

RMBS servicing: View from the “front line”

Securitisation Research

1 April 2008

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- *Servicers play a vital, granular role in the residential mortgage market, but surprisingly they have not attracted the level of attention we would expect – until now. Rate resets and loan modifications are taking centre stage, throwing the spotlight on this segment of the market.*
- *To get a view from the “front line” and ascertain how servicers may be preparing for any downturn, we survey three large, third-party servicers – Homeloan Management Limited, Capstone Mortgage Services and Scarborough Mortgage Services.*
- *As a general rule, we advise that investors look at the servicing arrangements in transactions in addition to vital pool characteristics due to their significant potential impact on arrears and loss mitigation.*
- *We also advise investors seek the service level agreements to establish what level of servicing is being performed in that transaction, for example, is a welcome call carried out? At what point after a borrower enters arrears is contact made by the servicer?*
- *Capstone Mortgage Services announced in January 2008 a new servicing strategy including a suite of loan modifications to counter some of the risks surrounding increasing arrears and potential losses.*
- *Rating agencies play a pivotal role in the servicing market. They are privy to information outside the public domain, and with the benefit of site visits, can help investors benchmark across different servicers.*
- *Furthermore we suggest rating agencies should consider increasing transparency and providing more detail than what they currently disclose in pre-sale reports for each servicer – possibly even moving towards guideline servicing ratings to all servicers in all transactions if the servicer does not have a public servicer quality rating.*
- *Given their experience and financial backing, it is no surprise that Homeloan Management and Capstone are the highest-rated servicers. We believe transactions with their expertise are likely to perform better, ignoring underlying loan characteristics.*
- *The majority of non-conforming transactions have a back-up servicer in place. We caution against transactions that do not, particularly given the current uncertain corporate climate.*
- *The experience of the special servicer is vitally important, particularly now, given the concerns over increasing arrears. This servicing discipline cannot be solely measured on a quantitative basis, and the actions of the servicing staff in coercing payment from borrowers will be of paramount importance. Capstone, Vertex and Kensington are the only servicers with a special servicer rating in the UK.*

Servicing: Roles and responsibilities

We are surprised by the lack of attention and commentary on servicing over the previous few years, particularly given servicers' granular impact

Servicers are playing a vital role in today's mortgage market as headline risk continues to cause palpitations in the financial markets. They are a borrower's first point of contact if they enter financial difficulty, or have an account query and therefore, their role and expertise has a direct impact on the level of arrears and losses seen in the wider mortgage market and hence, securitised transactions. We are therefore surprised by the lack of attention and commentary on servicing over the previous few years, particularly given servicers' granular impact. We advise investors to look closely at the servicing arrangements in transactions in addition to vital pool characteristics, when assessing trading opportunities, due to the significant impact that can be had on arrears and loss mitigation.

Recently, with continued problems in the credit markets, and commentary on loan modifications for borrowers in arrears taking centre stage, market counterparties are watching intently the impact of US government proposals on the servicing industry in the US and if (and how) they may play a role in the UK.

A number of industry and press reports have highlighted the potential for arrears to increase, particularly in the UK non-conforming sector, as the withdrawal of mortgage products has meant that refinancing options have become limited or unviable as interest rates are likely to be higher than in their current deals potentially resulting in a "payment shock". An example of the scale of withdrawal of products was highlighted by Moneyfacts recently – it estimated total deals available to homebuyers last July at 15,599 versus only 5,785 products currently available. The potential for "payment shocks" has caused investors and regulators to worry that this may lead to an increase in arrears and then losses, accelerating any downturn in the UK housing market. Given the roles servicers play on the "front line", we review the various measures they are considering to help borrowers.

We initially discuss the roles and make-up of the servicing industry in the UK, with particular focus on the non-conforming sector, where borrowers are most at risk. We canvass further opinions from three significant players in the servicing industry to gauge their opinion of the market from a granular level¹, and provide details on Capstone's proposed new servicing strategy.

Make-up of servicing in the UK

Servicing in the UK is carried out either by the mortgage originator, or a third-party vendor, with prime mortgage lenders usually servicing their own portfolios and the UK non-conforming lenders normally using an outsourced third-party servicer. The perception among some investors is that an in-house servicer has a greater incentive to service most effectively, especially if the lender has a vested interest, for example, holding the equity piece from a securitised transaction. However, third-party servicers offer cost efficiencies through economies of scale and expertise, and as the servicing role is their primary source of revenue, it is in their best interests to ensure they provide the best possible servicing facility. Third-party servicers are more prevalent in the UK non-conforming sector largely owing to their use of expertise and cost synergies.

The process of servicing is commonly broken up into three main areas, termed Primary, Special and Master servicing. Rating agencies assign servicer ratings based on these broad categories. Our discussions with servicers highlighted that there can be some confusion, or variation, between definitions of these functions, particularly when primary servicing becomes special. Furthermore, these definitions may differ between rating agencies.

Third-party servicers are more prevalent in the UK non-conforming sector largely owing to their use of expertise and cost synergies

¹ We express our thanks to Homeloan Management Ltd, Scarborough Mortgage Services and Capstone Mortgage Services Ltd for their time and opinion.

Commonly, the definitions are:²

Servicing in the UK is commonly broken up into three disciplines: Primary, Special or Master servicer

- **Primary servicing:** Responsible for the day-to-day administration of mortgage loans, from collections to every-day queries.
- **Special servicing:** Manages mortgage loans that are in arrears, or in default, encompassing legal actions and foreclosure procedures.
- **Master servicing:** Does not have direct borrower contact but monitors the performance of the primary and special servicer and ensures that accurate reporting and service level agreements are upheld. Master servicing is also required to manage the process in the event of termination of one of the primary or special servicers.

These definitions are debated widely within the industry and rating agencies acknowledge that their definitions may differ slightly from servicers themselves, as they break up the process into definable portions to allow a suitable rating to be applied for each servicing discipline. Also, having spoken to some servicers, differences in opinions emerged. One servicer classed special servicing when loans had moved to 1+ days in arrears, while another, when borrowers were 90+ days in arrears.

These different definitions need to be considered by investors when assessing the rating and quality of a servicer within a transaction. Consequently, we highlight the full rating agency definitions in Figure 11.

The view from the “front line”

We thank HML, SMS, and Capstone for their participation in our survey

To gain a better understanding of the issues facing the UK mortgage market we spoke to three third-party servicers to canvass their opinions on current topical issues and actions that they may take, or have taken, to help borrowers in the current climate.

We thank Homeloan Management Ltd (HML), Specialist Mortgage Services Limited (Trading as Scarborough Mortgage Services) (SMS), and Capstone Mortgage Services (Capstone) for their participation. From our discussions, we have segmented their responses into six general categories highlighted in Figure 1.

The UK mortgage market has been regulated since October 2004, unlike in the US

The discussions raised a number of common themes. Each servicer mentioned the difference between the UK and the US mortgage market, and how the UK market has been regulated by the FSA since October 2004. This regulation, unlike in the US, is expected to help the UK withstand the credit turmoil, with limited, or no intervention from the government.

Loan modifications as a concept is not new but has not been prevalent in securitised transactions

The majority of comments related to loan modifications and their impact. All servicers agreed that loan modifications, as a concept, are not a new phenomenon and have always been present in some form or another, particularly with balance sheet lenders. However, a new development in this industry is in securitised transactions where they have been less prevalent, as the restrictions on the SPV through legal documentation limit any modifications on loans.

