



Servicer Evaluation: American Home Mortgage Servicing Inc.

Publication date: 15-Jan-2010 14:11:23 EST

Opinion

Standard & Poor's Ratings Services raised American Home Mortgage Servicing Inc.'s (American Home) ranking as a residential prime loan servicer to ABOVE AVERAGE from AVERAGE. We revised the rankings as a residential subprime loan servicer to ABOVE AVERAGE from STRONG. We affirmed the residential special servicer and subordinate-lien servicing rankings as AVERAGE. We removed the rankings for residential prime and subordinate-lien servicing from CreditWatch with negative implications, where we had placed them on July 31, 2007. The outlook on all rankings is stable. The revision on the subprime loan servicing ranking is the result of American Home's acquisition of Option One Mortgage Corp. in 2008. We stated in March 2009 that we would defer our annual review of American Home's residential servicer rankings to allow the company time to complete its acquisition.

We based the rankings on the company's substantially seasoned management team, comprehensive and timely training programs and employee development curriculum, efficient technology environment, and enhanced audit, quality control, and risk assessment methodologies and processes. American Home continues to monitor and invest in technology that improves workflow efficiency between its domestic platforms and offshore operations and enhances management reporting and portfolio data analytics. American Home's multiple servicing sites in the U.S. and India provide substantial disaster recovery and business continuity advantages, as well as access to a diverse and educated workforce. The company will open a bilingual call center in Guadalajara, Mexico, during the fourth quarter 2009 to further leverage talent, technology, and synergies while managing expenses. American Home has been able to successfully meet the demand for default management personnel (both supervisory and staff) commensurate with the significant increase in loss mitigation activity, loan defaults, and asset disposition due to the considerable growth resulting from mergers and acquisitions.

While the company has grown with the acquisition of Option One Mortgage and the purchase of the servicing rights to a large portfolio of distressed mortgages from Citi Residential Lending Inc. (CRL), it has taken great care to select and hire key senior management from other large residential mortgage servicers and staff with the specific skills and experience needed to perform traditional loan servicing functions. Over the past 18 months, American Home's default management loss mitigation and homeownership retention performance has remained consistently strong, comparing

favorably with its Servicer Evaluation Analytical Model peer group specifically and to industry performance metrics in general.

Outlook

The outlook on the servicing operation is stable. Of significance is American Home's growth over the past 18 months, by virtue of the aforementioned acquisition of Option One and the purchase of the servicing rights of a large portfolio of distressed loans from CRL. The two transactions have more than mitigated the slow growth related to market conditions that has substantially reduced the number of newly originated prime, subprime, and subordinate-lien loans. During this period of robust, acquisition-driven growth and the integration of platforms, American Home took extensive care and diligence to help avoid disruption, accommodate borrower needs, and minimize investor risk.

American Home has established a sound operation because:

- It has retained legacy American Home management and staff and prudently selected management and staff from other servicers;
- Made major investments in technology;
- Enhanced internal controls and governance and maintained robust policies and procedures; and
- Developed an improving training environment.

The company will remain an effective servicer of prime, subordinate, subprime, and distressed mortgage loans. Moreover, the company is poised and ready for additional growth.

Profile

WL Ross established American Home Mortgage Servicing Inc. in November 2007 when he first purchased the servicing operations of the former American Home Mortgage Corp. from bankruptcy. He then obtained Option One in April 2008. The consolidated operation is now headquartered in Coppell, Texas, and it maintains the domestic platforms located in Irvine, Calif., and Jacksonville, Fla., obtained in the Option One transaction. The company also has an office in Pune, India. American Home employs approximately 2,800 employees worldwide. The majority of the company's domestic workforce is located in the Coppell facility. When merging the two servicing operations, key management from both companies were retained and since then the executive management cadre has been further enhanced with the addition of notable senior management from other large mortgage servicers. To fortify staff and assure a stable servicing and default management environment, the company identified the best performing employees and made offers to approximately 90% of the staff at the Jacksonville site and 85% of the employees at the Irvine location. This strategy has resulted in an experienced management team. As of June 30, 2009, the company's senior management team has an average of 22 years of industry experience and approximately three

years with American Home. When including retained senior management's employment at Option One, the average tenure is six years.

The company has considerable expertise in servicing assets of lower credit quality. The average FICO score of for the prime portfolio is 686, but the average FICO score for the subprime portfolio is 568. The subprime portfolio represents approximately 60% of the total serviced. After the purchase of the servicing rights from CRL, the portfolio mix as of June 30, 2009, is as follows: The portfolio consists of 98,324 prime loans (mostly Alt-A) with aggregate unpaid principal balances (UPBs) of approximately \$19 billion, 190,516 subprime loans with UPBs of approximately \$31.3 billion, 7,500 special loans with UPBs of approximately \$2 billion, and 22,810 subordinate-lien loans with UPBs of approximately \$1 billion. The June 30 totals represent significant increases over statistics reported as of Dec. 31, 2008, for the prime and subprime portfolios, a small increase in the special loan portfolio, and a small decrease in subordinate-lien mortgages. Portfolio statistics and short-term trends are reflected in the tables. Legacy American Home Mortgage loans represent 24.5% of total first-lien mortgages by loan count and 32.9% by UPB. First-lien mortgages acquired in the Option One transaction account for 41.2% of the total portfolio by loan count and 38.6% when measured by UPB. The portfolio acquired from CRL represents 31.1% of the total first-lien portfolio by loan count and 25.3% measured by UPB. The addition of the distressed portfolio placed additional stress on both management and staff.

Portfolio Statistics

| | Dec-08 | Jun-09 |
|---------------------|---------|---------|
| Prime | | |
| Loan units | 66,787 | 98,324 |
| Total UPB (bil. \$) | 13.90 | 18.90 |
| Subprime | | |
| Loan units | 131,996 | 190,516 |
| Total UPB (bil. \$) | 23.40 | 31.30 |
| Special | | |

| | | |
|------------|-------|-------|
| Loan units | 5,456 | 7,500 |
|------------|-------|-------|

| | | |
|---------------------|------|------|
| Total UPB (bil. \$) | 1.30 | 1.90 |
|---------------------|------|------|

Subordinate

| | | |
|------------|--------|--------|
| Loan units | 27,436 | 22,810 |
|------------|--------|--------|

| | | |
|---------------------|------|------|
| Total UPB (bil. \$) | 1.30 | 1.00 |
|---------------------|------|------|

Management And Organization

The ranking for management and organization is raised to STRONG.

