

IN THE SUPREME COURT OF THE STATE OF NEVADA

K&P HOMES, A SERIES LLC OF DEK
HOLDINGS, LLC, a Nevada limited
liability company,

Appellant,

vs.

CHRISTIANA TRUST, A DIVISION OF
WILMINGTON SAVINGS FUND
SOCIETY, FSB, NOT IN ITS
INDIVIDUAL CAPACITY BUT AS
TRUSTEE OF ARLAP TRUST 3

Respondent.

Supreme Court Case No. 69966

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Court, District of Nevada, Case No.
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APPENDIX VOL. I

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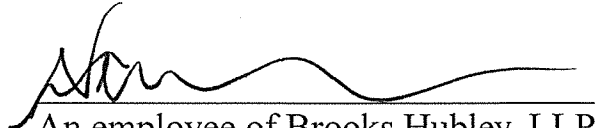
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CERTIFICATE OF SERVICE

Pursuant to NEFCR 9(b)(d)(e), I certify that on the 20th day of July, 2016, a true and correct copy of the **APPENDIX VOL. I** was transmitted electronically through the Court's e-filing system to the attorney(s) associated with this case.

DATED this 20th July, 2016.


An employee of Brooks Hubley, LLP

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KEY LINKS

- » Primary RMBS Rating Methodology
- » RMBS Surveillance Methodology

Pool Expected Losses and Tranche Recovery Estimates

- » Prime jumbo pool loss and tranche recovery estimates
- » Alt-A pool loss and tranche recovery estimates
- » Subprime pool loss and tranche recovery estimates
- » Option ARM loss and tranche recovery estimates
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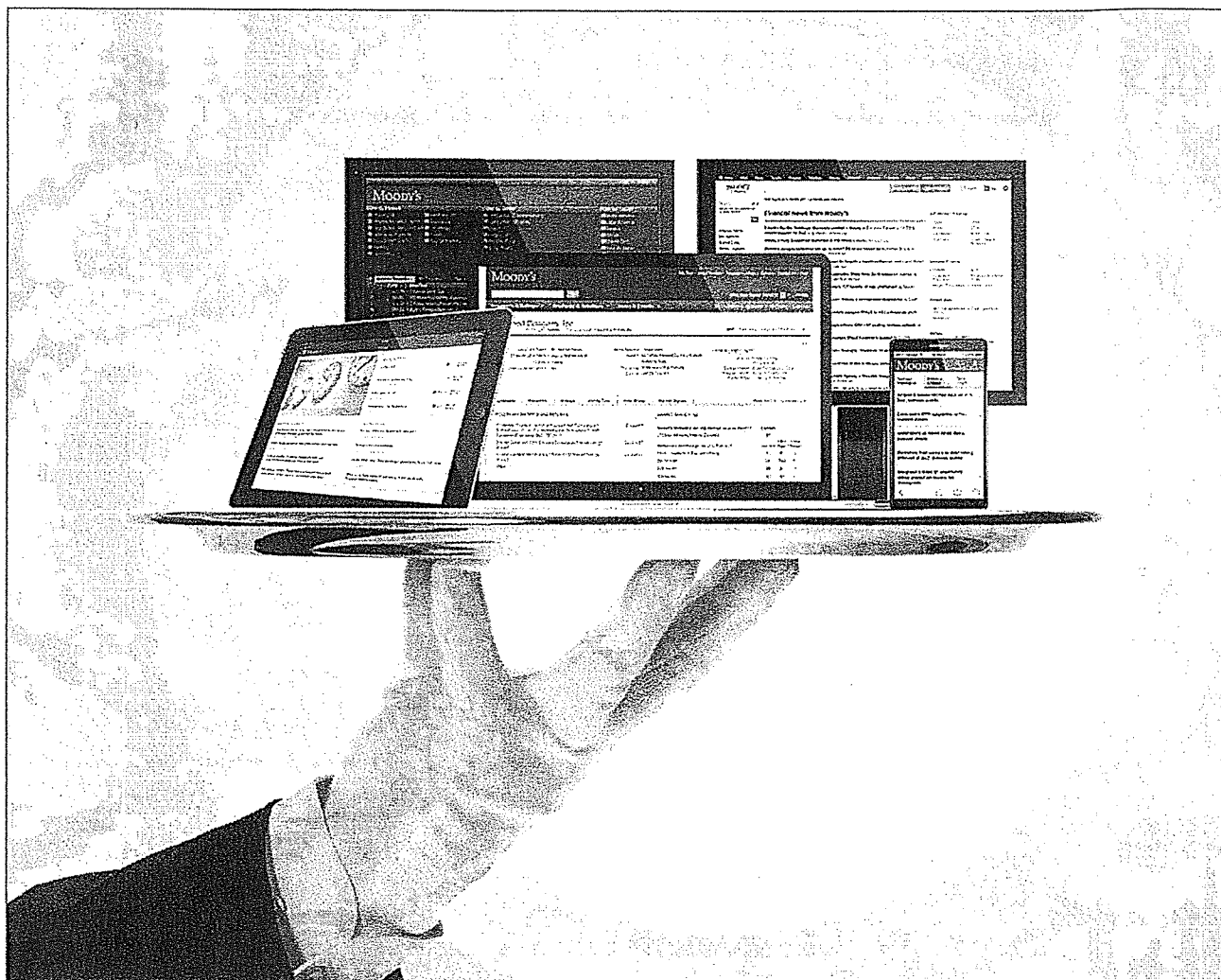
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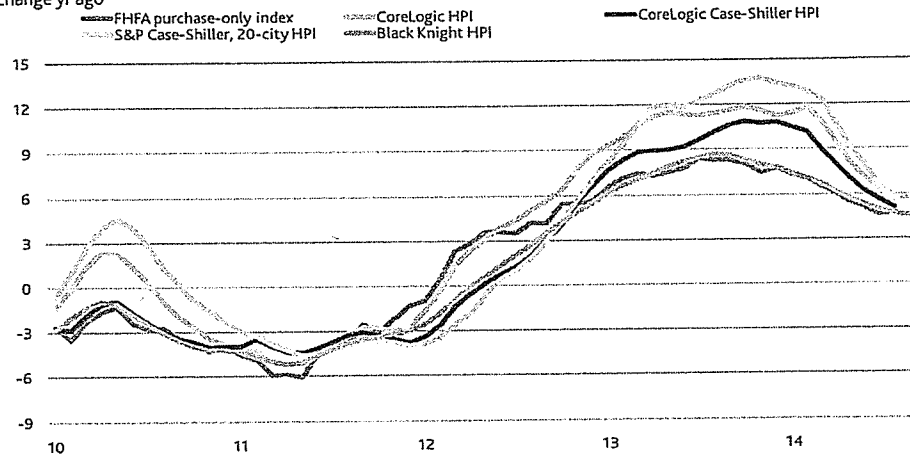
The Changing Nature of House Price Forecasts

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Recent Performance

The US housing market's moderate recovery has gained momentum after slumping in the early part of this year. Combined sales of existing and new single-family homes, plus condo and co-op sales, are back to their mid-2013 peak. House price indices (HPIs) indicate that the year-over-year growth rate has slowed to about 5% (see Exhibit 1), but should remain steady at this level over the next year. However, the pace of the residential construction recovery has lagged other sectors. Multifamily starts are back to their pre-recession level, but single-family construction is still not much higher than its 2009 trough, and residential construction employment overall has regained little more than a quarter of the payrolls lost between 2006 and 2010.

EXHIBIT 1
HPIs Move Together, Confirm Recent Slowdown
% change yr ago



Sources: CoreLogic, FHFA, Black Knight, S&P, Moody's Analytics

House price appreciation has slowed, consistent with a housing recovery and the types of buyers currently in the market. At the end of any deep house price correction, when homes are undervalued, institutional investors and second-home buyers constitute a larger share of buyers in the market. However, their shares have dropped as the recovery has accelerated. According to the National Association of Realtors, investor purchases constituted 14% of overall home purchases as of September, close to their lowest share since 2009. At less than 10%, second-home purchases are also below their 2011-13 average share. Despite the slowdown in growth, most US metro areas are at or close to market value because of rapid price increases in 2012-13.

General housing outlook

The US outlook itself has changed little over the past month, though the house price trend for several regions has changed, as discussed below. Moody's Analytics predicts that slower but steady price growth over the next 2-3 years will be accompanied by a strong increase in single-family construction and a temporary jump in home sales volume as stronger job growth at last starts to push up on the size of the labor force, increasing household formation and overall housing demand. After the end of the recovery, sales volume and mortgage originations will grow at a slower rate, but still enough to lead to a partial recovery in the rate of homeownership, especially once household formation in the primary home-buying age group of age 35-44 starts to increase.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

The main risk to this outlook is that financial constraints to the portion of the population in ages 20-34 is already acting to slow housing demand; the leverage ratio for families in this age group was already unsustainably high in 2010 and has most likely only staged a partial recovery since then. Any further worsening of the financial situation for younger households, especially in already high-priced areas such as California and the Northeast, may substantially worsen the medium-term outlook.