² Please see Figure 11 for a full definition of each type from each rating agency

Arrears and prepayment rates are beginning to show effects from the fallout of the “credit crunch” and these effects are expected to continue

We discussed a number of other issues that have been very topical in the press recently, namely, levels of arrears in the UK, how these may be evolving and how the lack of re-financing ability, as products are withdrawn, is affecting borrowers. Generally, servicers noted that these two factors have not shown a significant large shift away from the trend seen prior to August 2007 but minor trends are beginning to emerge as arrears increase and pre-payments decrease. They expect this to continue.

Each servicer recognises that interesting times lie ahead and all those surveyed have taken a variety of steps to help combat the increasing scrutiny likely to emerge, either by increasing headcount, improving technology, or more frequent communication with borrowers and lenders.

Figure 1: Survey comments from three UK servicers

Topic	Servicer	Response
Loan modifications... New or re-market of the old?	HML	<ul style="list-style-type: none"> Loan modifications are not a new phenomenon and, in particular, building societies have been using them for a long period of time (product switches, rate reductions and term extensions). What is new is how loan modifications are being used in securitised transactions. The issue is that balance sheet lenders have total flexibility (in the UK) to amend loans and while there are obvious benefits to reducing a customer's payments in the short term, there are always potential pitfalls that the customer may have increased interest over the long term. In the UK, the securitised lenders are restricted once the loan belongs to the SPV, with restrictions applied by the legal documentation, rating agencies and trustee, and so the idea of loan modifications in this area is new. There are also differences in attitudes and process for lenders that "originate to securitise" and balance sheet lenders.
	SMS	<ul style="list-style-type: none"> Certain loan modifications have always been around, for example, capital repayment to interest only and extension of loan terms, but there is now an increased appetite to use these tools that have always been around. It also makes a difference who is undertaking the loan modification – i.e. a balance sheet lender or a lender that primarily "originates to securitise" as each has a different policy.
	Capstone	<ul style="list-style-type: none"> Basic loan modifications have always existed, for example capital repayment to interest only, but they are now more defined to gain a mutually beneficial system for lenders, servicers and borrowers, where loan modifications are carried out by a "minimum losses, maximum returns" policy using a Net Present Value calculation. For each loan modification, the borrower must represent a full ability to commit to and show an ability to maintain the revised payments, and the loan must be in arrears and a loss expected on foreclosure. It is too soon to know how many borrowers will be affected by our loan-modification programme, but there are very few cases (in the 10s) at present. The potential options available to us for loan modifications include deferral of payments, term extensions, changes in interest rates, amending capital balances, capitalisation of arrears and short sales – and in all cases, Capstone will make the final decision on what is undertaken, given this authority under the Service Level Agreements with the lenders. For each loan modification, the loan is effectively re-underwritten from scratch including a new valuation (drive-by) and full affordability re-assessment. The process and manner of the loan modifications have been discussed in detail with each of the rating agencies.
Is government intervention expected, or required in the UK as it has been in the US?	HML	<ul style="list-style-type: none"> Not inevitable and unlikely as the markets in the UK and US are very different. More of a "guiding hand" required rather than specific intervention, to ensure that the market moves in the right direction.
	SMS	<ul style="list-style-type: none"> Not at the moment, as the market is inherently changing within the industry, as lenders remove themselves from the market and remove suites of products.
	Capstone	<ul style="list-style-type: none"> The UK market has been regulated since 2004 and is significantly different from the US; therefore, it looks unlikely that further government intervention is required.
Are you seeing a noticeable increase in arrears levels due to/since the credit market turmoil?	HML	<ul style="list-style-type: none"> There has been a marginal increase between the 1-90 day arrears buckets in the past three months, but not a significant shift.
	SMS	<ul style="list-style-type: none"> A noticeable steady increase
	Capstone	<ul style="list-style-type: none"> In terms of arrears levels, 2007 > 2006 > 2005, and the trend will continue, with nothing specifically different because of the credit crunch.
Are CPR rates noticeably decreasing as re- finance options become limited?	HML	<ul style="list-style-type: none"> CPR rates are slowing down, but there has not been a dramatic shift
	SMS	<ul style="list-style-type: none"> Definitely see signs that pre-payments are being affected, and expect this to continue
	Capstone	<ul style="list-style-type: none"> Re-finance is getting harder and is beginning to filter through

Topic	Servicer	Response
Do you see greater differences in realisation value on foreclosure compared with the indexed value of a property?	HML	<ul style="list-style-type: none"> No significant difference to what was seen previously, still reasonable returns but the overall process is taking longer
	SMS	<ul style="list-style-type: none"> Definitely seeing differences, primarily in increased segregation between different characteristics. New-build flats more affected than houses Cities more affected than rural areas
	Capstone	<ul style="list-style-type: none"> Prices are holding up but need to be compared with reasonable market values and need to be clear what is causing the difference, actual house price differences or accrued interest
Have you undertaken any special processes or actions to combat increasing arrears or the prospect of increasing arrears?	HML	<ul style="list-style-type: none"> Around September last year, as the credit crunch was beginning to take significant effect, we noticed how the UK mortgage market could face problems. We contacted our clients to ask them to consider instructing HML to review those mortgage accounts where teaser / fixed rates were due to expire. While not every lender required this, we identified just under 8,000 accounts that looked likely to be affected, with various lenders asking us to undertake a variety of tasks such as telephone contact and letters to make customers aware of the impending rate change/discount/fixed-rate removal. We installed an auto dialler over 12 months ago, which has been particularly helpful at this time, as it has allowed us to increase outbound call volumes by 115%, with a 168% increase in "Right Party Contacts" and a 150% increase in arrangements to pay.
	SMS	<ul style="list-style-type: none"> Not so much as different process, or actions, but using the tools available more intensely
	Capstone	<ul style="list-style-type: none"> Invested a significant amount of time and resources in improving technology, have increased headcount in special servicing by more than 70% in the past six months, introduced a power dialler in January 2008 and introduced a programme for more defined loan modifications

Source: Homeloan Management Limited, Scarborough Mortgage Services, Capstone Mortgage Services, Barclays Capital

Loan modifications

Loan modifications, while available for lenders to use as a tool to help borrowers, have increasingly come under the spot light following President Bush's announcements to Congress regarding providing help to alleviate problems for sub-prime borrowers in the US. These efforts have focused on lenders trying to help borrowers to keep their homes by allowing servicers to modify loan conditions to restrict the risk of default. This strategy has been underpinned by servicers accepting responsibility to help borrowers, with foreclosure and default seen as the last resort.

January 2008 saw Capstone announce a new servicing initiative including a suite of potential loan modifications

In January 2008, Capstone (a wholly-owned subsidiary of Lehman Brothers) – currently carrying out servicing for Southern Pacific Mortgage Loans (SPML) and Preferred Mortgage Loans (PML) – announced a new servicing initiative, including a suite of loan modifications, which would be applied on a case-by-case basis to minimise borrower arrears and losses if foreclosure was expected. The servicing strategy has been developed by expertise gained from Capstone's and Lehman's recent US involvement and targets specifically those borrowers that may suffer difficulties with upcoming rate resets. Capstone believes that this special servicing strategy is in the best interests of the borrower and therefore, should ensure performance for securitised transactions.

Fitch has taken a positive view of the loan modifications

The strategy has been discussed with each of the rating agencies. Fitch issued a press release on 14 January 2008 stating *"Fitch Ratings today says it takes a positive view of the approach taken by Lehman Brothers to develop a loan-modification programme for its residential mortgage-backed securities (RMBS) programmes. It adds that the modification scheme will have no immediate impact on the ratings of the notes issued by Lehman's UK RMBS programmes, or on the servicer ratings of Capstone Mortgage Services Limited"*.