Management & Staff Recruitment, Development and Training

American Home has a well-seasoned management team with acceptable turnover rates, contributing to a very stable loan servicing environment.

- Senior managers average approximately 22 years of industry experience and approximately six years tenure with American Home Mortgage;
- Front-line managers and supervisors are well seasoned, averaging 14 years of industry experience and over five years tenure with the company (including Option One); and
- Annualized turnover rate for management and staff is good at 18% and 26%, respectively, especially when considering all of the merger activity.

American Home promotes and supports a highly effective training environment at its corporate and departmental levels. The company has been very successful in attracting new management and staff in both the U.S. and India. The ability to attract new management and retain key staff has been critical, as the company has significantly increased the size of its portfolio and is continuing to seek further opportunities for adding distressed assets. The well-structured and comprehensive training curriculum, with course offerings available on the company intranet site and in the classroom, is designed for both new hires and existing staff. Available instruction is tailored for specific roles and job functions, and specific position profiles identify the skills and qualifications necessary for job success. The foundation of American Home's learning and development programs are built upon engagement, focus, and the ability to adapt to changes in the market. Over the past 15 months, senior management has placed a major emphasis on training for Option One and CRL staff in order to facilitate the consolidation of those two portfolios and personnel into the American Home platform. Since senior management chose to use LPS' (formerly Fidelity) Mortgage Servicing

Package (MSP) as the system to support its servicing platform, Legacy American Home staff were trained on the system, which had already been used by Option One. In 2008, after the merger, all American Home associates received 66 separate training classes offered by in-house and LPS training staff to accelerate knowledge of the system. Other training program specifics include:

- New hire training totals 144 hours;
- Eight-hour new hire orientation program;
- Customized workshops are developed based on business needs;
- All new customer service employees receive an additional 96 hours of specialized instruction followed by 40 hours of on-the-job training;
- All new collection personnel are also provided 96 hours of classroom instruction followed by an additional 40 hours of on-the-job instruction and coaching;
- Leadership development training includes "Leadership Training," "Coaching & Counseling," and "Supervisor as a Leader";
- Training is provided to all associates traveling to the captive site or vendor locations in India;
- Career pathing opportunities are abundant and available to all interested staff;
- Many training resources are available 24/7 on the company learning and development Web site and through its Learning Management System; and
- Multihour training and certification on the Fair Debt Collection Practices Act along with refresher training and recertification.

American Home utilizes outside vendors and industry organizations for additional training. American Home's combination of structured classroom instruction, on-the-job training, coaching and mentoring, and external seminars provide an excellent and varied methodology for ensuring that all new and current staff are well versed in company policies and procedures. Executive management took the best features from the Option One and American Home Mortgage curriculums to develop the current methodology. Overall, American Home's well-designed, comprehensive training regimen develops and maintains a professional and knowledgeable workforce.

Internal Controls

American Home has a robust, multitier system of internal controls, including a quality control staff, quality assurance function, risk management, and internal audit. There is also a policy and procedures department with a primary role to serve the company in the mitigation of risk by documenting and managing the company's formal policies and

procedures. The scope of the department's work includes researching, analyzing, documenting, publishing, and maintaining the internal policies and procedures manuals. American Home updated the policies and procedures in the latter half of 2008 with best practices from both Option One and American Home Mortgage. The new document is well written and extremely comprehensive.

The policies and procedures department systematically works with compliance, internal audit, and the business units to document requirements that at a minimum:

- Provide the structure to support the internal control vision;
- Enforce observance of legislative and internal audit control requirements;
- Ensure audit trail of documentation/publication approval for reporting and litigation; and
- Safeguard the company's intellectual property.

American Home has solid controls in place for developing and updating procedure manuals, including:

- Policy and procedure manuals are available on the company intranet;
- Senior managers must sign-off on all new procedure updates;
- All pooling and servicing agreements are imaged and a matrix summary of each agreement is retrievable online;
- There is established corporate governance for consistency and effectiveness; and
- A dedicated writer writes the policies and procedures to ensure consistency. Document preparation includes writing guidelines and methodologies.

American Home has an in-depth and multitiered audit and risk assessment/quality control structure in place designed to identify and mitigate risk of loss to investors. The quality control staff is independent of the business units. Since the merger of Option One and American Home Mortgage, this unit has increased its staff and expanded sampling sizes. The quality reviews are compliance, risk, and procedural based. Quality control supervision and staff conducts weekly meetings to discuss findings and trends. The quality control reviews are designed to satisfy traditional risk assessment and performance methodology, including:

- The quality control staff performs monthly and quarterly audits of virtually all areas of loan servicing;

- The reviews are very detailed and designed to ensure that staff is properly performing assigned duties in accordance with stated policies and procedures;
- Loan level and summary reports are produced weekly and an overall monthly summary report is distributed to senior management and the corporate audit group;
- The results are reviewed and discussed with management monthly;
- The quality control review schedules are risk based and new reviews are added as needed;
- The quality control process can review loan level and/or associate specific processes; and
- The results of the periodic quality control reviews are shared with the internal audit department.

Internal control oversight includes specifically designed management reporting. Intelligence gathered and reported includes:

- Reporting to provide and support current and future goals and objectives of the organization;
- Dashboards and scorecards to measure and benchmark performance;
- Provide reporting on historical performance that effect portfolio performance;
- Data governance ? to ensure data integrity, quality, and consistency;
- Predictive analytics and trending; and
- Monitor special projects.

The quality assurance staff reports through its department head to the company's executive vice president. Quality assurance focuses on voice and nonvoice functions and transactions. Every call center associate has at least 10 calls per month monitored for compliance with regulatory and company guidelines. Nonvoice quality assurance is based on reviews at the associate level that can often result in immediate feedback to both the associate and department supervision.