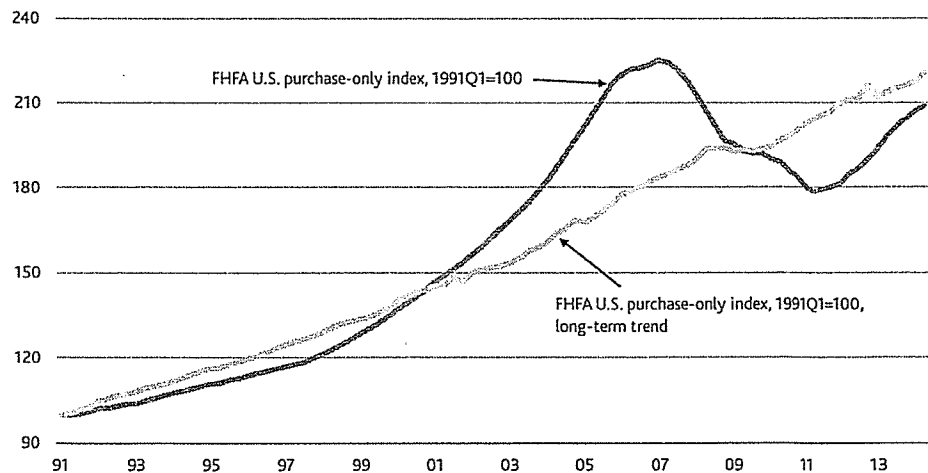
House price outlook: Long-term valuation

Underlying the financial outlook of households is the long-term growth path of income as well as the long-term demographics of household formation, which are the main fundamentals driving home prices. The long-term trend in house prices thus becomes an indicator not just of how strong local housing markets are, but also of the underlying demographic and economic drivers that determine housing demand.

Moody's Analytics has been forecasting HPIs for a number of years now and has come up with a standard procedure for estimating valuation. First, Moody's Analytics derives a house price trend value using determinants of housing demand and supply that are steady over time and show little sensitivity to the business cycle. For example, with the US FHFA purchase-only index, it was found that consumer price inflation, per capita income, and construction costs are strong determinants of the long-term trend in the US index. The derivation of this trend value indicates that the FHFA purchase-only index was above its trend value between 2001 and 2008, and has been below its trend value ever since, though appreciation in 2012-2014 has closed a good deal of this gap (see Exhibit 2).

EXHIBIT 2

Undervaluation Gap Is Closing



Sources: FHFA, Moody's Analytics

The implicit logic in deriving a trend house price index is that any deviation from this trend is likely to correct itself over time, though the method of correction can vary. In 2007-2008, the correction took the form of mortgage defaults followed by foreclosures, credit tightening, and a large increase in the share of distress home sales out of total sales, which drastically pushed down prices. In 2012-2013, investor and second home purchases played a substantial role in pushing prices in the other direction. The advantage of the trend-and-correction approach is that it can be modeled at the regional level even if there is no local data on mortgage defaults, foreclosures, or investor purchases.

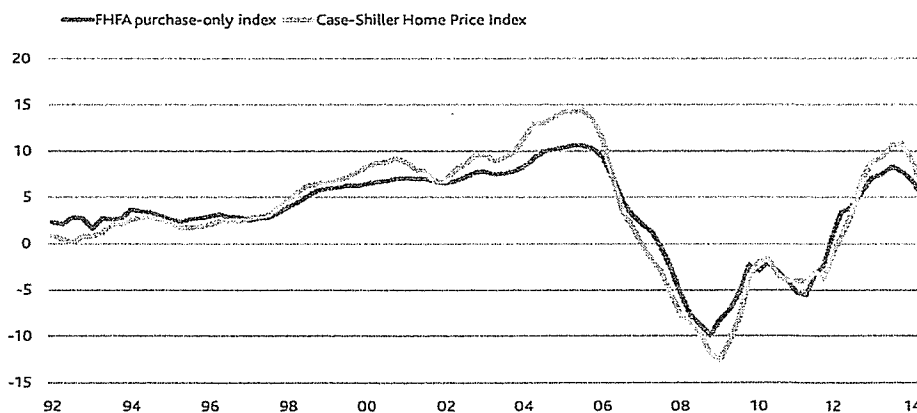
Re-estimation and new indices

In 2013, the FHFA added new metro area coverage to its purchase-only index, so that 100 metro areas now have such indices. The following year, the Case-Shiller indices were refitted with CoreLogic data, allowing these indices expanded metro area coverage. These changes in data sources and coverage would have necessitated forecast re-estimation in any case, but Moody's Analytics was also motivated by the need to come up with a uniform forecast model for the expanding range of HPIs, whereas it had previously used separate models for each index. As such, Moody's Analytics decided to work with a single core HPI forecast model and to forecast other indices using this core HPI forecast as the main independent variable driver.

The choice of a core HPI at the US and state level was straightforward. The FHFA purchase-only index is the only index that has a single, uniform source of data across all fifty states, thanks to its reliance on data from Fannie Mac and Freddie Mac. By contrast indices such as the CoreLogic Case-Shiller HPI rely on public records data, which is limited to states that permit sales data disclosure. At the metro area level, Moody's Analytics chose the FHFA all-transactions index as this index has a uniform source of data for all metro areas and metro divisions.

The important aspect of this choice is that the FHFA purchase-only index correlates well with most other house price indices. For example, while the growth rate of the Case-Shiller indices can deviate from that of the FHFA purchase-only index, the two growth rates tend to converge over time (see Exhibit 3). In technical language, there is a cointegrating relationship between the FHFA index and the other HPIs that allows the FHFA purchase-only index to be used as the primary or jump-off forecast model.

EXHIBIT 3
FHFA and Case-Shiller Tend to Converge
% change yr ago



Sources: FHFA, CoreLogic, Moody's Analytics

Once the core HPI forecast is chosen, a trend HPI forecast is derived for each geography using long-term determinants such as consumer price inflation and per capita income. Second, the actual index forecast is then obtained in a trend-correction equation where reversion to the trend HPI forecast plays a primary role, though there are also independent business cycle-related drivers such as the local unemployment rate and composite mortgage lending rates. Third, forecasts for other HPIs such as the Case-Shiller index are derived using a trend-correction equation where the core HPI forecast—the FHFA purchase-only index for states and the FHFA all-transactions index for metro areas—is used as the underlying trend.

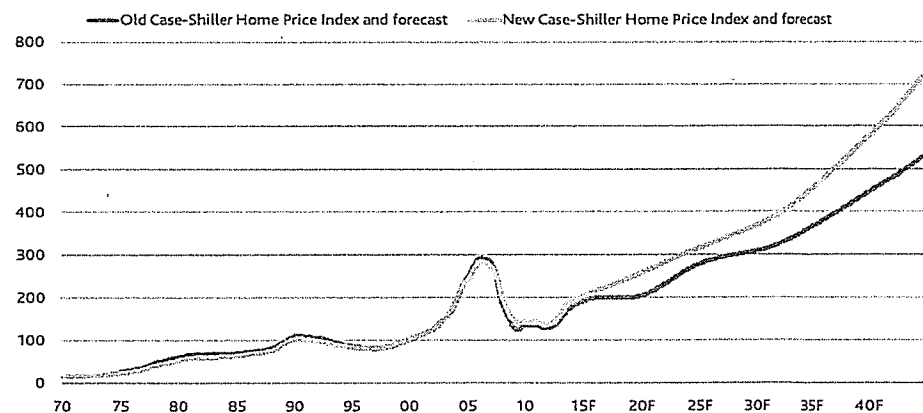
At the state and metro levels, the trend-correction equations are estimated using panel regressions that allow for regional interactions. This is important because different regions react to house price determinants with varying degrees of sensitivity. For example, most California metro areas have substantial residential zoning restrictions that lead to slower residential construction, in addition to high demand for second homes in coastal metro areas and higher than average underlying wealth levels to prop up demand. Not surprisingly, California has had stronger house price growth relative to income growth. By way of contrast, in Texas and most Great Plains states, there are few limitations to single-family home construction, so house prices are less sensitive to income and more sensitive to construction costs.

House price outlook: old versus new forecasts

The new forecast model has not led to a significant change in the US forecast, but did result in changes to the regional house price outlook. Several HPI trend drivers for the states under the old model, including the share of the population aged 50-64 years old, the share of second homes in the market and medium-term population growth, were removed because they tended to perform less well under more rigorous validation tests. This left only inflation and per capita income as forecast drivers at the state level, plus near-term household formation at the metro level. The result of this change in drivers was to increase the sensitivity to income growth in some regions.

For example, both the FHFA and Case-Shiller HPIs have stronger long-term growth for California and for larger California metro areas such as Riverside (see Exhibit 4), due to a very strong correlation of house price growth with per capita income growth.

