprime loan performance post-reset and considering the poor performance of recent vintages that qualify for the ASF Framework (driven by poor underwriting standards and home price depreciation), our assessment is that servicers who apply the ASF Framework can reasonably conclude that they are modifying loans where default is reasonably foreseeable. Servicers can also reasonably conclude that, absent modification, loans that qualify for the ASF Framework would result in default.