American Home has a very sound legal, audit, and compliance division, managed by the company's chief legal officer, a legal professional with over 28 years of relevant experience. This area of American Home is comprised of five separate units, including litigation management, servicing legal support, regulatory compliance, transactional/contracts (including coordination with vendor management), and internal audit. The legal, audit, and compliance division manages the legal, regulatory, and reputational risks facing the company. In addition, it supports

business activities by providing legal and regulatory compliance counsel to management and staff. The chief legal officer also serves as American Home's general counsel and corporate secretary and manages all matters regarding corporate formation and governance, including compliance with all applicable federal and state laws, rules, and regulations. This individual also provides administrative oversight and management and has overall responsibility of all matters involving legal issues, compliance, the internal audit function, corporate communications, and corporate policies and procedures. The company's compliance director manages relations with regulatory agencies and other responsibilities include ensuring the proper licensing of the company in all required jurisdictions. The compliance department provides compliance and risk management guidance through dissemination of information and ensures that business operations are compliant with existing and developing legal and regulatory requirements. Some of the other functions performed by compliance include:

- Monitors and provides guidance regarding applicable federal and state laws and regulations;
- Works with business units to develop compliant products and services, policies and procedures;
- Works closely with management and staff to effect policy, procedure, and systems changes as necessary to comply with applicable laws and regulations;
- Develops and maintains regulatory policies and state specific matrices for the company's online reference library;
- Tracks, reviews, and analyzes legislative and regulatory updates and disseminates them to appropriate management and staff; and
- Conducts regularly scheduled compliance reviews to assure all areas remain compliant with the appropriate state and federal laws and regulations.

Another component of internal controls that further enhances risk aversion at American Home is a recently created department called Strategic Initiatives and Operational Management, which the company's executive vice president manages. The aforementioned quality control and quality assurance functions report to this department. Some of the functions this department administers include:

- Transaction management
- Process improvement
- Business project management
- Offshore operations management
- Vendor management

Process improvement includes Six Sigma concepts and theories. The findings reported by quality control reviews and reports to management often drive process improvement. Project management is often based on process changes, which are, in turn, based on the findings of quality control, internal audits, and/or legal and compliance reviews.

American Home has a well-developed centralized Vendor Management area. This group is responsible for all vendor relationships, including contractors engaged offshore.

Duties include:

- Acting as the single point of contact between American Home Mortgage and external vendors;
- Formulating standard templates for "statement of work" documents;
- Updating and executing contractual agreements with vendors as needed;
- Conducting trend analysis reporting on a monthly basis;
- Assessing vendor safeguards to ensure data privacy and the implementation of a formal annual vendor review process;
- Ensuring vendor compliance with the company's internal objectives as well as Regulation AB and USAP standards;
- Reviewing contingency and disaster recovery plans, working with operational units to manage escalated issues in a timely manner, and conducting onsite audits;
- Coordinating with an internal governance committee to prioritize projects; and
- Maintaining a team of American Home employees in India to mitigate the risk of offshore operations.

There are resident managers at each of the vendor locations in India. This is important since the loan servicing industry relies heavily on vendor relationships. A centralized vendor management group is a prudent structure to monitor vendor performance and compliance, as well as to establish procedures to govern additional vendor relationships.

The corporate internal audit function has been completely overhauled. American Home established it to provide senior management with an independent assessment of the internal control environment by performing frequent risk-driven audit reviews and through involvement in company initiatives. An industry recognized, experienced professional with over 30 years of accounting and auditing experience, who was most recently employed at another large mortgage servicing operation with multiple domestic and international platforms, manages American Home's internal audit. This individual reports to the company's chief legal officer. Professionals with significant experience in

the mortgage banking business manage audit reviews, which are conducted in accordance with professional auditing standards. In addition to the department's director, the internal audit staff now includes:

- One senior vice president ? chief auditor
- Three vice presidents (audit managers) responsible for operations/financial audits, information technology audits, and Regulation AB program oversight.
- Four assistant vice presidents ? senior auditors
- Two staff auditors

The average experience of the audit staff, not including the department manager, is approximately 15.5 years. About 70% of the staff holds professional certifications (CPA, CIA, or CISA). Senior auditing staff average over 15 years experience in their area of expertise.

The installation of an audit software management system that helps management and staff maintain the audit schedule and follow-up issues further fortifies American Home's internal audit program. The software system consists of five key components that are all part of an integrated tool set:

- TeamRisk-a risk assessment tool that assists in the generation of audit plans;
- TeamSchedule-a comprehensive tool for scheduling both audits and staff;
- TeamMate EWP-a core audit work paper documentation system;
- TeamMate TEC-a time and expense capture and reporting tool; and
- TeamCentral-a Web-based issues tracking database used to track action plans.

The new internal audit management team has established the following tasks:

- The company's internal auditor is accountable to senior management to:
- Conduct an annual risk assessment of the areas that comprise the complete set of business functions;
- Present an annual risk-based audit plan;
- Develop and execute a cyclical audit program that reflects the complexities, risks, regulatory, and market environment of American Home's activities;

- Coordinate with business unit and support group management throughout the year to understand and incorporate new initiatives and changing risks into review activities;
- Actively participate in new initiative planning, special projects, and investigations, and communicate the nature and statuses of these activities;
- Conduct audit reviews in accordance with professional standards;
- Communicate findings and recommendations to management upon completion of work;
- Issue audit reports and report the status of corporate audit activities on a regular basis;
- Follow-up regularly on open audit findings and action plans with business management;
- Coordinate closely with external auditors; and
- Ensure appropriate staffing levels, skills, and development to accomplish objectives.

In planning and performing audits the following factors are followed:

- Overall business, market, and regulatory environment
- The product or process complexity and operating risk
- The nature and clarity of current control processes
- The extent of automation and technology controls
- The availability, monitoring, and management review of key information

Planning (includes risk based scoping), control identification and evaluation, testing and reporting, and follow-up govern audits of individual areas.

The new audit staff has developed a comprehensive risk-based audit plan. In early 2009, it began auditing key business functions, including, but not limited to, vendor site visits, offshore captive site visits, and a review of issues related to the merger of the American Home legacy technology system with Option One's system (LPS). American Home structures all audit reports to ensure that it follows prudent loan servicing practices, the right policies and procedures are in place, and to verify compliance with regulatory and investor guidelines. The new audit program and staff is sound and effective, which will result in a better operation. Standard & Poor's reviewed American Home's internal audit reports produced during the six-month period immediately after the development of the new audit program, and we found the reports to be very comprehensive.