EXHIBIT 4
California Has Stronger Forecast Outlook...
Riverside CA Case-Shiller Indexes, 2000Q1 = 100



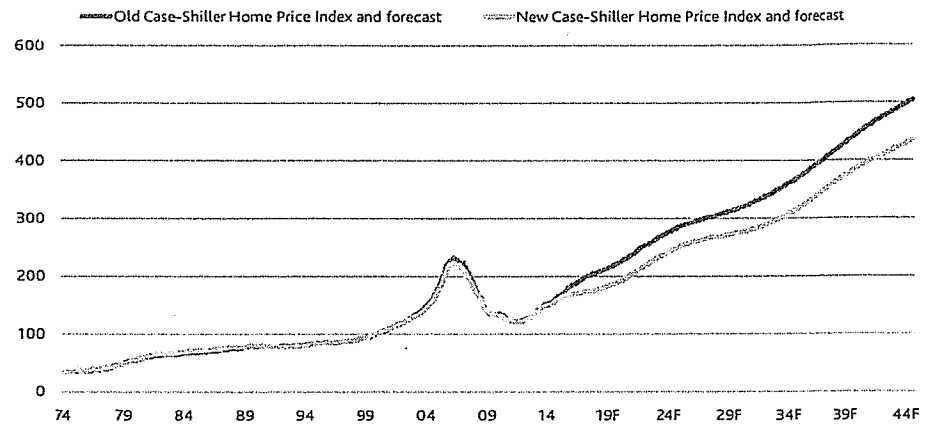
Sources: CoreLogic, Moody's Analytics

By contrast, the elimination of the vacation home and pre-retirement population share drivers led to weaker long-term HPI growth in Florida and its metro areas (see Exhibit 5). The net result of the new model is thus to increase the regional variation in outlook, while leaving the US outlook mostly unchanged. The changes in regional long-term outlook created by the new model have implications that go beyond house prices. The stronger HPI trend for California will erode affordability and may well increase the pressure to loosen zoning restrictions in order to increase residential construction. Lower predicted HPI growth in Florida and elsewhere in the South may instead have the benefit of helping to reduce speculative lending while also improving overall affordability and the region's competitiveness as a retiree destination.

EXHIBIT 5

Whereas Florida Has Weakened...

Tampa FL Case-Shiller Indexes, 2000Q1 = 100



Sources: CoreLogic, Moody's Analytics

Courts in other states might adopt similar legal approach

Other states with similar super-lien statutes might adopt the same legal interpretation that gives HOA and condo foreclosures the ability to extinguish a mortgage. Drafters of the Uniform Common Interest Ownership Act (UCIOA), a model law that some states, including Nevada, have adopted, which provides HOAs with super-priority liens, recently proposed amendments to the law. These proposed amendments, if adopted by a state, would make clear that the HOA and condo liens can wipe out a senior mortgage because they have a true "priority in right" rather than "merely a priority to payment from the proceeds of the sale of the unit by a competing lienholder or encumbrancer."⁴

Another important issue is whether or not a state statute requires the HOA to notify the mortgage lender of its foreclosure. The risk is higher in states whose statutes don't require notice because the mortgage servicer might not find out about the foreclosure and would not be able to take actions, such as paying the HOA fees to avoid the foreclosure or bidding the market value of the property in the foreclosure auction to acquire the property as REO.

Impact of loss owing to the rulings likely to decrease over time

Foreclosure auction prices for HOA foreclosures in Nevada and Washington, D.C. likely will increase as a result of the courts providing buyers with legal certainty that they will acquire the properties free and clear of the mortgages; however, this may take some time.

The low sales price for the property in the Nevada case and others likely occurred because buyers assumed they would acquire a property encumbered by mortgages. Now that buyers know that they will receive a property unencumbered, they will be more willing to pay prices closer to market value. This will likely take some time, however, as market participants assimilate the implications of the cases and challenges to the court rulings continue.

New deals have taken steps to mitigate this risk

The SFR and RMBS transactions that we have rated since the rulings have included provisions to mitigate this risk. For example, the Invitation Homes 2014-3 and American Homes for Rent 2014-SFR3 deals include: (1) pre-closing third-party diligence to identify all properties subject to HOAs; (2) delivery of ongoing legal opinions to identify states under whose laws a foreclosure of an HOA lien will extinguish the lien of a first mortgage; (3) an escrow for HOA payments for applicable properties in those states; and (4) a process for a third party to review HOA invoices and proof of payment.

The SEMT 2014-4 RMBS transaction also included several provisions to mitigate the risk: (1) pre-closing third-party diligence to identify all properties subject to HOAs; (2) requirements for the servicer to contact the HOA to request whether any fees are delinquent if an applicable loan becomes more than 60 days delinquent; the servicer will advance such HOA fees if the property is in a state whose laws give HOA liens priority over a mortgage, unless the servicer determines it is unnecessary to protect the securitization's interest in the loan; (3) requirements for the servicing administrator to get ongoing legal advice identifying all super-priority HOA lien states; (4) requirements for the servicer to send requests to the HOAs to notify it of delinquencies or foreclosures in super-priority HOA lien states whose laws don't require such notice; and (5) requirements for the servicer to file in the county records requests for notifications of foreclosures for HOA properties in super-lien states whose laws allow for such filings.

There may be other ways to address this risk and issuers may propose other solutions in the future.

⁴ See National Conference of Commissioners on Uniform State Laws, Amendments to Uniform Common Interest Ownership Act – Section 3-116, 6 June 2013.

Legacy RMBS may incur some collateral losses

We anticipate legacy RMBS to incur some losses on loans as a result of HOA foreclosures for several reasons. First, servicers do not generally track or pay HOA liabilities. This responsibility falls on the borrower with little oversight. Unlike property taxes, which are public, HOA information is not easily accessible. RMBS loan-level data have not typically captured HOA eligibility and contact information and HOAs don't typically share delinquency information with anyone but the homeowner.

Second, servicers are unlikely to receive all notices of HOA foreclosures. The public records for many loans do not list the servicer as the current contact. In pre-crisis RMBS, the assignment of mortgage, the document identifying the current owner, was often not recorded in the county records until the servicer needed to foreclose on the property. Other loans, which were recorded in the name of the Mortgage Electronic Registry Systems (MERS), rely on MERS to forward notices to the servicer. However, it is unclear if the servicers receive these notices in a timely manner. Also, some state statutes might not require notice to the mortgage holder.

HOA lien risk for Nevada and Washington, D.C. is relatively small for RMBS

Nevada and Washington, D.C. loans make up a small proportion of the overall RMBS universe and the number of these loans backed by properties subject to HOAs is even smaller. Furthermore, the risk is diversified among all of these individual loans. Based on the 2013 statistical review⁵ of community associations and the housing units estimate from the US Census Bureau, we estimate that 45% of Nevada properties are subject to HOAs. Based on the loans in our rated private-label RMBS⁶ universe, we estimate that 23% of Washington, D.C. properties are condominiums (Washington D.C.'s super-lien statute only applies to condominiums).

However, 87% of Nevada loans and 89% of Washington D.C. loans are at low risk of HOA foreclosure because their borrowers are current and they have less than 60% current LTVs. Borrowers who are current on their mortgages are also likely to be current on other obligations. Furthermore, significant equity in their homes provide a strong incentive to pay the HOA fees.

⁵ See State of Nevada report <http://red.state.nv.us/CIC/stats/2013October/6.pdf> and Community Associations Institute report <http://www.caionline.org/about/press/Documents/State%20and%20National%20Statistics.%202013.pdf>

⁶ Prime jumbo, Alt-A, option ARM and subprime loans

APPENDIX 1

Proportion of Nevada and D.C. Properties in Rated Private-label RMBS by Asset Type

Prod Type	Unpaid Principal Balance	Nevada	D.C. (Condo only)
MBS - Alt-A	195,399,439,023	2.07%	0.09%
MBS - Option ARM	91,582,676,890	2.03%	0.06%
MBS - Prime Jumbo	81,727,595,432	1.40%	0.13%
MBS - Subprime	217,682,092,289	1.13%	0.02%
Total	586,391,803,635	1.62%	0.07%

Source: Moody's Investors Service, based on data from ABSNet Loan® (registered trademark of Lewtan)

APPENDIX 2

Distribution of Nevada and Washington, D.C. Property Types in Rated Private-label RMBS

Property Type	D.C.	NV
Single Family	61.9%	50.1%
Condo	18.9%	8.6%
Hi-Rise Condo	3.6%	0.3%
Townhouse	4.3%	0.2%
Planned Unit Development	2.2%	39.2%
2-4 Units	8.6%	1.6%
Co-op	0.5%	0.0%
Total	100%	100%

Source: Moody's Investors Service, based on data from ABSNet Loan® (registered trademark of Lewtan)

APPENDIX 3

Rated RMBS Transactions with the Largest Concentration of Properties in Nevada and Washington, D.C.