As part of this strategy, Capstone now receive monthly credit bureau data from Experian to identify borrowers that may be showing the initial signs of financial distress allowing it to direct additional resources to these borrowers. Capstone has developed a suite of loan modifications, which includes helping to stave off defaults when the loan is in arrears and a loss is expected on foreclosure, for these borrowers:

- Deferral of payments;
 - Extension of loan maturities;
 - Changing the interest rate;
 - Amending capital balances;
 - Capitalisation of arrears; and
 - Short sale – where the lender allows a property to be sold for less than the amount owed on a mortgage and takes a loss.
- Each loan modification is dependent on a full re-assessment of the borrower, including his/her propensity to pay following modification, a revaluation of the property, and a full adherence to the FSA mortgage guidelines including a new Key Features document presented to the borrower.

Each loan modification is dependent on a full re-assessment of the borrower

The monthly information from Experian will provide a valuable source of information, help to build a picture of how borrowers are performing and allow Capstone to pre-empt any potential difficulties for borrowers. HML carried out a similar initiative when it contacted borrowers in Q3 last year, forewarning them of upcoming rate re-sets.

Capstone, by using credit bureau data, can build a wider picture of a borrower, encompassing all his/her debts, not just mortgage-related, allowing it to see if borrowers are struggling on other payments, a natural pre-requisite to mortgage

difficulties. Using this system would give borrowers a heads-up that their home could be at risk, if their financial situation were to continue deteriorating.

The role of a servicer has always been to act in the best interests of the borrower; therefore, if default for a borrower is avoidable, the benefits would be seen in the wider mortgage market, as increasing arrears can have a snowballing effect, causing house prices to fall further and the downward cycle to accelerate.

For securitised transactions, loan modifications are a new concept, as rating agencies are usually critical of any changes that can be/are made to a collateral pool after issuance

The downside for loan modifications is that they could lead to adverse selection, as borrowers are made aware that difficulties may lead to potential concessions, though these risks are limited. For securitised transactions, loan modifications are a new concept, as rating agencies are usually critical of any changes that can be/are made to a collateral pool after issuance. It is normal to see legal clauses where only a certain number of conversions, or product switches, are allowed in a transaction. The rating agencies want to be confident that the collateral pool rated at issue will remain throughout the transaction, and if not, they would have already sized for the additional risk. These loan modifications will do just that, affecting loss given default assumptions, excess spread and pre-payment rates, thereby changing the pay-down profile of the notes.

For investors it is a balance of lack of interest rate payments, when borrowers are in arrears but principal repaid on foreclosure, or extended interest payments and slower amortisation of the notes due to lower CPR

For investors it is a balance of lack of interest rate payments, when borrowers are in arrears but principal repaid on foreclosure of property, or of extended interest payments and slower amortisation of the notes due to lower CPR and a reduction in excess spread if the interest rate charged on the loan is reduced. Fitch comments on this in its press release: *“On balance, Fitch believes that stabilisation of arrears on the back of such loan modifications can potentially outweigh any adverse influences such as reduced excess spread due to a reduced interest rate. As Gregg Kohansky, Senior Director, explains, “Delinquent borrowers could be encouraged to pay through an active strategy to render their mortgage payments more affordable, thereby increasing the payment rate on arrears mortgages. If a borrower default can be prevented by loan modification, then this could also result in lower defaults and losses on affected pools.”*

Other risk factors to be considered, however, include the likelihood of very slow pre-payment rates for modified loans, given the current lack of attractive refinancing alternatives. While this may, in part, offset the impact of reduced excess spread, it could also mean that modifying loans simply postpones defaults instead of preventing them. This could therefore result in loans defaulting later in the life of the deal when excess spread to cover losses is reduced, and potentially, home prices have declined more severely. This might particularly be the case if modifications strategies such as extension of maturities, or arrears capitalisations, are applied.”

Capstone highlight that this programme will only affect a small number of borrowers and that the borrowers must be able to show the capability to pay any amended payment schedule.

Rating agency treatment

Servicers play a significant role in the calculations of ratings in securitised transactions

Moody's, S&P and Fitch have illustrated in their rating methodologies the importance of servicers and currently assign servicer ratings to the majority of large servicers in the UK non-conforming sector.

When comparing servicers' ratings versus all market participants we note that not all servicers are rated, as similar to the process in transaction ratings, the responsibility for a published rating lies with the issuer, or in this case, the servicer. Therefore, there can be some inherent bias in the ratings – a servicer can request that a rating agency does not publish its ratings and findings, or can allow the rating agency to publish a rating if it is happy with the result.

In the UK, seven servicers are rated by at least one rating agency

In the UK, seven servicers are rated by at least one rating agency – Figure 2 shows the services and their respective ratings, followed by a detailed description of their treatment by rating agencies and the meanings behind the rating levels. For these servicers, investors can closely analyse the benefits and drawbacks of their servicing methods, but for other unrated servicers, for example Western Mortgage Services Ltd that service the Leek transactions, the data are less clear. For unrated servicers information is only available from offering circulars, rating agency pre-sale reports and any investor presentations, these offer limited information to the investor.

Figure 2: Rating agencies – Current UK servicer ratings

	Fitch ratings			S&P ratings			Moody's ratings		
	Primary	Special	Master	Primary	Special	Master	Primary	Special	Master
Capstone Mortgage Services Ltd.	RPS2+ (prime) UK RPS2+ (subprime) UK	RSS2+ UK		ABOVE AVERAGE / Stable					
Crown Mortgage Management	RPS3 (prime) UK RPS3 (subprime) UK	RSS3 UK							
Morgan Stanley Mortgage Servicing Kensington Mortgages Ltd	RPS3 UK	RSS3 RSS2+ UK							
Homeloan Management Ltd. (HML)	RPS2+ (prime) UK RPS2+ (subprime) UK			ABOVE AVERAGE/ Positive			SQ2+		
Specialist Mortgage Services Limited (Trading as Scarborough Mortgage Services) (SMS)	RPS2- (prime) UK RPS2- (subprime) UK	RSS3+ UK							
Vertex Mortgage Services Ltd	RPS3+ (prime) UK RPS3+ (subprime) UK			AVERAGE/ Positive	AVERAGE/ Positive				

Source: Rating agency reports

In Figure 3 we show the different rating scales used by each of the rating agencies and their implied meanings. Each rating agency has five overall levels and each assigns a scale within each rating, with a positive or negative indication. In addition, Fitch assigns different ratings for “prime” and “sub-prime” servicers, highlighting the different methodologies and strategies used depending on borrower type.