Yet another important component of corporate governance oversight is the monthly risk management meetings. The company holds these to review in detail any reviews conducted by the operational analysis review staff, corporate audit, and recent findings or updates from the legal and regulatory compliance groups. The chief operating officer, his direct reports, the Strategic Initiatives Executive Vice President, and legal staff attend these meetings.

Technology

American Home operates in a sophisticated technology environment utilizing LPS (formerly used by Option One before the acquisition) as its primary enterprisewide loan servicing solution. A chief information officer, who works in the company's Coppell location and has over 25 years of relevant experience, manages this area. The company has recently invested significant resources in enhancements to technology. American Home Mortgage operates in a highly efficient automated environment, using the following systems architecture for business operations and data recovery:

- The company's primary loan servicing system, LPS (Fidelity MSP), houses loan servicing records;
- Systems and vendors used are reliable, scalable, and state of the art;
- Aspect Workforce Management is used for scheduling, Cisco ICM for call routing, Unison for predictive dialers, and Verint for call recording and screen monitoring to provide training opportunities and improve staff quality;
- There are strict controls for security, change management, and business continuity to ensure uninterrupted operation;
- The company Web site enables online mortgage payments, educates borrowers on home retention, tax and insurance services, and provides access to account history. The site also provides requests for reinstatement and payoff statements;
- Information and data is shared between multiple operation centers, in the U.S. and offshore;
- Network penetration testing performed internally and externally. The company performs external tests on an annual basis and focused internal tests quarterly. An outside vendor performs password crack testing. Currently American Home has a dedicated information security staff of seven employees;
- The primary data center in Irvine replicates critical databases to the secondary center in Las Vegas using NAS and SAN technologies;

- The primary and secondary data centers have sufficient environmental and mechanical controls including UPS battery backup and backup diesel generators and are monitored via Network Operation Centers and digital video recorders;
- DARES, a proprietary system, is used for default management and the disposition of real-estate owned (REO);
- Data is backed-up, encrypted, and stored off-site with a third party vendor;
- Scorecard utilized for vendor management and feedback;
- Utilizing imaging for easy access to legal documents and desktop faxing;
- Voice response unit (VRU) for automated customer information retrieval;
- Autodialer technology utilized to build, load, and track calling campaigns on delinquent loans; and
- Genesis is utilized to provide automated (Electronic Data Interchange) EDI interface with major mortgage insurance companies to file claims.

The previously mentioned DARES default system provides a seamless integration system between early and late stage collections and automates loan modifications, short payoffs, and deeds-in-lieu. The software provides sophisticated resolution model logic, displays critical notifications such as foreclosure sale dates, and state-specific guidelines. It also reduces associates' average handle time and increases one-call resolutions.

American Home's disaster recovery site is located in Las Vegas and the company has the added advantage of having servicing centers in geographically diverse locations. There is redundant network infrastructure and redundant call center and imaging systems. The disaster recovery plan is tested at least annually. The company last tested the disaster recovery plan in October 2008, and it has addressed risks discovered during the test. The next disaster recovery/business continuity test is scheduled for December 2009.

The company's business continuity plan meets Federal Financial Institutions Examination Council (FFIEC) guidelines. The plan is maintained online and selected associates within each department maintain individual business unit plans.

Overall, American Home's technology infrastructure and its disaster recovery and business resumption plan are well designed and appropriate to manage the company's loan portfolio.

Loan Administration

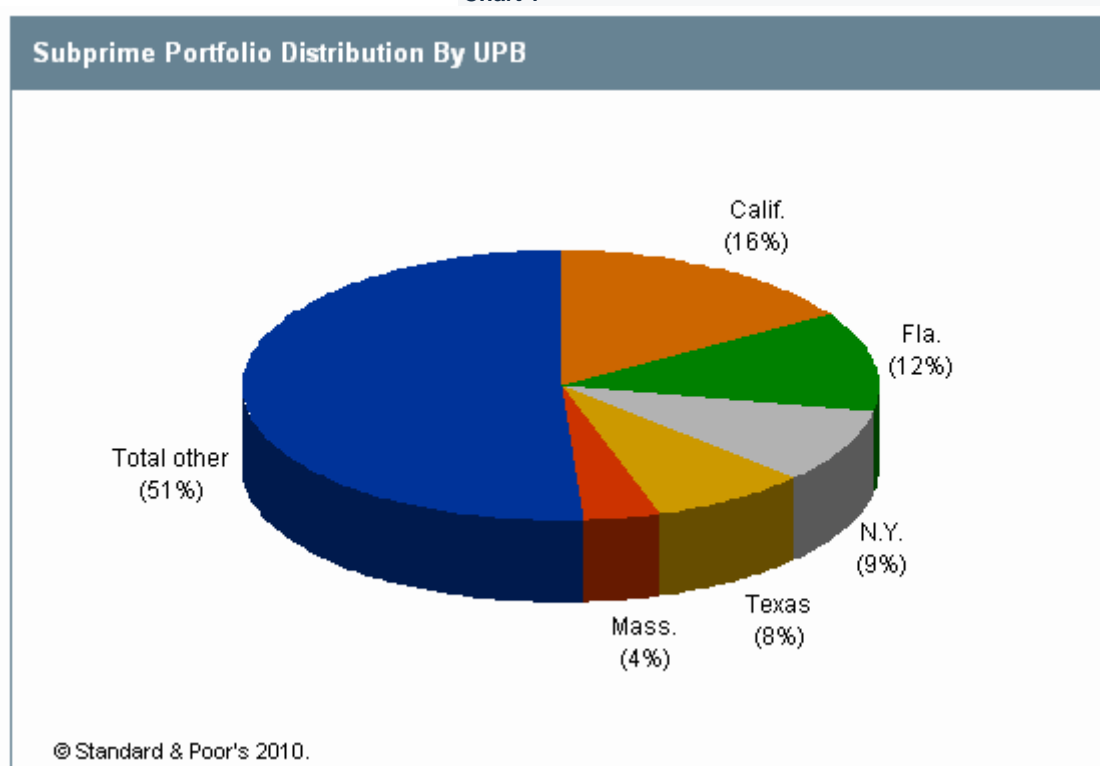
The ranking of ABOVE AVERAGE is assigned for the loan administration of prime and subprime loan servicing. The ranking of AVERAGE is assigned for special and subordinate-lien servicing.