Deal Name	Asset Type	Highest Rating	Unpaid Principal Balance of Properties in NV*	Serious Delinquencies (transaction)	Serious Delinquencies (NV only)
Terwin Mortgage Trust, Series TMTS 2005-6HE	Subprime	Aa2	13%	17%	2.2%
Wells Fargo Mortgage Backed Securities 2006-17 Trust	Jumbo	B2	12%	25%	
Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2005-AR4	Alt-A	A1	11%	18%	2.6%
Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2005-AR5	Alt-A	Aa3	10%	24%	1.8%
Bear Stearns ALT-A Trust 2004-4	Alt-A	Ba1	9%	15%	0.8%
CWALT, Inc. Mortgage Pass-Through Certificates, Series 2005-2	Alt-A	Caa3	9%	22%	2.9%
CHL Mortgage Pass-Through Trust 2005-11	Option ARM	Caa2	9%	34%	3.7%
Merrill Lynch Mortgage Investors, Inc. 2003-A6	Jumbo	Baa3	8%	7%	
CWALT, Inc. Mortgage Pass-Through Certificates, Series 2005-45	Option ARM	Ca	8%	27%	2.2%
Prime Mortgage Trust 2004-2	Jumbo	Baa1	8%	5%	1.6%
CWALT, Inc. Mortgage Pass-Through Certificates, Series 2004-10CB	Alt-A	Caa2	8%	8%	0.5%
RFMSI Series 2004-S7 Trust	Jumbo	B2	8%	0%	

* No condo properties from D.C. in these transactions

Source: Moody's Investors Service, Moody's Analytics

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Foreclosure Timelines in California and Nevada Will Remain Lengthy: Gradual Decline to Start in Early 2016

Foreclosure timelines for private-label residential mortgage-backed securities (RMBS) loans backed by properties in California and Nevada, two non-judicial foreclosure states,⁷ will remain lengthy over the next year until gradually starting to decline in early 2016. Two main reasons account for the long timelines: (1) procedural scrutiny on foreclosures as a result of Homeowner Bill of Rights laws are extending the amount of time that properties are in foreclosure, and (2) repeat foreclosure filings are keeping servicers occupied with legacy foreclosure issues. The lengthy timelines are credit negative for private-label RMBS because more than 21%⁸ of all properties backing seriously delinquent loans are in the two states (19% in California and 2% in Nevada).

The number of loans backed by properties in foreclosure in both states will begin to decline as servicers complete the foreclosure process for aged loans and move on to newer cases with fewer loan documentation issues. The improving economy will also help reduce the number of new foreclosure filings. We expect timelines to gradually reach the 400-450 day range in both states, down from 500-530 days in California and 700-750 days in Nevada currently. The Nevada timelines will shorten more dramatically because an amendment clarifying a previous onerous state law,⁹ which led some servicers to use judicial foreclosures, has spurred servicers to pursue non-judicial foreclosure with legacy private label RMBS loans more often. Furthermore, servicers will likely use faster non-judicial process with new foreclosures.

Procedural scrutiny from Homeowner Bill of Rights laws and foreclosure re-filings will keep foreclosure timelines lengthy

Foreclosure timelines for private-label RMBS loans backed by properties in California and Nevada will remain lengthy over the next year until gradually starting to decline in early 2016, chiefly because (1) Homeowner Bill of Rights laws in the two states are extending the foreclosure process, and (2) repeat foreclosure filings of previously modified or foreclosed loans are taking servicer resources away from processing new foreclosures.

Under the Homeowner Bill of Rights laws, in California and in Nevada servicers must follow additional procedures that lengthen the foreclosure process. The laws (1) require servicers to halt foreclosure proceedings while the borrower is working on securing a loan modification, (2) require servicers to provide borrowers with a single point of contact, and (3) provide borrowers with legal remedies, including foreclosure injunctions and damages, against servicers that violate the Homeowner Bill of Rights.

Since the California law went into effect in January 2013, foreclosure timelines in the state have lengthened to an average 538 days from 366 days. In Nevada, timelines have lengthened to 731 days on average since the law took effect in October 2013, compared with 591 days previously. Exhibit 1 shows that in both states foreclosure timelines for loans backed by properties that have completed foreclosure have risen sharply since the housing market downturn. The exhibit also shows that timelines for loans backed by properties that remain in the foreclosure process are about as long as those that have completed foreclosure, which signals that the timelines for properties that have not yet completed the foreclosure process will remain lengthy.

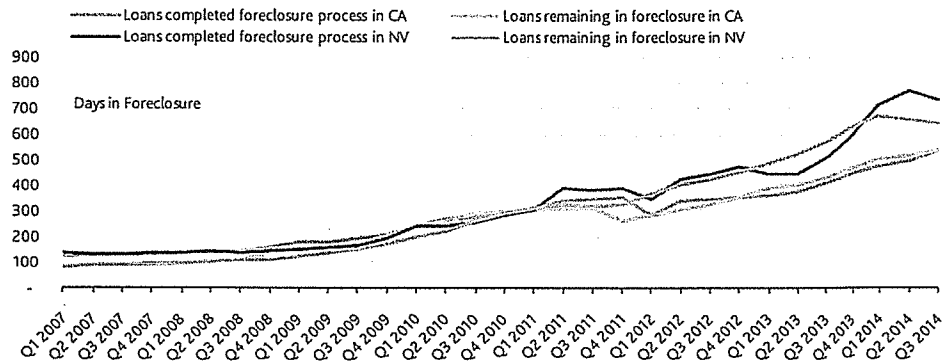
⁷ In non-judicial foreclosure states, foreclosures are handled outside of the court system. Foreclosure timelines in non-judicial states vary depending on the length of the foreclosure process and servicers' ability to navigate laws and regulations in the states.

⁸ Source: Moody's Investors Service, based on data from ABSNet Loan* (registered trademark of Lewtan)

⁹ Nevada Assembly Bill No.300 passed in June 2013 amended Assembly Bill 284 passed in October 2011.

EXHIBIT 1

Foreclosure Timelines Have Increased More Than Fivefold Since 2007



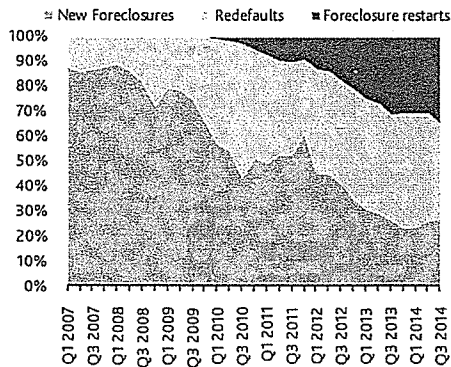
Source: Moody's Investors Service, based on data from ABSNet Loan® (registered trademark of Lewtan)

The increase in foreclosure filings on properties backing previously modified loans that re-defaulted will also keep foreclosure timelines lengthy over the next year, even as the number of new foreclosures is falling. Similarly, the number of repeat foreclosures, i.e., filings in which servicers previously started and halted foreclosure process, has grown. Exhibit 2 shows the growing share of repeat foreclosure filings in California and Nevada, which is offsetting the declining share of new foreclosures.

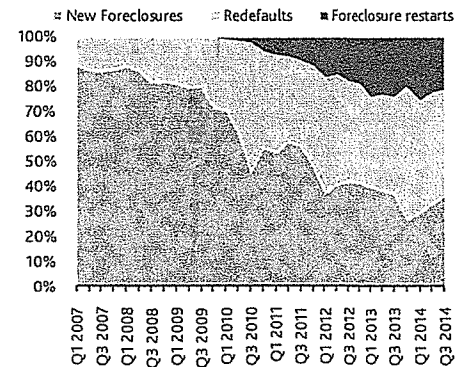
EXHIBIT 2

Re-defaults of Previously Modified Loans and Foreclosure Re-filings as a Share of All Foreclosures Have Risen in California and Nevada

California



Nevada



Source: Moody's Investors Service, based on data from ABSNet Loan® (registered trademark of Lewtan)

Foreclosure timelines will shorten as servicers complete processing legacy loans

Foreclosure timelines will eventually shorten as servicers finish processing legacy loans that have documentation issues and move on to foreclosures of properties backing newly delinquent loans. However, over the next year, the large percentage of aged loans remaining in servicers' foreclosure pipelines will continue to keep timelines long.

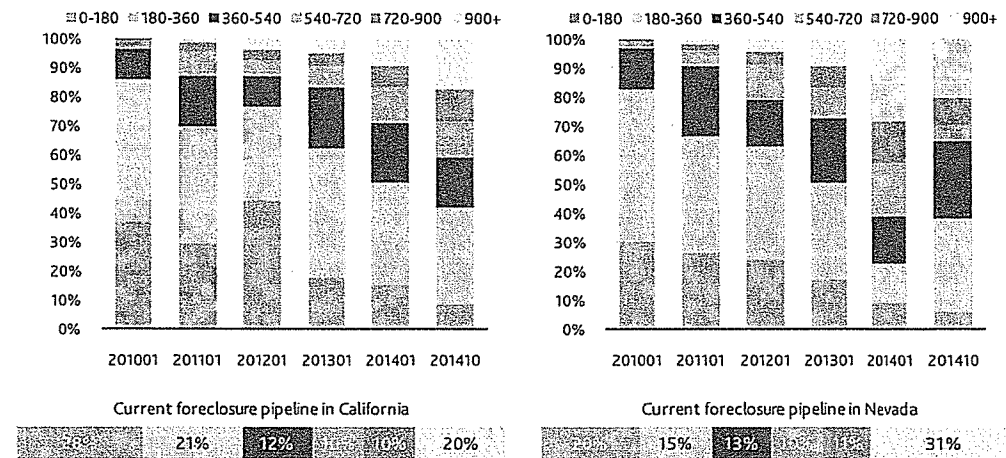
More than 50% of private-label RMBS loans backed by properties in foreclosure in California have been in foreclosure status for at least a year, and 40% have been in foreclosure status for at least a year and a half. In Nevada, more than 65% of loans in foreclosure have been in foreclosure status for at least a year and about 50% for at least a year and a half. Exhibit 3 shows the distribution by age of the loans that have completed the foreclosure process and loans that are currently in the foreclosure pipeline.