Figure 3: Rating agency rating scale for servicer ratings

	Fitch*					S&P**		Moody's***
	Primary	Special	Master					
Level 1	RPS1 RPS1-	RSS1 RSS1-	RMS1 RMS1-	Fully acceptable with overall superior performance	Strong	Servicer demonstrates the highest ability, efficiency, and competence in managing large and highly diverse asset portfolios, as well as a proven track record of strong and stable management, state-of-the-art computer technology, and excellent internal controls, policies and procedures.	SQ1	Servicers rated SQ1 exhibit strong servicing ability and financial and operational stability. The servicer anticipates and makes modifications in advance of changing market conditions.
Level 2	RPS2+ RPS2 RPS2-	RSS2+ RSS2 RSS2-	RMS2 + RMS2 RMS2-	Fully acceptable with noted strengths	Above Average	Servicer demonstrates very high ability, efficiency, and competence in managing mid- to large-size portfolios, as well as solid management experience, an acceptable track record, internal practices and policies that meet industry or regulatory standards, and a managed portfolio performance history similar to industry averages.	SQ2	Servicers rated SQ2 exhibit above-average servicing ability. The company is judged to have good financial and operational stability. The servicer is responsive to changing market conditions.
Level 3	RPS3+ RPS3 RPS3-	RSS3+ RSS3 RSS3-	RMS3 + RMS3 RMS3-	Fully Acceptable	Average	Servicer demonstrates an acceptable track record, internal practices and policies that meet industry or regulatory standards, and a managed portfolio performance history similar to industry averages.	SQ3	Servicers rated SQ3 exhibit average servicing ability. The company is judged to have average financial and operational stability. The servicer is prepared for changing market conditions.
Level 4	RPS4	RSS4	RMS4	Qualified Acceptance	Below Average	Servicer demonstrates a lack of ability, efficiency, and competence, as well as an unfavourable track record and below-standard internal controls, or computer systems.	SQ4	Servicers rated SQ4 exhibit elements of weakness in servicing ability and financial and operational stability.
Level 5	RPS5	RSS5	RMS5	Not acceptable	Weak	Servicer demonstrates a poor servicing track record, evidenced by recurring losses and a serious lack of internal controls.	SQ5	Servicers rated SQ5 exhibit weak servicing ability and poor financial and operational stability.

Note: *Fitch also classifies the rating depending on collateral type with a parenthesis of (prime) or (subprime). **S&P also assigns an outlook for the near-term servicing duration (approx 12-18 months) to the rating similar to rated transactions with Stable, Positive, Developing or Negative. ***Moody's has a scale within a scale also, for example SQ2+ and SQ2-. Source: Rating agencies

The ratings shown in Figure 3 are used directly when rating a securitised transaction, if applicable. Each rating agency assesses the ability and competence of a servicer, with Moody's stating that a different level of servicer quality rating can have wide-ranging effects on the credit enhancement required in a transaction, when used as part of their MILAN loan-analysis model (Figure 4).

Figure 4: Moody's servicer quality ratings impact on credit enhancement

SQ rating	Possible affects on credit enhancements
SQ 1	-10%
SQ 2	-5%
SQ 3	0%
SQ 4	+5%
SQ 5	+10%

Source: Moody's

Difficulties in assessing a servicer

Servicing assessment requires a subjective as well as objective view

The assessment of servicing capabilities is not as simple as standard rating criteria and cannot be considered without a subjective overview. Consequently, it can be hard for investors to identify the true strength of a servicer. While some aspects are easy to benchmark against, eg, how many days after a loan is made delinquent should a call be made to the borrower, other aspects such as the methods used by servicing staff to resolve delinquent issues are much harder to benchmark. The rating agencies note some of these issues in their methodology reports. For example, Moody's state that it has *"intentionally constructed its ABS SQ rating methodology on a more qualitative basis in comparison with fundamental ratings. This is based on several reasons, including:*

- 1) *The lack of common ABS origination and servicing standards. This is evident, not only in the differences among EMEA countries, but also among issuers within each EMEA country;*
- 2) *The unique aspects of each ABS sub-asset class (eg, leasing receivables, consumer receivables, credit-card receivables), which require a more detailed qualitative assessment of the relevant factors of quality servicing in each such asset class;*
- 3) *The sometimes limited quality of the data with respect to the historical performance of certain asset pools, as well as the characteristics of the underlying receivables in EMEA countries;*
- 4) *The fact that the ABS market within EMEA has developed only in the last decade."*

Servicers act according to the SLAs with the lender. It goes without saying that the higher the premium paid to a servicer, the more active the servicing strategy

Speaking with some servicers, it is also hard to gauge their performance simply on arrears and loss recoveries, especially for independent third-party servicers. They are paid to carry out a task and therefore, will undertake tasks depending on specific service level agreements (SLAs) with the originator. Thus, if the originator wants a welcome call to be completed as soon as a loan is granted to a borrower, then it would have to pay a premium for this service. Conversely, if an originator wants calls made the week after a loan enters arrears (compared with the day after) it would have to pay the equivalent fee to the servicer. Consequently, rating agencies also look at the capabilities of the servicers as well as their arrears performance, noting that each different SLA will have different requirements. It is more noticeable if a servicer is removed from carrying out a function for an originator, as the latter would give guidance that the servicer was not performing to the levels expected from the SLA.

Is it the performance of the servicer that causes a loan to go into arrears, or the underwriting of that loan?

Furthermore, it can be hard to tell if the performance of the underlying assets is the reason for the good, or bad, performance of the collateral pool – regardless of the highest level of servicing, a portfolio of loans could still enter arrears simply because of its quality (or lack thereof), rather than the abilities of the servicer. Likewise, when considering loss recoveries, figures should be compared with similar economic cycles, as obviously recoveries will look far better in recent times due to increased house price inflation.

A rating agency's role is vital, and increased detail and transparency particularly for un-rated servicers would be welcome

Therefore, the tough task for investors when assessing the merits of a transaction and the servicing attached to it is whether the collateral pool, economic situation or the actual ability of the servicer has caused the current performance of that transaction.

Given these difficulties, the rating agency's role becomes increasingly vital, and it could be argued that rating agencies should publish servicer ratings, or guideline ratings for every servicer for each transaction, to allow investors to benchmark.

The rating agencies highlight a number of categories to assess the relative strengths of a servicer and allow investors to benchmark across transactions.

Figure 5: Rating agency criteria in assessing servicers*

Moody's	S&P**	Fitch
Management	Management and organisation	Company history and management experience
Staff	Loan/asset administration	Financial condition
Asset administration	Financial position	Staffing and training
Arrears management		Procedures and controls
Recoveries		Servicing methodology – administration
IT and reporting		Servicing methodology – defaulted mortgage loans
General quality and historical performance		Technology
Financial strength		

*Note: Each category is scored and assessed at a rating committee against a desired set of objectives and levels as discussed in each rating agency servicer methodology report. **Within each category, S&P breaks down into specific areas of focus. Source: Rating agency reports*

The weights applied to each of these broad categories vary depending on the servicing discipline. For example, asset administration is not scored as a special servicer rating for Moody's – instead more weight is applied to the recoveries category.

Back-up servicing is commonplace in UK non-conforming transactions

Financial stability is assessed by all three rating agencies and is of particular importance in the UK non-conforming sector, as the majority of servicing is carried out by a third-party vendor. Non-conforming transactions usually require that a back-up servicer is in place, which becomes effective following a breach of rating triggers on the current servicer. It is vital for investors that if a servicer becomes insolvent, the transaction will not suffer as a result. The lower the initial servicer is rated, the more likely that the back-up servicing arrangement will move from “Cold” to “Hot”. Fitch's definitions of cold, warm and hot back up servicing arrangements is in Figure 6.