Overview

David M. Friedman, president, oversees the company's loan servicing operation. As of June 30, 2009, the company serviced a portfolio of approximately 496,000 first-lien residential loans representing a total unpaid principal balance of just less than \$101 billion. The geographic diversity of the portfolio is satisfactory. The largest concentration of prime loans, measured by UPB, is in California, Florida, and New York. The largest concentration of subprime loans, the largest portfolio, is also located in California, Florida, Texas, New York, and Massachusetts. The aggregate in these states is less than 50% of the total subprime portfolio (see chart 2). The remaining loans are highly dispersed among other regions of the U.S., thereby providing a satisfactory level of insulation from risk of loss arising from regional economic downturns.

Standard & Poor's reviewed all aspects of loan servicing, including loan boarding, payment processing, investor reporting, customer service, escrow administration, collections, loss mitigation and loan modification efforts, foreclosure timeline management, and asset recovery functions. Key risk areas are discussed in more detail.

Chart 1



New Loan Boarding

New loan boarding is almost entirely electronic (99%). The following data integrity controls are in place:

- Extensive data scrubbing is performed and exception reports are reviewed for incorrect data;
- There is 100% data upload and 100% quality control (document to system check) on all new loans; and
- All key loan documents are imaged and stored online for efficient research/retrieval.

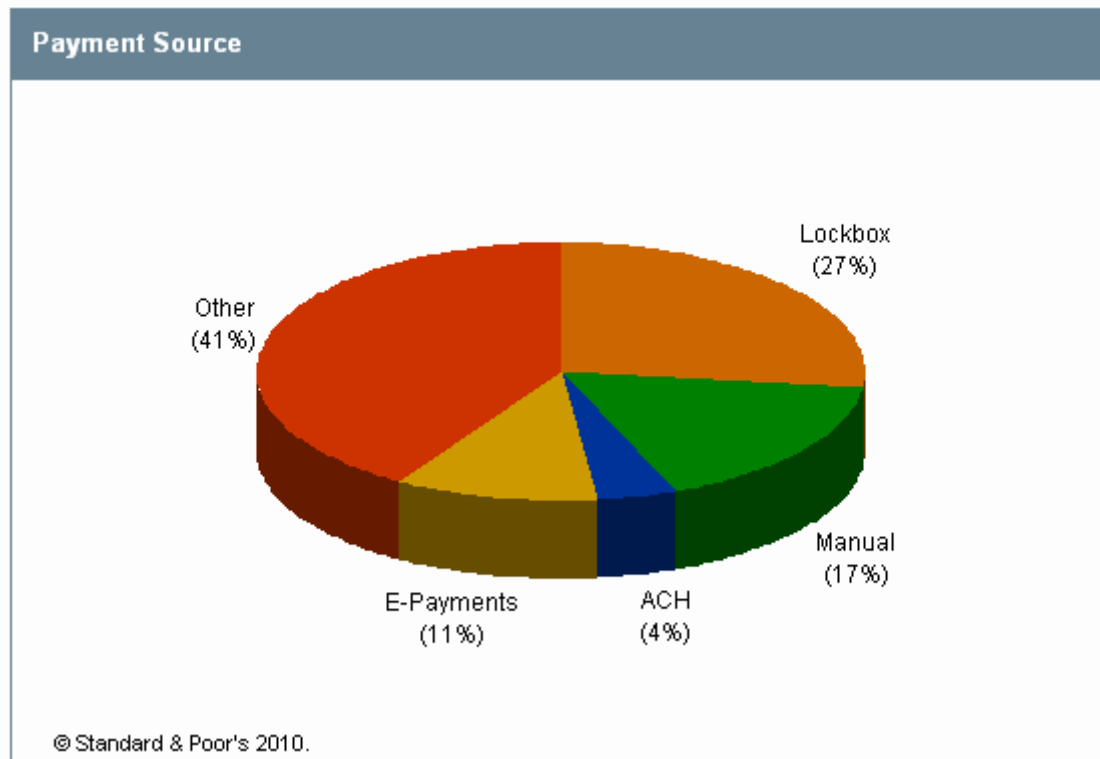
Cash Management And Investor Accounting

American Home has an efficient cash management operation incorporating good internal controls to minimize risk of loss from human error or fraud. The excellent controls in the payment processing function include:

- Lockbox capture rate for all products is approximately 95%, comparing favorably with the company's SEAM peer group;
- Lockbox error rate is satisfactory at 5.6%;
- Additional automated payment remittance methods represent 34% of volume;
- Acceptable penetration rate of 4.1% for ACH processing in this portfolio type and servicer business model;
- Manual processing totals approximately 16.5% of all payments posted;
- Annualized turnover rate of cashiering staff is very good at only 3%;
- Planet code tracking utilized to update system for payments in transit;
- Unprocessed items are stored in a fireproof cabinet in a secured payment posting area;
- Dedicated posting personnel for the application of bankruptcy payments. For multiaccount payments sent by transmittal, the staff access instructions using the trustee Web sites. For individual account payments, the cashiering area relies on bankruptcy department personnel to provide posting instructions to the dedicated cash team;
- Improved and very appropriate level of security in payment posting area, including employee card key access. Management periodically performs desk inspections to ensure that all items have been processed within the specified period; and

- Payment clearing account is reconciled daily by a dedicated individual disassociated from the payment posting function to ensure proper segregation of duties.

Chart 2



Investor remitting, reporting, and account reconciliation is similarly tightly controlled to minimize risk of loss. The following risk management methodologies are in place:

- Appropriate segregation of duties among staff handling remitting, reporting, and bank account reconciliation functions.
- Investor reporting is exclusively (100%) via electronic means.
- Approximately 99% of all funds remitted to investors is electronic;
- American Home has a dedicated team in client relations to assist investors, master servicers, and trustees;
- Custodial accounts are reconciled monthly by a dedicated staff disassociated from reporting and remitting functions;
- Online access to bank account statements to facilitate daily and monthly reconciliation process;
- Management reviews all bank account reconciliations and investor reports for accuracy; and

- Management has represented that no late or reporting penalties have been assessed.