EXHIBIT 3

Share of Aged Loans in Foreclosure Status Remains High in California and Nevada

Loans exiting foreclosure in California

Loans exiting foreclosure in Nevada



Source: Moody's Investors Service, based on data from ABSNet Loan® (registered trademark of Lewtan)

Servicers won't begin focusing solely on new foreclosures until at least early 2016

We estimate it will take at least 10 months to process all private-label RMBS loans in foreclosure in California and 21 months in Nevada. The forecast reflects the fastest resolution pace year to date, excluding re-filings and modification re-defaults, and it assumes that the rate of short sales, modifications and other foreclosure exits does not change.

On a quarterly basis, an average 9,626 private-label RMBS loans exited foreclosure in California and 2,614 new loans with no prior foreclosure history entered foreclosure process year to date in 2014. Thus, based on a net foreclosure exit rate of 7,012, servicers could resolve the current backlog in about 10 months. In Nevada, an average of 1,310 private-label RMBS loans exited foreclosure every quarter in 2014 and 500 new loans with no prior foreclosure history were referred to foreclosure. Based on a net foreclosure exit rate of 811, servicers could resolve the backlog in about 21 months. Foreclosures on properties backing new loans, particularly loans originated after the financial crisis, will require less time to complete as a result of improved documentation and origination standards.

However, foreclosure timelines in California or Nevada will not revert to pre-crisis 2007 levels of 130 to 140 days, owing to the requirements of the Homeowner Bill of Rights laws. The requirements created

additional steps that servicers must take to check all procedures in the foreclosure process and all related documents to complete foreclosure to remain compliant with the law. Although the foreclosure process for loans with good documentation and no procedural problems can take as little as 180-210 days in the two states, the average timeline for good-documentation loans is 300-400 days because of common procedural delays. The process can take longer if the foreclosure is contested, there are documentation issues, the case involves a borrower bankruptcy, or if the servicer must take additional steps to complete the foreclosure.

Foreclosure timelines in California and Nevada will eventually fall to 400-450 days, a new norm in the current regulatory environment

As a result of the current regulatory environment, we expect foreclosure timelines for private-label RMBS loans backed by properties in California and Nevada to eventually converge to eventually level out at 400-450 days, down from current ranges of 500-530 days in California and 700-750 days in Nevada. The 400-450 range is longer than Fannie Mae foreclosure guidelines of 330 days in California and 390 days in Nevada for properties securing conforming loans, owing to the lack of uniform documentation standards for loans in private-label RMBS.

The timelines in Nevada will shorten more swiftly than in California as a result of a stringent state law that required servicers to file affidavits attesting to their authority to foreclose. The law required that someone with "personal knowledge" of the matter sign the affidavits and made it a felony to make false representations in foreclosure documents. Many servicers, unsure that they could satisfy the requirements, halted foreclosures as a result. Some servicers also pursued judicial foreclosures instead, where the affidavit rule did not apply. However, the state legislature amended the bill in June 2013, clarifying the requirements, and, as a result, servicers have begun to file non-judicial foreclosures again.¹⁰

As servicers work through the foreclosure of legacy loans in Nevada using the judicial process, the number of legacy loans will decline and new foreclosures will follow the non-judicial process. However, to remain compliant with the precedent set by the original legislation, servicers in Nevada will remain focused on checking the accuracy of all documents filed during the foreclosure process and will take more time to complete foreclosures.

¹⁰ Ibid.

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Non-Performing Loan RMBS Benefit from Program Managers' Guidance and Oversight

Sponsors' use of program managers (PMs) in non-performing loan (NPL) transactions is credit positive for the transactions because PMs provide guidance and oversight that typical private-label residential mortgage-backed securities (RMBS) do not have. PMs typically (1) set performance targets and monitor servicers' progress at the loan level; (2) adopt foreclosure strategies that reduce timelines and expenses; and (3) direct servicers' loss mitigation strategies.

However, because the transaction sponsor hires the PM, and because the PM is often affiliated with the sponsor or servicer, their interests may conflict with those of senior bondholders. The transaction sponsor typically holds the transactions' junior bonds.

PMs set and monitor servicers' performance targets

PM oversight of NPL servicers benefits investors because the PMs typically set performance targets and review the servicers' loan-level data to ensure that the servicer can meet those targets. Transaction rates of return can increase when a servicer attains the PM's performance targets, such as a certain number of completed modifications and short sales in a period, or a maximum length of foreclosure timeline.

The PMs' daily monitoring helps boost transaction cash flows by leading servicers to prioritize, and allocate resources toward, servicing NPL portfolios. The data that PMs typically analyze includes collection call volumes, the speed with which servicers answer calls (their average speed of answer, or ASA), the number of abandoned calls, and loss mitigation call volumes. PMs also help to maximize revenues from short sales and real estate-owned liquidations by reviewing and approving all bids on the properties and ensuring that the sales are completed efficiently. They also review property inspections prior to sales and decide on the level of repair to maximize net sales proceeds from the property.

PMs set servicers' loss mitigation strategies based on the sponsor's target return for the transaction

PMs direct NPL servicers to pursue the loss mitigation strategy (loan modification, foreclosure, or short sale) that will likely earn the largest cash flows for the transaction and help best meet a given sponsor's target rate of return. This contrasts with a typical RMBS transaction, in which the servicers will exhaust all modification options before foreclosing on the borrower.

PMs reduce foreclosure timelines and expenses

PMs help to boost recoveries on foreclosed properties by decreasing foreclosure timelines and expenses. PMs review contested foreclosure cases to ensure that a particular servicer's attorneys pursue all available remedies, and they review all foreclosure delays to ensure that the servicer addresses any procedural bottlenecks holding up the foreclosure. Moving the loans through the foreclosure efficiently reduces expenses for investors. PMs also make sure that foreclosure timelines are shorter than, or in line with, the average timelines for other foreclosed properties in that state.

PMs' relationships with sponsors can lead to conflicts of interest between investors. Although PMs can benefit all bondholders by maximizing the transaction's rate of return, their relationship with the transactions' junior bondholders could lead them to take actions that could be in conflict with the transactions' senior bondholders. The potential for conflict arises because the PMs are hired by the sponsors and are sometimes affiliated with the sponsor or servicer for a transaction, and sponsors typically retain the

junior portions of the transactions. The junior bondholders' interests can sometimes be at odds with those of senior bondholders; senior bondholders, for example, may favor quicker loan resolutions (usually foreclosure) that raise their rate of return, while junior bondholders may prefer resolutions that might take longer (usually loan modifications) but avoid losses by earning more cash over time.

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SFR Transactions At Low Risk of Inducing Downward Property Price Spirals in Prominent Rental Markets

A steep drop in home prices would reduce liquidation recoveries in single-family rental (SFR) securitizations if the transactions must sell properties to repay bondholders, but the risk that a transaction sponsor's failure to refinance its loan would itself trigger a widespread property price decline that would in turn harm the transaction's recoveries is low. Even with the limited geographic diversity of the properties underlying the transactions, a sponsor's failure to refinance wouldn't result in a forced sell-off of homes that would create a glut of available housing in the biggest SFR markets.

There are two key reasons why the failure of a transaction sponsor would not create a downward SFR property price spiral: 1) The properties underlying the securitizations comprise only small percentages of the housing markets with the most securitized SFR properties, which means that even if an SFR operator were to fail, the impact on selling prices will not be large, and 2) A securitized portfolio of SFR properties would likely not hit the market all at once, because the transaction's special servicer would explore options to maximize revenue from the properties before the bonds mature. The risk of a negative impact on home prices will increase, though, if SFR operators sponsor more securitizations, thereby increasing the securitizations' share of the associated areas' housing markets, or if a sponsor's failure to refinance a loan were coupled with that operator's need to sell a high volume of properties out of its unsecuritized portfolio.

Geographic concentrations in major SFR markets are thus far small enough that a downward price spiral from a large sell-off is unlikely

Although the properties backing SFR securitizations are mainly clustered in a small number of markets, the geographic concentrations aren't large enough to have a significant effect on selling prices should a special servicer seek to sell a transaction's homes in the event that it takes over from an operator that failed to refinance its securitized loan. However, an operator's failure could have other negative consequences, such as a short-term cash flow disruption to the transaction when the special servicer takes over. Also, the need to sell the properties would introduce the risk that falling property prices would impair transaction cash flows.

The properties underlying SFR transactions do not account for enough of any market's available housing to create a glut that would put significant downward pressure on home prices and, in turn, reduce the properties' recovery values. Under SFR transaction terms, the special servicer must eventually sell the properties pledged to the transaction if the operator fails to refinance the single loan that underlies the transaction following the initial loan term and any extensions.