Figure 6: Fitch definitions on different levels of back up servicing

Back-up servicing arrangement	Description
Cold	This applies to the majority of standby agreements, in which no information is passed between the acting servicers and the back-up, other than an early due diligence and perhaps an annual review. Fitch makes a realistic assessment of the back-up servicer's ability to acquire the servicing of sizeable portfolios in a timely and effective fashion, given its limited knowledge of the loans and assets contained within the deal. The expected timeframe for transfer and boarding of portfolios by a cold back-up is 30-90 days. The size of a servicer's back-up portfolio in relation to its active portfolio, and the effect of a trigger event on the servicer's operations, will be addressed during the servicer rating process.
Warm	Fitch applies this term where there are quarterly or semi-annual portfolio data dumps and ongoing monitoring of the status of the loans in the pool (ie, the identification of watch-list loans, or assets transferred to special servicing). The regular nature of the data flow will ensure that on transfer, following a trigger event, the data is compatible with the servicer's own systems. This mitigates transfer risk, including the boarding time associated with the acquired portfolio. The expected timeframe for transfer and boarding of portfolios by a warm back-up is less than 30 days.
Hot	Essentially this involves a full replication of the data associated with the deal. The frequency of data transfer should be at least monthly, although real-time data replication is preferable. The data should be reviewed and analysed to ensure that the servicer is fully aware of the resources required to board the portfolio. This "shadow servicing" is similar to standard practice among master servicers in other jurisdictions, such as the US, and is viewed by Fitch as a sound and proactive risk-mitigation tool. The expected timeframe for the transfer and boarding of portfolios by a hot back-up is less than one week.

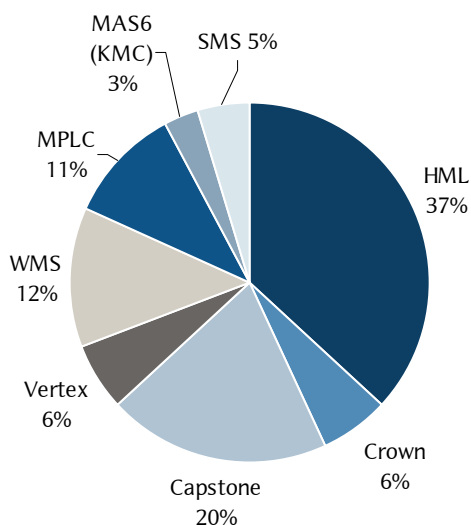
Source: Fitch

Servicing in the UK non-conforming sector

The majority of servicing in the UK non-conforming sector is outsourced to a third-party vendor. While the perception among some investors may be that an in-house servicer has a greater incentive to service most effectively, especially if the lender has a vested interest, for example, holding the equity piece from a securitised transaction, a third-party servicer can offer cost efficiencies through economies of scale and expertise, and as the servicing role is their primary source of revenue, it is in their best interests to ensure they provide the best possible servicing facility. It is for this reason that the majority of the UK non-conforming servicing sector is with these third-party providers.

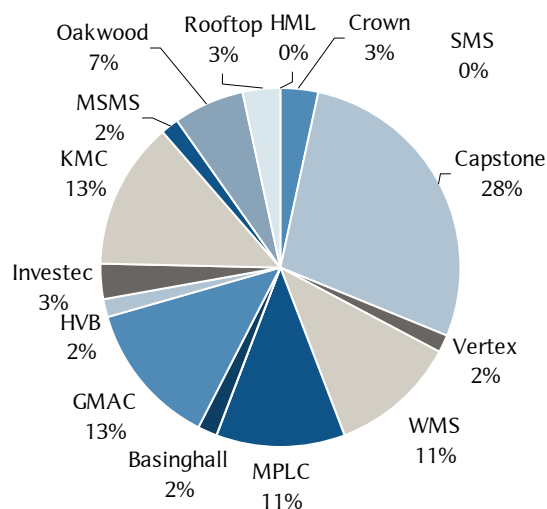
We detail in **Figure 12** all the servicing arrangements for all outstanding UK non-conforming transactions and in the graphs below we show a high level summary of the break-up of servicing discipline in this sector. HML undertakes the majority of primary servicing in this sector and is also in place as the back-up servicer for the majority of transactions. It currently does not carry out any special servicing of transactions. Speaking with HML, it undertakes a vast number of tasks that a special servicer would undertake without potentially the ownership of that function, acting more akin to a "middle man" between the lender and solicitors and asset managers.

Figure 7: Primary servicers in the UK non-conforming sector



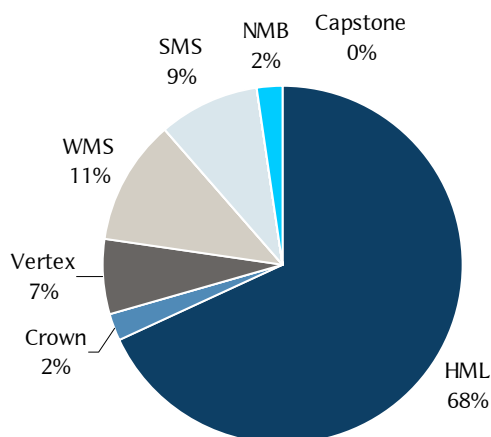
Source: Rating Agency reports, Offering Circulars, Barclays Capital

Figure 8: Special servicers in the UK non-conforming sector



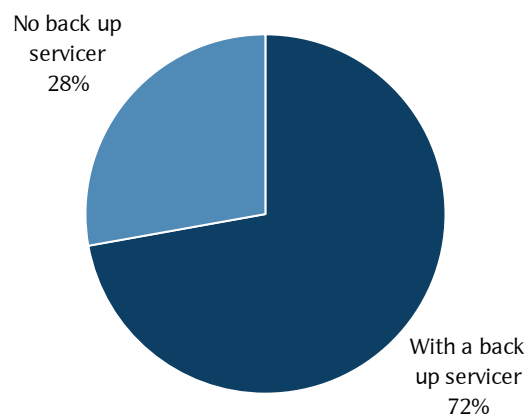
Source: Rating Agency reports, Offering Circulars, Barclays Capital

Figure 9: Back-up servicers in the UK non-conforming sector



Source: Rating Agency reports, Offering Circulars, Barclays Capital

Figure 10: Percentage of transactions with back-up servicing



Source: Rating Agency reports, Offering Circulars, Barclays Capital

We draw investors' attention to the increasing worries regarding the back-up servicer arrangements. If a number of transactions are transferred to the back-up servicer, it could have problems dealing with the increased workload, thereby adversely affecting its level of service. This is a risk for investors particularly in an economic downturn, when it is likely the problems seen at one servicer will affect another.

Due to the different servicing arrangements across transactions, we would advise investors seek out service level agreements to establish the level of servicing that is being undertaken. We recommend transactions that use "welcome calls" or "pre-payment calls" as these have shown to limit technical arrears (borrowers missing their first mortgage payment) and we emphasise the importance of pro-active arrears management with contact made to borrowers that enter arrears as soon as possible thereafter to establish dialogue. We show sample time lines provided by HML and SMS in Figure 13 to Figure 15 to give investors an idea of the various stages.