Customer Relationship Management

American Home's customer service initiative is fully automated utilizing a voice response unit (VRU) to provide account-level data to customers, and an automated call distribution system (ACD) efficiently routes call volume to appropriate cues. There were 262 customer service associates on June 30, 2009. A review of qualified written inquiries that American Home processed from January 2009 to June 2009 indicates full compliance with the Real Estate Settlement Procedures Act (RESPA) guidelines. American Home provides an effective level of service to its customers as indicated by the following:

- Approximately 40% of the customer service call volume is handled by a third-party vendor in India;
- Vendor staff turnover rate is measured at 40%;
- VRU capture rate of approximately 43% is considered satisfactory;
- Trending analysis performed on VRU routing to identify problem issues and measure overall VRU efficiency;
- Bilingual 24/7 VRU and bilingual customer service representatives deliver account information in English and Spanish to accommodate diverse portfolio demographics;
- The overall average speed of answer is 33 seconds and abandonment rate is 2.92%, both competitive with peers. The statistics represent a blend of in-house and vendor performance. This is because calls are routed to the next available agent based on skill, either in-house or vendor;
- Adequate first call resolution rate of 73%, which is down from previous reports, but management asserts a short-term effect from the transfer of loans from CRL earlier in 2009;
- Efficient monitoring of call center staff includes two formal call monitoring sessions per representative per month, resulting in an average of 10 calls graded with performance feedback;
- Annualized turnover rate of less than 4% surpasses industry standards and American Home's SEAM peer group average;
- Hours of operation are sufficient to handle inbound calls. The call center is open from 7 a.m. to 9 p.m. Central Standard Time Monday through Friday and 7 a.m. to 4 p.m. Saturdays;

- There are bilingual call center agents for Spanish speaking borrowers and the company utilizes a vendor service/language line for all other non-English speaking borrowers;
- Newly hired call center agents receive 96 hours formal training followed by one week of additional coaching and on-the-job training;
- The company also strives for an enhanced "one call resolution" approach with "warm transfers" to an escalation team when necessary;
- All calls are recorded;
- The aforementioned performance reviews for call center agents include scoring for call quality;
- Advanced skill-based and delinquency routing logic delivers borrower calls to the correct associate;
- An IVR provides borrowers with advanced payment options, updated loan account information and third-party routing to improve service; and
- Written correspondence is handled in a dedicated research and correspondence unit and tracked to ensure RESPA compliance.

A seasoned individual with approximately 21 years of industry experience and five years with American Home manages the customer contact center. Call center employees are located in Dallas, Irvine, Jacksonville, and at two of the offshore locations in India (one captive and one vendor). Most of the domestic call center employees are located in the Dallas site. The company has established high standards for its customer care employees and provides an impressive level of customer service, especially in the current environment. American Home provides customers with a highly functional Web site with many available services, including:

- Online payment capability and payment options;
- Home retention education and advice;
- Insurance escrow information;
- Reinstatement quotes; and
- Billing statements and payment histories.
- Web site usage continues to increase.

Overall, American Home provides a multilayered and highly functional customer relationship experience.

Mortgage reconveyance processing is properly controlled to reduce risk of loss due to failure to comply with state reconveyance statutes. Vendor assisted performance measurements include:

- Excellent 99% payoff quote completion rate per state guidelines;

- Approximately 9% of the portfolio has prepayment penalties;
- Prepayment penalties are system-calculated using a state-by-state prepayment matrix to minimize human error;
- A rules-based system delivers payoff statements within 24 hours; and
- The reconveyance documentation rejection rate is an efficient 4%.

Escrow Administration

American Home operates a well-controlled escrow administration area that benefits from highly effective oversight of its third-party vendor relationships for hazard insurance and real estate tax bill procurement. The company collects escrow funds on more than 52% of the combined portfolio and has implemented the following controls:

- Full outsourcing of real estate tax bill procurement as well as hazard and flood insurance policy procurement via vendor relationships. Tracking for escrowed and nonescrowed accounts;
- American Home performs on-site business reviews of vendors annually, and in some cases more often, and generates vendor scorecards monitoring performance in accordance with agreed-upon service levels;
- An escrow analysis is performed annually in accordance with RESPA guidelines;
- When loans without escrow are modified, borrowers are encouraged to add escrow funds to their monthly principal and interest payments;
- Vendors perform letter and calling campaigns both prior to and subsequent to the expiration date of insurance and tax items for escrow and nonescrowed items;
- Nonreimbursable tax penalties are effectively low at only 0.01;
- Lender placed hazard insurance coverage represents approximately 8% of the combined portfolios;
- The lender placed insurance cancellation rate is excellent at approximately 6% and the renewal rate is measured at approximately 54%, further evidencing effective escrow administration;
- Lender placed flood insurance coverage represents approximately 1% of the combined portfolios;
- The lender placed flood insurance cancellation rate is excellent at only 5% and the renewal rate is approximately 57%;
- Life of loan flood certification is obtained; and
- The vendor reviews insurance carrier ratings to ensure sufficient claim paying ability in the event of a hazard or flood insurance loss.

Even with the acquisition of Option One, American Home has experienced a steady reduction in the size of its subordinate-lien portfolio over the last three to five years. However, this is to be expected as industry production and subordinate-lien loan performance has declined as well. However, management has continued to operate using sound practices and policies to effectively service subordinate-lien products, such as:

- Appropriately aggressive collection timelines.
- Comprehensive policies and procedures to effectively service subordinate-lien loans.

Staff tracks junior liens to determine whether or not to proceed with foreclosure based on various factors, including the availability of loss mitigation options, the potential for litigation, and equity amount. The group will determine whether there is sufficient or insufficient equity that will ultimately guide the bid amount and decision-making process.