Relative to the size of the housing markets in which SFR transactions' properties are located, the transactions have only modest levels of geographic concentration. In the 10 largest SFR markets by number of properties in securitizations, no SFR operator's total securitized properties represent more than 3.6% of that market's average annual sold properties.¹¹ Even if several SFR operators were to default simultaneously, the volume of available properties in any one market would still likely be modest. In the greater Atlanta, Georgia region, the most active SFR market, the total number of securitized properties equals about 8.2% of that area's annual home sales (approximately one month of annual sales). All six SFR operators that sponsor transactions¹² would need to default on the loans in all 10 outstanding SFR transactions around the same time for that volume of properties to become available, and all transactions would need to sell all the

¹¹ Measured over the last three years.

¹² As of November 2014, the six SFR operators with securitizations outstanding are Invitation Homes, Colony American Homes, American Homes 4 Rent, Silver Bay Realty, American Residential Properties and Progress Residential.

properties at once. Exhibit 1 shows that in the 10 largest SFR markets, the properties in securitizations represent 2.0%-8.2% of the average annual home sales in those markets.

EXHIBIT 1

Transaction Property Concentrations in Top SFR Markets Are Relatively Modest
(% of Annual Sales)

Metropolitan Statistical Area	Properties in Securitizations (% of Annual Sales)
Atlanta-Sandy Springs-Marietta, GA	8.2%
Phoenix-Mesa-Glendale, AZ	7.6%
Tampa-St. Petersburg-Clearwater, FL	6.5%
Las Vegas-Paradise, NV	5.1%
Orlando-Kissimmee-Sanford, FL	5.0%
Dallas-Fort Worth-Arlington, TX	3.3%
Riverside-San Bernardino-Ontario, CA	3.1%
Los Angeles-Long Beach-Santa Ana, CA	2.5%
Chicago-Joliet-Naperville, IL-IN-WI	2.2%
Houston-Sugar Land-Baytown, TX	2.0%

The markets shown are those with the most properties, by number, in SFR securitizations.

Sources: Moody's Investors Service, closing documents of rated transactions, CoreLogic, Inc., Moody's Analytics

A scenario in which all the properties from all the transactions become available at the same time, though, is unlikely. There is a low probability that all the sponsors would fail to refinance every securitized loan over a short period. Such failures would likely be correlated, though, because the same economic and housing trends would affect each operator. Because not all operators would likely fail at once, operators that are still in business could help support home prices by purchasing available stock from those that are not.

If SFR operators sponsor more securitizations, the risks to transactions from geographic concentration of the underlying properties will increase. Most operators have not securitized their properties; however, if all SFR properties were securitized they would represent large proportions of the top housing markets' annual sales in an extreme liquidation scenario. In Atlanta, for example, all operators' SFR properties constitute about 31% of that market's yearly volume of home sales. If transaction sponsors securitized the cash flows from all of their properties, those properties would represent much higher proportions of the annual home sales in the top markets, as Exhibit 2 shows.

EXHIBIT 2

Total Operator Property Concentrations in Some Top SFR Markets Are High

Metropolitan Statistical Area	Total SFR Operator Properties
Atlanta-Sandy Springs-Marietta, GA	30.5%
Charlotte-Gastonia-Rock Hill, NC-SC	24.5%
Miami-Fort Lauderdale-Pompano Beach, FL	17.3%
Tampa-St. Petersburg-Clearwater, FL	16.8%
Orlando-Kissimmee-Sanford, FL	15.1%
Phoenix-Mesa-Glendale, AZ	12.7%
Las Vegas-Paradise, NV	9.9%
Dallas-Fort Worth-Arlington, TX	8.6%

EXHIBIT 2**Total Operator Property Concentrations in Some Top SFR Markets Are High**

Metropolitan Statistical Area	Total SFR Operator Properties
Chicago-Joliet-Naperville, IL-IN-WI	7.5%
Houston-Sugar Land-Baytown, TX	7.0%

The markets shown are those with the highest proportion of properties, as a percentage of annual sales, belonging to operators that sponsor SFR securitizations.

Sources: Moody's Investors Service, transaction sponsors, CoreLogic, Inc., Moody's Analytics

Likewise, if a transaction sponsor's failure to refinance a loan were caused by financial troubles that led the operator to also sell large volumes of its unsecuritized properties, the increased availability of properties on the market would make it more likely that prices in some markets could be negatively affected. A sponsor could mitigate the potential for significant price declines by selectively selling properties in markets in which they can achieve the highest liquidation value, or by arranging bulk sales of properties to another SFR operator.

Transactions' long tails give servicers time to liquidate properties following sponsor default

A special servicer's range of options for generating cash flows on a securitized portfolio of SFR properties, and the long period between a sponsor's default and the final maturity of the bonds, would help minimize the harmful impact on home prices and, in turn, the recovery value on the properties underlying the transaction. The special servicer's mandate to maximize revenue for the transaction allows it to generate revenue in ways it deems most advantageous, including continuing to rent the properties, selling them in bulk or individually, allocating part of the portfolio to an external property management company, or negotiating with investors willing to pay off the loan for the right to acquire the portfolio at an attractive yield.

Furthermore, the long maturities of the transactions give the special servicer flexibility in how it seeks to maximize the value of the properties. The rated debt matures 12 years after the fully extended maturity of the underlying loan, so the special servicer has time to determine the right strategy. Provisions in the transactions, however, require that the special servicer sell all of the properties before the bonds' final maturity.

MARKET UPDATE

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Strong Performance of Post-Crisis Sequoia Jumbo RMBS Continues Despite Slower Prepayments

The performance of post-crisis, prime jumbo private-label residential-mortgage backed securities (RMBS) transactions remains strong, reflecting a low level of delinquencies on the underlying collateral and a steady build-up in credit enhancement on the senior bonds. An analysis of 10 Sequoia Mortgage Trust transactions that we rated in 2012 and 2013 suggests that the low delinquency rate will continue as a result of the improving housing market, even as prepayment rates have remained low over the past year and the number of loans that have been delinquent at least once since the deals closed has risen slightly. Our analysis also shows that current loans in the securitizations that have previously been delinquent do not display significantly weaker collateral attributes compared with always-current loans, indicating no systemic deterioration of the credit profile of the loan pools.

Delinquencies in post-crisis prime jumbo transactions remain low

The delinquency levels for the 10 Sequoia prime jumbo RMBS transactions that we rated in 2012 and 2013 are low, a trend we expect to continue as a result of further improvements in the housing market. Although the absolute number of loans that are at least 30 days delinquent has risen over the past year, the percentage of these loans in the overall pool remains low, at less than 1% of the current pool balances for each of the transactions. Also, the majority of the borrowers of loans that have previously been delinquent have either become current again on their payments or the loans have prepaid out of the pools.

Exhibit 1 shows the key credit performance characteristics of the Sequoia transactions. The average pool factor, the ratio of the current pool balance to original pool balance at issuance, has steadily decreased over the past 12 months, falling an absolute 8% on average, although in some deals it has dropped more. For example, the pool factor in Sequoia Mortgage Trust 2013-1 has fallen 15%, to 64.9% from 76.4%. Also, credit enhancement on the senior bonds in the transactions has steadily built up since origination as a result of pool pay downs and as a result of the subordinate bonds locked out from receiving any unscheduled payments. In the 2013-1 transaction, for example, the credit enhancement available to senior bonds has increased to 9.57% from 7.30% at origination.

EXHIBIT 1

Post-Crisis Sequoia Prime Jumbo RMBS Transactions Have Low Delinquencies, High Pool Pay Downs and Rising Senior Bond Credit Enhancement (CE)

Deal Name	30+ Delinquencies 09/2013	30+ Delinquencies 09/2014	Pool Factors 09/2013	Pool Factors 09/2014	CE to Senior Bonds at Origination	CE to Senior Bonds 9/2014
Sequoia Mortgage Trust 2012-3	0.00%	0.00%	69.0%	63.0%	7.30%	11.17%
Sequoia Mortgage Trust 2012-4	0.00%	0.00%	74.0%	66.9%	7.30%	10.46%
Sequoia Mortgage Trust 2012-5	0.00%	0.22%	87.1%	79.9%	7.30%	8.85%
Sequoia Mortgage Trust 2012-6	0.00%	0.00%	90.2%	82.7%	7.05%	8.24%
Sequoia Mortgage Trust 2013-1	0.00%	0.27%	76.4%	64.9%	7.30%	9.57%
Sequoia Mortgage Trust 2013-3	0.00%	0.15%	95.9%	88.3%	6.50%	7.14%
Sequoia Mortgage Trust 2013-4	0.00%	0.33%	97.5%	92.7%	6.25%	6.56%
Sequoia Mortgage Trust 2013-8	0.15%	0.31%	98.5%	92.5%	7.10%	7.49%
Sequoia Mortgage Trust 2013-10	0.58%	0.18%	98.8%	93.4%	7.25%	7.60%
Sequoia Mortgage Trust 2013-12	0.00%*	0.25%	100%*	82.3%	8.35%	10.02%

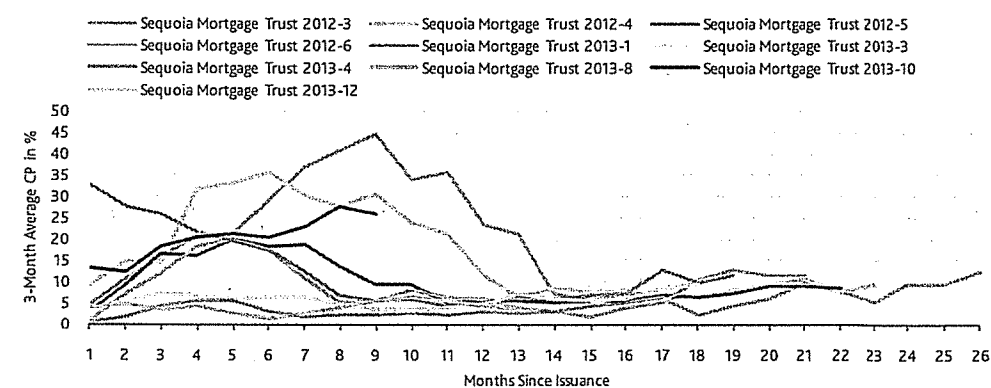
*The transaction closed in November 2013.