Figure 11: Rating agency definitions for different levels of servicing

	Moody's	S&P	Fitch
Primary	<p>A primary servicer handles all aspects of receivable administration throughout the receivable's lifetime.</p> <p>In addition to processing payments and providing customer service, a primary servicer will also manage collections and resolution of defaulted receivables.</p>	<p>Primary servicers as those servicers performing loan administration duties that involve direct borrower contact. Primary servicers also perform investor reporting – with or without advancing responsibilities – for trustees and other investors.</p>	<p>The primary servicer has responsibility for protecting the interests of the investors through the prudent day-to-day servicing and performance monitoring of the mortgage loans and properties. The primary servicer will conduct operations such as payment collection, cash management, and reporting. Fitch expects the primary servicer to maintain effective systems, adopt appropriate policies and procedures, and employ adequate resources to report loan activity to the master servicer(s)/trustee overseeing and monitoring its performance.</p>
Special	<p>A special servicer focuses on collection and loss mitigation. While the special servicer, in many cases, would still perform payment processing and other receivable administration functions, the SQ rating will place more weight on its abilities in arrears management, loss mitigation and asset management, which capture the essence of the capacity of a "special" servicer, and are more pertinent to its day-to-day functions.</p> <p>The analysis will pay special attention to the servicing contracts that are typically signed by the special servicer in order to assess: 1) the general terms of replacement, 2) the level of commitment towards replacement, 3) the maximum timing in which a replacement needs to be completed, and 4) the servicing fees.</p>	<p>Special servicers have expertise in handling non-performing (monetary default) and covenant issues (non- monetary default) assets, as well as the staffing and experience to handle a higher volume distressed asset percentage of its total servicing portfolio.</p>	<p>The special servicer, taking over the servicing of mortgage loans under certain performance trigger conditions, is responsible for maximising recoveries from severely delinquent, or non-performing mortgage loans. Fitch expects the special servicer to demonstrate expertise in minimising losses through borrower liaison, evaluation of alternative workout (resolution) strategies, managing foreclosures and bankruptcies/insolvencies, litigation and disposition (liquidation) of property.</p>
Master	<p>Moody's analysis considers the servicer's ability to 1) collect, aggregate and report information from one or more sub-servicers; 2) generally oversee sub-servicers activities; and 3) be capable of replacing the primary servicer upon a default or insolvency.</p> <p>The master servicer's role is limited to supervision and reporting, as it does not directly service the underlying loans (assuming no replacement event). Therefore, Moody's places emphasis on areas such as management, IT systems and reporting, which are crucial for its inherent functions. Moody's SQ Rating of master servicers will therefore not consider their capacities in arrears management, loss mitigation, or asset management.</p> <p>However, as master servicers are normally contractually expected to replace the primary servicer upon its insolvency, the financial strength of the master servicer will become crucially important in connection with that responsibility. The SQ Rating analysis will accordingly place greater emphasis on the financial condition of master servicers.</p>	<p>The master servicer designation addresses those skillsets required to appropriately monitor loans serviced by others (SBOs), also known as a sub-servicing portfolio. In this latter case, the master servicer does not have direct borrower contact. Instead, it oversees the quality of information provided by its sub-servicers to ensure accurate investor reporting and compliance with servicing agreements.</p>	<p>Traditionally, as developed in the US, master servicers are responsible for investor reporting and remittance, payment advancing, portfolio surveillance, servicer oversight and standby servicing, following a default by either the primary, or special servicer. Master servicers protect the interests of the investors through the timely and accurate remittance and reporting of cash payments to the investor(s), made either directly, or via a trustee. Fitch expects the master servicer to demonstrate that it has sufficient financial strength to meet its obligations.</p> <p>The master servicer also assumes an oversight function, monitoring the performance of the primary servicer(s). Furthermore, the agency expects to be able to assume the role of the primary and/or special servicer – or, at a minimum, appoint an alternative primary or special servicer – in the event of servicer default or insolvency.</p>

Figure 12: UK non-conforming transactions servicing arrangements

Transaction	Issue year	Primary servicer	Subcontracted to	Special servicer	Master servicer	Back-up servicer
Residential Mortgage Securities 20 Plc (RMS 20)	Feb 05	Homeloan Management Ltd		Kensington Mortgage Company		
RMAC 2005-NS1 Plc	Feb 05	GMAC	Homeloan Management Ltd	GMAC		
ROOF 1	Feb 05	Crown Mortgage Management Limited		Crown Mortgage Management Limited		Homeloan Management Ltd
Southern Pacific Securities 05-1 Plc	Feb 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Marble Arch Residential Securitisation Ltd No 3	Mar 05	Matlock Capital Ltd	Vertex Mortgage Services	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Crown Mortgage Management Limited
Leek Finance Number Fifteen PLC	Apr 05	Platform Funding Limited	Western Mortgage Services Ltd	Western Mortgage Services Ltd		
Preferred Residential Securities 2005-01 PLC	Apr 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
RMAC 2005-NSP2 PLC	May 05	GMAC	Homeloan Management Ltd	GMAC		
Southern Pacific Financing 05-B Plc	Jun 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	
Mortgages No. 7 PLC	Jul 05	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
Southern Pacific Securities 05-2 Plc	Jul 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Money Partners Securities 1 Plc	Aug 05	Homeloan Management Ltd		Kensington Mortgage Company		
RMAC 2005-NS3 Plc	Sep 05	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
ROOF 2	Sep 05	Crown Mortgage Management Limited		Crown Mortgage Management Limited		Homeloan Management Ltd
Leek Finance Number Sixteen PLC	Oct 05	Platform Funding Limited (PFL) MAS6 (KMC)	Western Mortgage Services Ltd	Western Mortgage Services Ltd		
Residential Mortgage Securities 21 Plc (RMS 21)	Oct 05	Homeloan Management Ltd		Kensington Mortgage Company		
ALBA 2005-1	Nov 05	Homeloan Management Ltd (PML) Western Mortgage Services Ltd (PFL)		Oakwood Homeloans Ltd		
Money Partners Securities 2 Plc	Nov 05	Homeloan Management Ltd		Kensington Mortgage Company		
Preferred Residential Securities 05-2 PLC	Nov 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd		Homeloan Management Ltd
RMAC 2005-NS4 Plc	Nov 05	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd

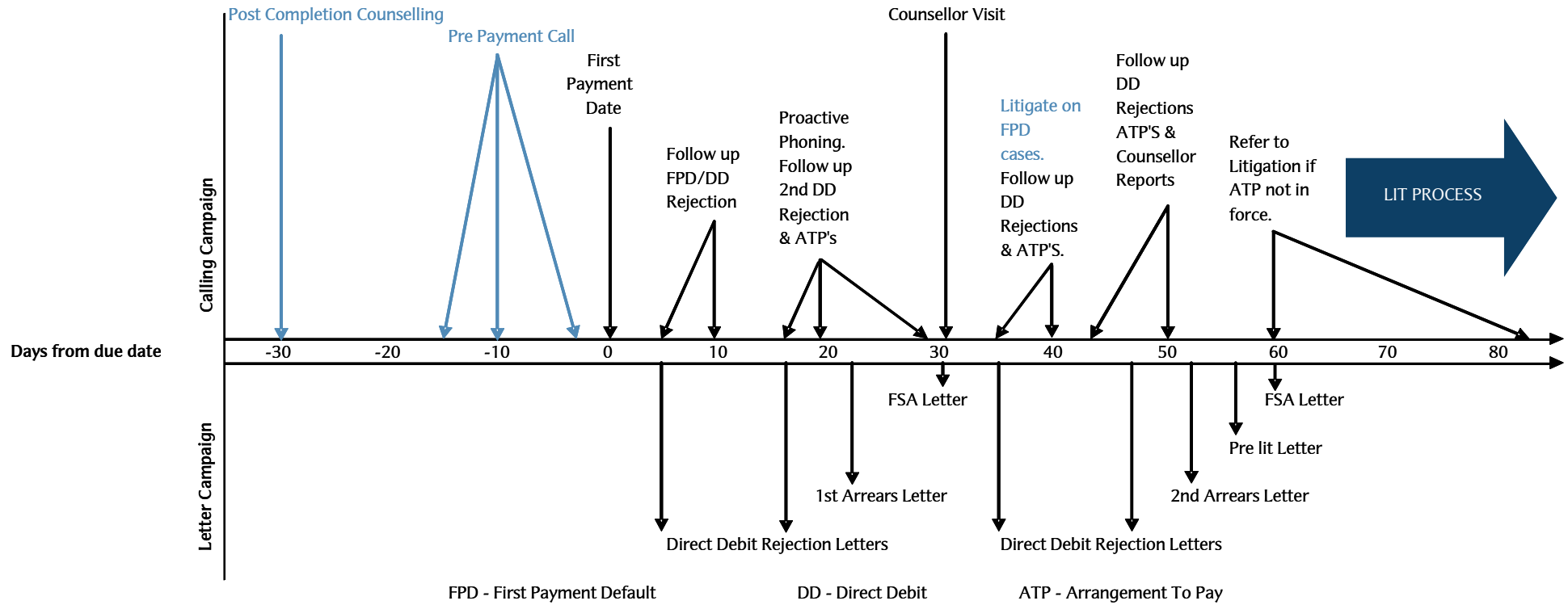
Transaction	Issue year	Primary servicer	Subcontracted to	Special servicer	Master servicer	Back-up servicer
Southern Pacific Securities 05-3 Plc	Nov 05	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
PRS 2006-1	Jan 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Newgate Funding 2006-1	Feb 06	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
Southern Pacific Financing 06-A Plc	Feb 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Southern Pacific Securities 06-1 plc	Feb 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
RMAC Securities No.1 Plc (Series 2006-NS1)	Mar 06	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
Leek Finance Number Seventeen PLC	Apr 06	Platform Funding Limited (PFL) MAS6 (KMC)	Western Mortgage Services Ltd	Western Mortgage Services Ltd		
ALBA 2006-1 plc	May 06	Homeloan Management Ltd		Oakwood Homeloans Ltd		
Eurosail 06-1 Plc	May 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Money Partners Securities 3	May 06	Homeloan Management Ltd		Kensington Mortgage Company		Western Mortgage Services Ltd
Clavis Securities plc Series 2006-01	Jun 06	Scarborough Mortgage Services		Basinghall Finance Plc		
Newgate Funding 2006-2	Jun 06	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
RMAC Securities No.1 Plc (Series 2006-NS2)	Jun 06	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
Landmark Mortgage Securities No.1 Plc	Jul 06	Homeloan Management Ltd		Investec Bank UK Ltd		NMB Group Ltd
Residential Mortgage Securities 22 Plc (RMS 22)	Jul 06	Homeloan Management Ltd		Kensington Mortgage Company		Western Mortgage Services Ltd
RMAC Securities No.1 Plc (Series 2006-NS3)	Sep 06	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
Eurosail 06-2BL PLC	Oct 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Leek Finance Number Eighteen Plc	Oct 06	Platform Funding Limited	Western Mortgage Services Ltd	Western Mortgage Services Ltd		Homeloan Management Ltd
Marble Arch Residential Securities 4	Oct 06	Capstone Mortgage Services Ltd	Vertex Mortgage Services	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Scarborough Mortgage Services
Newgate Funding Plc Series 2006-3	Oct 06	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
ALBA 2006-2 plc	Nov 06	Homeloan Management Ltd		Oakwood Homeloans Ltd	Wells Fargo Securitisation Services Ltd	
Bluestone Securities plc - Series 2006-01	Nov 06	Homeloan Management Ltd		HVB		Western Mortgage Services Ltd

Transaction	Issue year	Primary servicer	Subcontracted to	Special servicer	Master servicer	Back-up servicer
Eurosail 2006-3	Nov 06	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Eurosail 2006-4	Nov 06	Capstone Mortgage Services Ltd	Scarborough Mortgage Services (GMAC)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Ludgate Funding Plc Series 2006 FF1	Nov 06	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
Mansard Mortgages 2006-1	Nov 06	Rooftop	Crown Mortgage Management Limited	Rooftop		Vertex Mortgage Services
Money Partners Securities 4	Nov 06	Homeloan Management Ltd		Kensington Mortgage Company		Western Mortgage Services Ltd
Great Hall Mortgages No. 1 plc (Series 2006-1)	Dec 06	Western Mortgage Services Ltd		Western Mortgage Services Ltd		
RMAC Securities No.1 Plc (Series 2006-NS4)	Dec 06	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
Eurosail-UK 07-1 NC Plc	Feb 07	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Great Hall Mortgages No. 1 plc (Series 2007-1)	Feb 07	Western Mortgage Services Ltd		Western Mortgage Services Ltd		
Landmark Mortgage Securities No.2 Plc	Feb 07	Homeloan Management Ltd		Investec Bank UK Ltd		Scarborough Mortgage Services
Newgate Funding Plc Series 2007-1	Feb 07	Mortgages Plc		MPLC		Homeloan Management Ltd
Eurohome UK Mortgages 2007-1 plc	Mar 07	DB UK Bank	Vertex Mortgage Services	Vertex Mortgage Services		Vertex Mortgage Services
Eurosail-UK 07-2 NP Plc	Mar 07	Capstone Mortgage Services Ltd	Vertex Mortgage Services (LMC) Scarborough Mortgage Services (GMAC)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Scarborough Mortgage Services
Kensington Mortgage Securities plc. - Series 2007-1	Mar 07	Homeloan Management Ltd		Kensington Mortgage Company		Western Mortgage Services Ltd
Mansard Mortgages 2007-1 PLC	Mar 07	Rooftop	Crown Mortgage Management Limited	Rooftop		Vertex Mortgage Services
Leek Finance Number Nineteen Plc	Apr 07	Platform Funding Limited	Western Mortgage Services Ltd	Western Mortgage Services Ltd		Homeloan Management Ltd
ALBA 2007-1 plc	May 07	Homeloan Management Ltd		Oakwood Homeloans Ltd	Wells Fargo Securitisation Services Ltd	
Newgate Funding Plc Series 2007-2	May 07	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
ResLoC UK 2007-1 plc	May 07	Homeloan Management Ltd		Morgan Stanley Mortgage Services		Scarborough Mortgage Services

Transaction	Issue year	Primary servicer	Subcontracted to	Special servicer	Master servicer	Back-up servicer
Bluestone Securities plc - Series 2007-01	Jun 07	Homeloan Management Ltd		HVB		Western Mortgage Services Ltd
Clavis Securities plc Series 2007-01	Jun 07	Scarborough Mortgage Services		Basinghall Finance Plc		
EuroMASTR Series 2007-1V plc	Jun 07	UBS	Vertex Mortgage Services	Vertex Mortgage Services	UBS	Homeloan Management Ltd
Eurosail-UK 07-3 BL Plc	Jun 07	Capstone Mortgage Services Ltd	Vertex Mortgage Services (LMC) Homeloan Management Ltd (Amber)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Great Hall Mortgages No. 1 plc (Series 2007-2)	Jun 07	Western Mortgage Services Ltd		Western Mortgage Services Ltd	JP Morgan Chase Bank	
Ludgate Funding Plc Series 2007-FF1	Jun 07	Freedom Funding		Freedom Funding		Homeloan Management Ltd
RMAC Securities No.1 Plc (Series 2007-NS1)	Jun 07	GMAC	Homeloan Management Ltd	GMAC		Homeloan Management Ltd
Uropa Securities plc Series 2007 - 01B	Jun 07	Scarborough Mortgage Services		Topaz Finance		
Eurohome UK Mortgages 2007-2 plc	Jul 07	DB UK Bank	Vertex Mortgage Services	Vertex Mortgage Services		Vertex Mortgage Services
Eurosail-UK 07-4 BL Plc	Jul 07	Capstone Mortgage Services Ltd	Vertex Mortgage Services (LMC)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Scarborough Mortgage Services
Eurosail-UK 2007-5NP Plc	Nov 07	Capstone Mortgage Services Ltd	Vertex Mortgage Services (LMC)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Scarborough Mortgage Services
Eurosail Prime-UK 2007-A	Nov 07	Capstone Mortgage Services Ltd		Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Homeloan Management Ltd
Newgate 2007-3	Nov 07	Mortgages Plc		Mortgages Plc		Homeloan Management Ltd
Eurosail-UK 2007-6NC Plc	Nov 07	Capstone Mortgage Services Ltd	Vertex Mortgage Services (LMC)	Capstone Mortgage Services Ltd	Capstone Mortgage Services Ltd	Scarborough Mortgage Services
Mansard 2007-2	Dec 07	Vertex Mortgage Services		Rooftop Mortgages Ltd		Homeloan Management Ltd