Default Management

Collections and default management is effectively led by a team of significantly industry tenured personnel. The collections effort is bifurcated between the early intervention group, representing up to 60 days delinquent, and the home retention group, representing later stage collection and loss mitigation efforts. The early stage collection staff for the combined prime and subprime portfolios now totals over 600 employees and is strategically located at all three domestic locations and at the company's captive site in Pune. The front-end collectors utilize autodialer technology for all collection efforts and are less experienced than the back-end collectors. Welcome calls are made prior to the first payment due date. Key characteristics of the company's effective approach to first-lien collections include:

- Appropriately collection timelines for all products based on investor requirements and prudent loan servicing practices;
- Managers average over 22 years of industry experience and approximately six years of tenure with American Home. Collectors average five years of industry experience and approximately three years tenure with American Home;
- Collector turnover rate is very good at less than 5%;
- Early stage collection strategies include dialer technology, dialer development, workforce management, and contact management;
- Calls are recorded;
- A quality management system enables call and screen monitoring and quality control;
- 30+ day collections include loss mitigation processing;
- Conducted additional loss mitigation training for all inbound contact center staff;

- Collection activities include state-specific notices and calling campaigns;
- Delinquent borrowers are automatically routed from the VRU to a collection representative;
- Extended evening and weekend hours to canvass the geographically diverse portfolio;
- Utilization of advanced skill-based and delinquency routing logic delivers inbound borrower calls to the right associate;
- Outbound calls can begin as early as day one of delinquency;
- The outbound dialer is used until the 29th day of default;
- Risk modeling and early indicator scoring is a part of early stage strategy;
- The risk modeling has allowed American Home to delay contacting low risk accounts and focus on higher risk borrowers;
- A LexisNexis search is ordered by day 22 of default if determined that phone number of record is not valid. Property inspections follow and special offers are sent as incentives for borrowers to call if a phone number is not found;
- Average speed of answer for inbound collection calls is a satisfactory 36 seconds while the abandonment rate is 3.58%;
- 23% of calling campaigns conducted during prime time calling hours.
- Promise to pay success rates in the 30th day and 60th day delinquency buckets are effective at 75% and 72%, respectively.
- American Home utilizes best-time-to-call methodology;
- Loss mitigation counseling can commence at any time;
- The company has been successful with loss mitigation packages sent to borrowers. Approximately 96% have been returned and approximately 46% have resulted in modifications;
- Inspections are ordered beginning at 45 days past due and subsequently performed on a monthly basis; and
- Dedicated skip tracing unit with a locate rate of 56% and a recovery rate of 51%.

American Home has developed and expanded its Home Retention and preservation group and dedicated a 30+ outbound team to address high risk collection accounts. This unit continues collection efforts and is responsible for negotiating and processing loss mitigation workouts. The company developed prudent and creative loss mitigation procedures, was independently proactive in loss mitigation/loan modification efforts, and adhered to the guidelines set forth in the Paulson Plan in 2008. Recently, American Home began following Home Affordable Modification Program procedures. Efforts used to maximize loan reinstatements or modifications include:

- Gain/Loss Analysis;
- Borrower Negotiation including repayment plans, modifications, and short sales;
- Association and coordination with HOPE NOW;
- Greatly increased outreach efforts;
- Counseling Agency Interaction;
- Escalated/high-profile workouts; and
- Junior-lien monitoring.

Overall, the company has effective practices to oversee its collection functions.

An important component of American Home's loss mitigation/home retention efforts is associate development. In addition to what the company provides during orientation, management offers leadership development, periodic state-specific training provided by an outside attorney network, and online investor-specific training. There are weekly process sessions and update forums and continuous coaching and feedback sessions. Each associate receives approximately 140 training hours after orientation.

American Home has developed a proprietary system, DARES, to help manage its default operations, loss mitigation, and home retention operations.

American Home has maintained an aggressive system of outreach to borrowers with adjustable-rate mortgages (ARMs) in order to minimize "payment shock" and identify loss mitigation and modification opportunities before the initial note rate adjusts. American Home attempts contact by mail and telephone 180, 120, and 90 days before rate adjustment. Updated financial information is analyzed at 90 days prior to reset to assess the borrowers ability to pay the projected increased amount. At 45 days before adjustment, the company mails an ARM calculation letter. If it appears the borrower cannot handle the revised payment of default is imminent, the following is offered:

- Short-term repayment plan;
- Long-term repayment plan; and
- Streamline or conventional loan modification.

The company has developed creative methods to reach borrowers. Follow-up packages include advice regarding the receipt of a loss mitigation package, the completeness of a package, and the status of the loan modification. Efforts are facilitated by a centralized mitigation intake and follow-up.

There are effective processes for mitigating losses in the Home Retention Contact Center. In addition, American Home has embarked on a variety of customer outreach efforts that include:

- Active relationships with national not-for-profit organizations;
- Dedicated toll-free number, fax number, and email addresses for nonprofit and advocacy groups;
- Active in HOPE NOW efforts and campaigns;
- American Home is now completing over 7,000 workouts per month, with approximately 6,000 being loan modifications;
- Attendance at national homeownership preservation workshops;
- If contacted by a borrower in bankruptcy or their attorney, American Home has a bankruptcy loss mitigation group that will engage in loss mitigation efforts within the confines of the bankruptcy stay; and
- Established satellite associates in cities with a high volume of defaults and foreclosures.

American Home has increased staffing commensurate with rising delinquencies and the overall declining housing market in the U.S. It has embarked on the following initiatives to minimize losses and promote homeownership retention:

- Increased home retention staff by 74% in the last 18 months;
- Home retention managers average 15 years industry experience;
- Hired additional home retention counseling trainers;
- All loan modifications require an escrow account post-closing; and
- Average processing turnaround time for loan modifications is as follows:
Decision within 14 days of receiving package and close the modification within 30 days after that.