Source: Moody's Investors Service

However, conditional prepayment rates (CPRs) in the pools are now stabilizing at lower levels, down from the high CPRs in some pools immediately after the transactions closed. Lower CPR rates reduce pool pay downs and slow the pace of credit enhancement build-up in the transactions' senior bonds. Still, there has been some growth in CPR over the past few months as mortgage interest rates have declined.

EXHIBIT 2

Average 3-month CPR in Post-Crisis Prime Jumbo Private Label RMBS Transactions Has Slowed, But Is Picking Up



Source: Moody's Investors Service

Loans that have been delinquent at least once represent only a small share and have strong collateral attributes

Although the number of delinquent loans in the pools is small currently, the percentage of loans that have missed at least one payment (non-always-current loans) has increased as the transactions have seasoned. Exhibit 3 shows the percentage of non-always-current loans as of September 2014 compared with December 2013. The larger share of these loans in the pools is not only a result of borrowers missing

payments in previously always-current loans, but also a result of lower pool balances. As pool balances shrink, an equal number of non-always-current loans will result in a higher relative proportion of such loans as a percentage of the current pool, even if no new loans became delinquent. Conversely, if previously delinquent loans prepay out of the pool, it can result in a lower proportion of non-always current loans, as was the case for the Sequoia 2012-4, 2012-6 and 2013-4 transactions as of September 2014.

EXHIBIT 3

Loans for Which Borrowers Have Missed at Least One Payment Represent a Small Portion of the Mortgage Pools Outstanding

Deal Name	Non-Always-Current Loans as of 12/2013 (% of Current Pool Balance)	Non-Always-Current Loans as of 9/2014 (% of Current Pool Balance)
Sequoia Mortgage Trust 2012-3	3.11%	3.27%
Sequoia Mortgage Trust 2012-4	2.68%	2.51%
Sequoia Mortgage Trust 2012-5	2.70%	2.84%
Sequoia Mortgage Trust 2012-6	3.23%	3.01%
Sequoia Mortgage Trust 2013-1	1.67%	1.77%
Sequoia Mortgage Trust 2013-10	2.07%	2.12%
Sequoia Mortgage Trust 2013-12	2.67%	3.17%
Sequoia Mortgage Trust 2013-3	2.03%	2.13%
Sequoia Mortgage Trust 2013-4	2.35%	2.23%
Sequoia Mortgage Trust 2013-8	3.47%	3.52%

Source: Moody's Investors Service

However, our analysis of the collateral profile of the non-always-current loans suggests that they do not have significantly weaker collateral attributes than the always-current loans in the pools. Exhibit 4 shows the average collateral characteristics of the non-always-current loans compared with the always-current loans for the 2012 and 2013 vintage Sequoia transactions. The collateral profile of the non-always-current loans is similar to that of the always-current loans in both vintages.

EXHIBIT 4

Collateral Strength of Loans in Which Borrowers Have Missed at Least One Payment Is Similar to that of Always-Current Loans in Prime Jumbo RMBS Pools

	% of Vintage	WA FICO	WA LTV (%)	WA Rate (%)	Purpose: Purchase	Occupancy: Owner Occupied	Interest-Only	California Concentration
2012 Vintage, Always-Current Loans	97.25%	772	67.6	4.2	92.5%	93.6%	5.3%	44.2%
2012 Vintage, Non-Always-Current Loans	2.75%	765	68.6	4.3	94.9%	89.2%	0.0%	16.0%
2013 Vintage, Always-Current Loans	97.57%	772	66.2	3.9	76.2%	95.5%	1.6%	41.8%
2013 Vintage, Non-Always-Current Loans	2.43%	753	61.6	4.0	65.2%	92.0%	1.0%	41.7%

Source: ABSNet Loan, a registered trademark of Lewtan™

In the 2012 transactions, non-always-current loans have slightly weaker weighted-average FICOs than the always-current loans (765 vs. 772) and higher weighted-average loan-to-value ratios (LTV, 68.6 vs. 67.6); however, the non-always-current loans have other compensating characteristics. The non-always-current loan pool does not contain any interest-only loans, compared with a 5.3% portion of the always-current loan pool. Interest-only loans have higher default risk because of the future potential increase in monthly payments owing to the short amortization period for the loans. Also, the non-always current loans have

more geographic diversity than the always-current loan pool. For example, 16% of the properties backing loans in the non-always-current loan pool are in California, vs. 44.2% for the always-current loan pool. In the 2013 transactions, the non-always-current loans have a lower weighted-average FICO compared with the always-current loans (753 vs. 772); at the same time, the non-always-current loans also have a lower weighted-average LTV (61.6 vs. 66.2), which offsets the risk of the lower FICO.

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New York Probe into Ocwen Is Credit Negative for Company and the RMBS It Services

Originally published on 27 October 2014 in Credit Outlook

On 21 October, the New York State Department of Financial Services (DFS) accused mortgage servicer Ocwen Financial Corporation (B2 review for downgrade) of material deficiencies in its systems and processes. Specifically, DFS alleged that Ocwen was backdating loss mitigation and foreclosure letters to an unknown number of borrowers. The allegations, which expand an existing probe into the company by the New York regulator, are credit negative for Ocwen and private-label residential mortgage-backed securities (RMBS) that contain loans it services.

Following the regulatory accusations, we downgraded Ocwen's rating to B2 from B1, with the rating on review for further downgrade. On 22 October, we also downgraded the servicer quality assessment of Ocwen's mortgage servicer unit Ocwen Loan Servicing LLC as a primary servicer of subprime residential mortgage loans to SQ3 from SQ3+, and as a special servicer of residential mortgage loans to SQ3 from SQ3+. Both assessments remain on review for further downgrade.

The extent of the negative effect on Ocwen and RMBS containing Ocwen-serviced loans will largely depend on the results of the ongoing regulatory investigation. Ocwen is the largest non-bank, residential mortgage servicer in the US, servicing roughly 25% of the loans, with more than \$180 billion in unpaid principal balance, in US private-label RMBS. The company's business focuses mainly on the subprime mortgage market.

Depending on the outcome of the investigation, the probe could result in monetary fines against Ocwen, regulatory restrictions on Ocwen Loan Servicing LLC and higher compliance and monitoring costs for the company. It will also likely result in a decrease in loans transferred to Ocwen from other servicers. The increased likelihood that other regulators, such as the US Consumer Financial Protection Bureau and various state attorneys general, will also begin or expand investigations into Ocwen's servicing practices is also credit negative for the company.

If regulatory action results in additional foreclosure delays or increased loan modifications, trust losses will increase and cash flow disruptions will occur in RMBS containing Ocwen-serviced loans, with the highest aggregate exposure in subprime, particularly transactions involving loans from Residential Funding Company, Option One Mortgage Corp. and Ameriquest. Foreclosure delays harm bondholders because servicers must make additional advances of delinquent principal and interest and will accrue legal and property-related expenses that will reduce overall cash to the RMBS trusts. Mortgage modifications to distressed borrowers increase the odds of RMBS cash flow disruptions, including missed bondholder interest payments.

The regulatory scrutiny also slightly increases the risk of losses for Ocwen-issued servicer advance facilities, securitizations that are backed by a mortgage servicer's right to be reimbursed for advances made on behalf of delinquent accounts to RMBS trusts. These facilities would face a higher likelihood of losses in the event that foreclosure timelines increase or advances made by Ocwen are deemed not recoverable as a result of regulatory scrutiny over borrower charges and fees. However, we deem this risk to be minimal because servicer advances have very high seniority.

RMBS DEAL UPDATE 30

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In this update,¹³ we highlight the resolution status of five RMBS transactions' conflicting documentation with regard to interest and principal distributions and loss allocation waterfalls. We maintain a spreadsheet with a cumulative list of transactions with documentation issues [here](#).