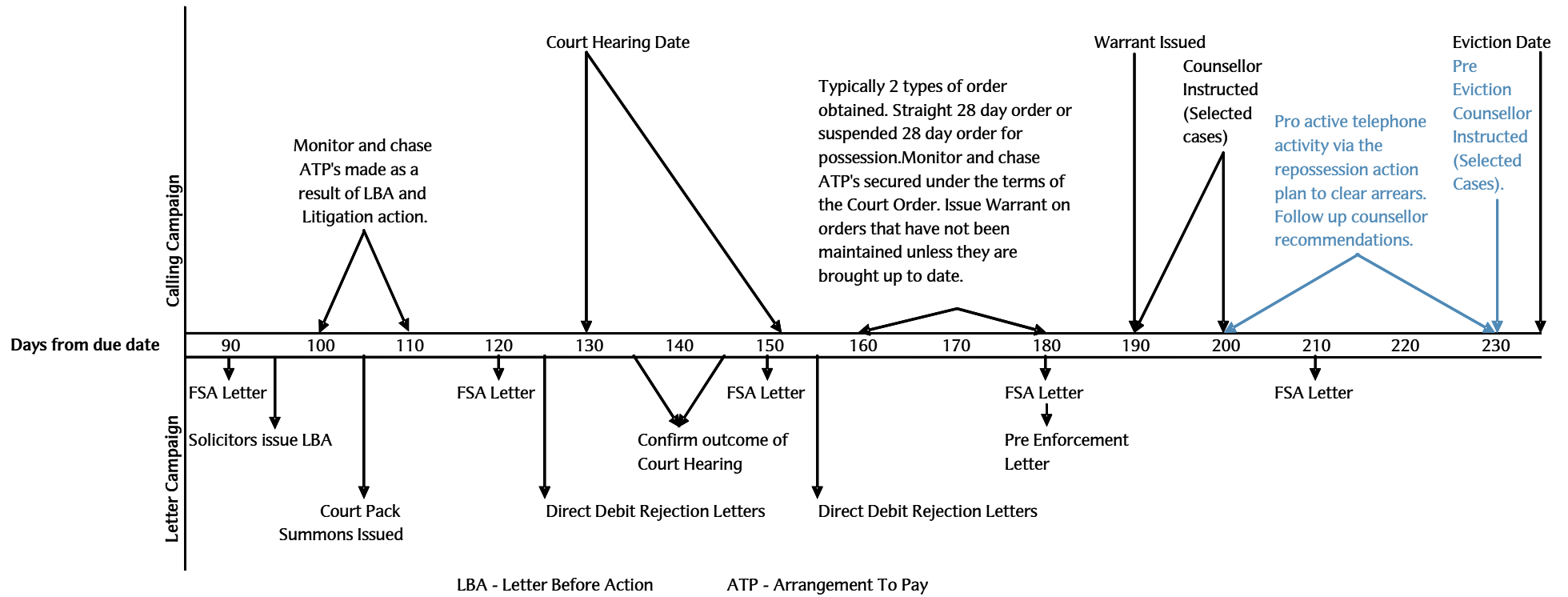
Source: Rating Agency reports, Offering Circulars, Barclays Capital

Figure 13: Sample HML arrears management timeline



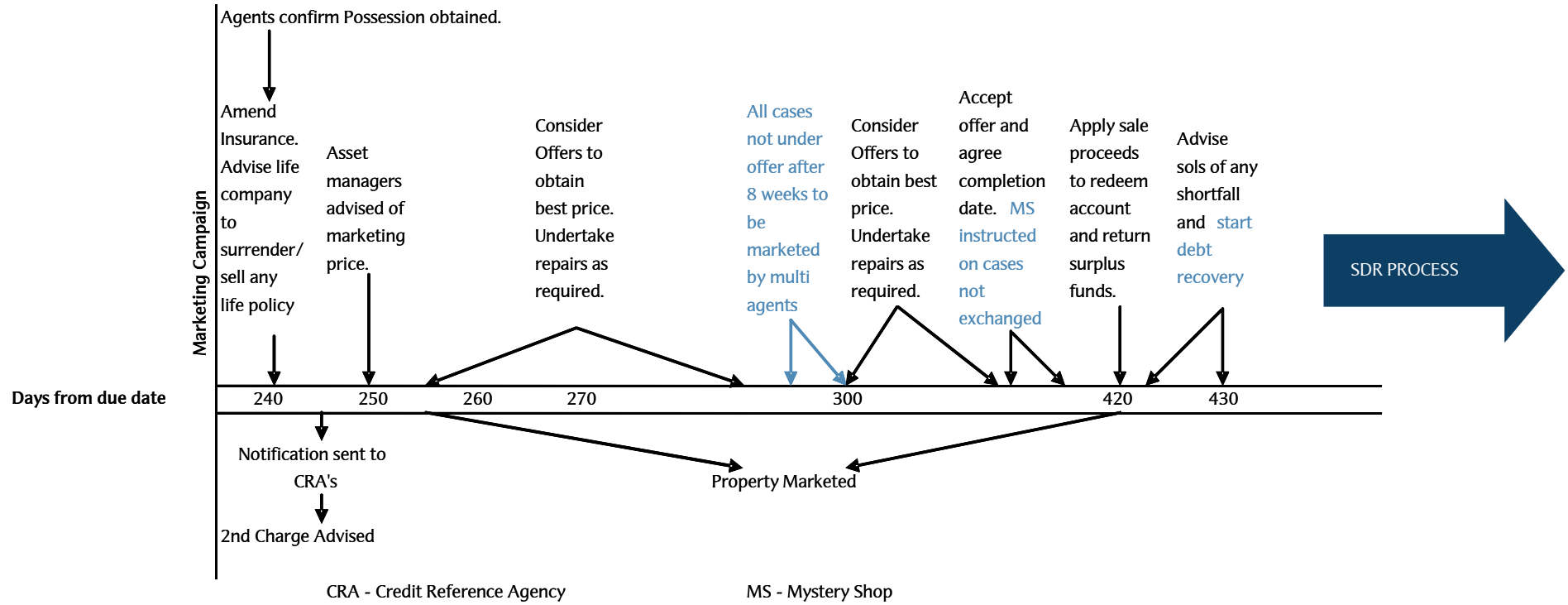
Note: Further letters are generated manually during the collections cycle. For FPD cases a specific letter is sent out as part of the DD rejection follow up advising the concern noted due to the default of the first payment of the loan. Source: HML

Figure 14: Sample HML arrears litigation process timeline



Note: On average, a case would be 12 months in arrears before possession is obtained. The above depicts accounts where little or no co-operation received. Further letters are generated manually during the litigation cycle. Source: HML

Figure 15: Sample HML arrears possession process timeline



Note: On average properties take approximately five months to sell while in possession. Source: HML

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Extract from EU10188