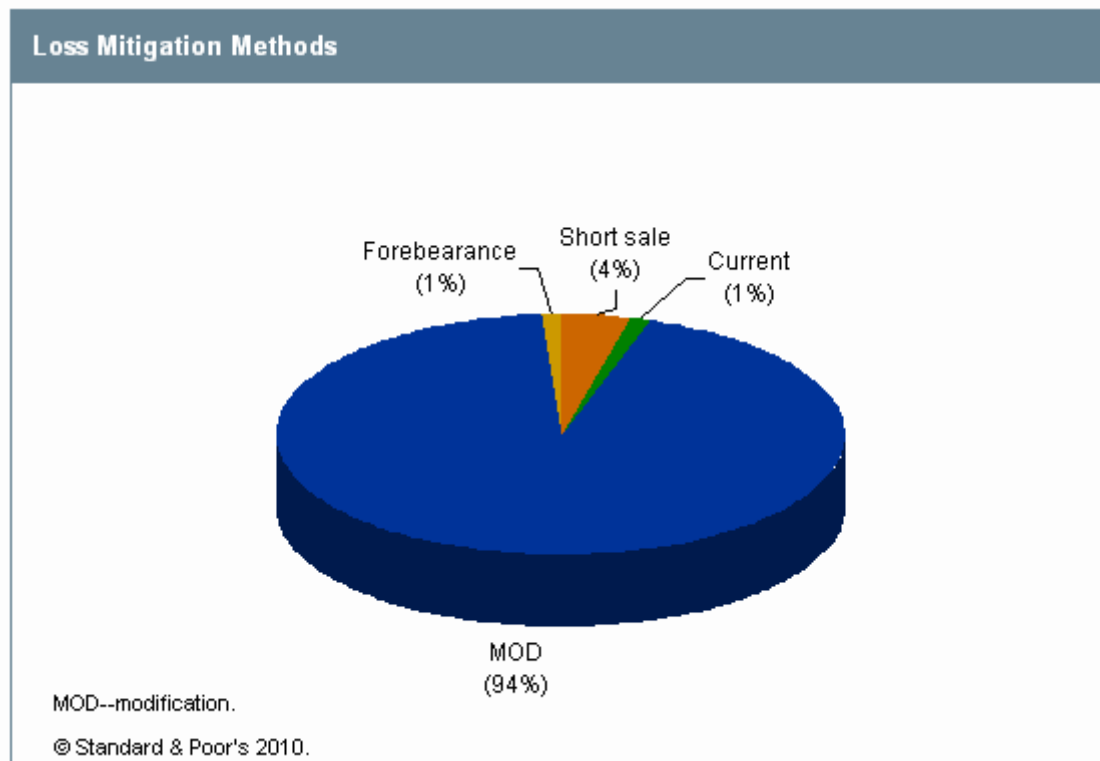
American Home enjoys solid results in the implementation and cure rate of loss mitigation forbearance plans. The monthly break-rate in each category of the forbearance plan is quite low and the ultimate recidivism rate compares favorably with industry standard and the company's SEAM peer group.

Loss mitigation activities continue throughout the foreclosure process, following a dual path that consists of loan workout activities designed to minimize risk of loss to investors, while simultaneously adhering to timelines critical to the foreclosure process. American Home proactively monitors its foreclosure and bankruptcy caseload to maximize performance and minimize risk of loss. The following procedures and controls are in place:

- Net operating income generation at the 47th day of delinquency;

- Foreclosure management has 18 years of industry experience and just over one year of tenure with American Home. Counselors have nine years of industry experience;
- Automated file referral to foreclosure pursuant to investor timeline;
- Electronic file referral and communication to outside counsel via automated system;
- Notes are checked for endorsement and recordation information at day 120 of default;
- Only .66% and .47% of MI claims denied and curtailed respectively;
- Attorney scorecards are maintained and monthly conference calls are held;
- Foreclosure cure rate of 32% is indicative of the types of loans serviced;
- Foreclosure cases completed to GSE standard at 93% compares favorably with SEAM peer group and industry performance;
- Implemented a foreclosure review team in Pune;
- Monitor loans in bankruptcy to ensure proper positioning and tracking of pre- and post-petition payments and advances;
- Bankruptcy attorneys prepare proofs of claim;
- A very low 0.53% of proof of claims are rejected and 2.63% are contested;
- Bankruptcy administration management and staff average 20 and nine years of industry experience, respectively;
- More than 90% of chapter 13 bankruptcies are currently performing according to plan;
- A lift of stay is requested within 40 days on average;
- Escrow analysis is performed on all bankruptcy accounts; and
- Electronic updates and communications via an automated system.

Chart 3



The company's special servicing platform, a legacy Option One product commenced operations in late 2006 and is still developing. There are now approximately 300 employees assigned to special loan early and late stage default management. When acquiring portfolios that qualify as special servicing loans, American Home's due diligence group will perform traditional triage functions, including file review and audit. In addition, there is a default group within special servicing with seasoned employees with loss mitigation and default management expertise. Each portfolio acquired is examined prior to the servicing transfer to American Home and a specialized plan for that portfolio is developed to create a strategy that will maximize return. Clearly defined metrics are designed to measure the best workout solution. Data source and calculation methods are client specific. There are daily and weekly exception reports designed to ensure metrics are met. The company's software, DARES, has been enhanced to include various new special loss mitigation strategies.

When the company has exhausted all attempts to mitigate loss and when it completes the foreclosure sale, it has sound procedures in place for maximizing recovery of its REO portfolio via a combination of internal staff and vendors. Commensurate with the significant increase in its REO portfolio, American Home has increased the number of REO staff to approximately 180. It also added capable, experienced personnel from other large servicers to augment management. Associates in Texas, with associates in Pune performing support functions, administer REO disposition. The company also uses a group of well known and very reputable vendors to help with property preservation, eviction management, and hazard claims. American Home has experienced REO management. The following demonstrate the effectiveness of American Home's REO asset disposition group:

- An enhanced vendor scorecard to monitor broker/agent performance;
- The caseload management of assets per employee totals 165;
- REO management averages 18 years of industry experience and approximately six years of tenure with American Home. REO asset managers are tenured with more than 12 years of industry experience and one year of tenure with American Home;
- An individual marketing plan is developed for each asset that requires management approval;
- There are compartmentalized duties to increase efficiencies;
- Nearly 43% of all properties require the initiation of an eviction proceeding;
- Cash for keys is used to avoid protracted eviction proceedings and expedite REO marketing time. The cash for keys success rate is 30%;
- Cost benefit analysis is done when considering repairs;
- Average inventory turnaround time is satisfactory at 220 days;
- The eviction process is well controlled at 59 days;
- REO inventory turn rate is 15%, comparing favorably with the company's SEAM peer group;
- Average days to market post eviction to closing is 117;
- Gross sale to market value ratio is 100.35%; and
- Net sale to market value ratio is 89.66%.

Other methods utilized to facilitate inventory turnaround time include:

- Developing and retaining a pool of sales agents they are successful with, using localized open house coordination and a bonus program;
- Marketing campaigns targeting first-time homebuyers;
- Partner with a nationwide loan originator to facilitate financing; and
- The use of auctions.

American Home orders Independent property inspections to provide oversight of realtors, which is a proactive way to supervise REO performance and condition. Overall, the company has developed solid procedures and strong vendor oversight policies that are designed to achieve the maximum results for REO sales.

Financial Position

Standard & Poor's considers American Home's financial position to be sufficient. For additional information, please refer to Standard & Poor's Web site at www.RatingsDirect.com.

Company Profile

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