IndyMac INDX Mortgage Loan Trust 2005-AR13

The transaction's trustee, Deutsche Bank, is adhering to the pooling and servicing agreement (PSA) with respect to loss allocation following credit support depletion. The PSA allows for classes 2-A-2, 3-A-2, 4-A-2 and 5-A-2, upon credit support depletion, to receive loss allocations before classes 2-A-1, 3-A-1, 4-A-1 and 5-A-1 while the prospectus supplement calls for pro rata allocation of losses between the bonds.

Bear Stearns ALT-A Trust 2005-2

The transaction's securities administrator, Wells Fargo, confirmed that it is adhering to the PSA with respect to loss allocation following credit support depletion. The PSA calls for pro rata allocation of losses between Cl. II-A-2b and then Cl. II-A-2a upon credit support depletion, while the prospectus supplement allows for losses to be allocated first to Cl. II-A-2b and then to Cl. II-A-2a. Losses have not yet been allocated to these bonds because the subordinate bonds are still outstanding.

American Home Mortgage Investment Trust 2005-2

The transaction's securities administrator, Wells Fargo, is allocating losses first to Cl. 1-A-3 and then to Cl. 1-A-2 following the New York Federal District Court's judicial determination to resolve an inconsistency between the transaction's Indenture and prospectus supplement. The modified indenture's loss allocation waterfall now conforms with that of the prospectus supplement; the indenture had called for losses to be allocated first to Cl. I-A-2 and then to Cl. I-A-3, while the prospectus supplement calls for the reverse.

Banc of America Funding 2007-3 Trust

The transaction's securities administrator, Wells Fargo, confirmed that it is adhering to the transaction's PSA with respect to principal distribution following credit support depletion. The PSA calls for no changes to principal payment priorities following credit support depletion while the prospectus supplement calls for pro rata principal distribution amongst the senior certificates of the shifting interest groups.

Metropolitan Asset Funding, Inc. Series 2000-A

The transaction's trustee, BNY Mellon, confirmed that only monthly accrued interest will be paid to mezzanine bonds at the top of the payment waterfall. Although the transaction's PSA allows for both monthly accrued and unpaid mezzanine bond interest to be paid at the top of the waterfall, the transaction's offering circular allows for the payment of only monthly accrued interest at the top of the waterfall with unpaid interest covered later in the waterfall.

¹³ This is the latest in a series of articles in which we highlight RMBS transactions with documentation issues.

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Servicing Transfers – Update

The following are opinions that we recently provided on servicing transfers in which we stated that the transfer will not, in and of itself and at the time of review, result in a reduction or withdrawal of our then-current ratings on the relevant securities:

- » Servicing transfer to Specialized Loan Servicing, LLC from Bank of America, N.A has no negative ratings impact on 30 US RMBS transactions
- » Servicing transfer to Nationstar Mortgage, LLC from Springleaf Finance Corporation has no negative ratings impact on one US RMBS transaction
- » Servicing transfer to Shellpoint Mortgage Servicing from Bank of America, N.A has no negative ratings impact on five US RMBS transactions
- » Servicing transfer to Select Portfolio Servicing, Inc. from Bank of America, N.A has no negative ratings impact on three US RMBS transactions
- » Servicing transfer to Servicing transfer to Specialized Loan Servicing LLC from Capital One, N.A. has no negative ratings impact on six US RMBS transactions

We reviewed other transactions for which we did not provide such an opinion. Our ability to confirm, in the form of a Rating Agency Condition (RAC), that a particular servicing transfer will not result in a withdrawal or downgrade of existing ratings on RMBS bonds depends on the degree to which the servicing transfer alters the amount and timing of cash flows to the rated bonds (see “Servicing Transfers in RMBS Introduce Complex Credit Risks,” ResiLandscape, 13 September 2012).

Click [here](#) for a list of transfers for which we provided opinions since the beginning of 2012.

RESI STATS

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	Most Recent	Average for the Year				
		2014	2015	2016	2017	2018
Case-Shiller Home Price Index, % change	6.8	6.5	4.5	3.5	2.9	2.8
Unemployment Rate, %	5.8	6.2	5.5	5.3	5.0	5.0
30-Year Fixed-Rate Mortgage Interest Rate, %	4.0	4.2	4.9	5.9	6.2	6.0
1-Year Adjustable Mortgage Interest Rate, %	2.4	2.4	2.5	3.4	4.0	4.2
Housing Starts, mil	1.02	1.02	1.44	1.83	1.97	1.90
% change	17.8	10.2	40.4	27.0	7.8	-3.5
New Home Sales, mil	0.47	0.45	0.74	0.81	0.74	0.78
% change	17.0	5.6	61.8	9.6	-8.3	5.3
Existing Home Sales, mil	4.56	4.97	5.85	6.08	5.23	5.12
% change	-1.9	-2.1	17.7	4.1	-14.0	-2.0
Mortgage Originations, \$ tril	1.14	1.17	1.36	1.38	1.11	1.19
% change	-37.6	-37.3	15.9	2.0	-19.6	6.6
Housing Affordability Index	168.29	164.62	157.03	151.83	152.35	154.70

Source: Moody's Analytics

MOODY'S RMBS LOSS TRACKER

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The Loss Tracker provides a quick snapshot of realized losses against expected future losses (as a percentage of original pool balance) for subprime, Option ARM, Alt-A, and jumbo mortgage pools originated between 2003 and 2008. Ultimate losses are divided between realized losses to date, pipeline losses projected from currently delinquent loans, and remaining losses from loans that are outstanding but not currently delinquent. The remaining losses are based on our recently revised loss expectations for jumbo, Alt-A, Option ARMs and subprime.

Access the underlying vintage level and 2003-08 data [here](#).

RMBS Loss Tracker

As of October 2014 Reporting Date

Subprime

Vintage	Loss To Date	Pipeline Loss	Remaining Loss	Total Projected Loss	Orig Bal (\$bil)	Current Bal (\$bil)
2003	3.2%	0.5%	0.9%	4.6%	\$162.9	\$7.4
2004	5.0%	1.0%	1.2%	7.1%	\$315.0	\$22.1
2005	13.8%	2.4%	1.9%	18.1%	\$416.9	\$49.1
2006	29.9%	4.9%	3.5%	38.3%	\$427.0	\$89.6
2007	34.7%	7.7%	5.7%	48.2%	\$185.4	\$61.2
2005-08	24.3%	4.4%	3.1%	31.8%	\$1,031.1	\$200.5

Option ARM

Vintage	Loss To Date	Pipeline Loss	Remaining Loss	Total Projected Loss	Orig Bal (\$bil)	Current Bal (\$bil)
2005	11.4%	2.5%	2.4%	16.3%	\$124.6	\$19.2
2006	25.9%	4.7%	4.1%	34.8%	\$159.4	\$39.2
2007	28.3%	6.1%	8.1%	42.6%	\$98.9	\$32.5
2005-08	21.1%	4.2%	4.9%	30.3%	\$396.2	\$92.6

Alt-A

Vintage	Loss To Date	Pipeline Loss	Remaining Loss	Total Projected Loss	Orig Bal (\$bil)	Current Bal (\$bil)
2003	0.8%	0.3%	0.4%	1.6%	\$50.4	\$3.9
2004	2.5%	0.6%	0.8%	4.0%	\$163.5	\$18.6
2005	8.6%	1.9%	2.8%	13.2%	\$268.8	\$57.7
2006	18.9%	3.4%	4.1%	26.4%	\$254.9	\$65.2
2007	21.1%	4.3%	6.4%	31.8%	\$156.6	\$47.4
2005-08	15.3%	3.0%	3.9%	22.2%	\$680.3	\$170.4

Jumbo

Vintage	Loss To Date	Pipeline Loss	Remaining Loss	Total Projected Loss	Orig Bal (\$bil)	Current Bal (\$bil)
2003	0.2%	0.1%	0.0%	0.3%	\$124.8	\$5.6
2004	0.8%	0.2%	0.2%	1.2%	\$118.8	\$11.5
2005	2.2%	0.6%	0.4%	3.2%	\$101.9	\$16.7
2006	4.8%	1.0%	1.3%	7.1%	\$93.9	\$18.5
2007	6.0%	1.3%	1.9%	9.2%	\$72.0	\$16.4
2008	4.1%	1.3%	2.2%	7.5%	\$4.9	\$1.0
2005-08	4.2%	0.9%	0.8%	5.9%	\$272.7	\$52.6

Note: The total projected losses reflect our recently revised losses for jumbo, Alt-A, Option ARM and subprime.

Source: Moody's Investors Service

RATINGS ACTIVITY

Pool expected losses and tranche recovery estimates

We publish our most recent loss projections on all prime jumbo, Alt-A, and subprime transactions that we have rated.

To provide information on our expectations of the magnitude and timing of expected losses at the individual security or tranche level, we publish our bond recovery estimates for every security that we have rated in US subprime, prime jumbo, Alt-A and Option ARM RMBS transactions.

We update the spreadsheets regularly.

- » [Prime jumbo pool loss and tranche recovery estimates](#)
- » [Alt-A pool loss and tranche recovery estimates](#)
- » [Subprime pool loss and tranche recovery estimates](#)
- » [Option ARM loss and tranche recovery estimates](#)



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