

Moody's Criteria for Evaluating Representations and Warranties in U.S. Residential Mortgage Backed Securitizations (RMBS)

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SUMMARY OPINION

Moody's is updating its rating criteria for evaluating the protection afforded by loan-level representations and warranties ("R&Ws"). Our goal with this report is to standardize our methodology so that Moody's is equipped to further improve its ability to assess credit risk. The credit benefit that Moody's ascribes to the R&Ws will depend upon a) the content of the specific R&Ws, b) the contractual oversight and remedies in place for breaches of R&Ws and c) the financial strength of the entity making the loan level R&Ws and, where applicable, the strength of its origination processes and procedures. Although Moody's has reviewed R&Ws as part of its overall evaluation of transactions in the past, our updated criteria more specifically address the aspects of R&Ws that we believe will improve transparency, data integrity and accountability for U.S. RMBS. The updated criteria described in this report generally will apply to U.S. RMBS issued after the publication date of this paper. Moody's welcomes your comments on this special report; please direct them to cpc@moody's.com.

Representations and Warranties

Moody's has identified a baseline set of R&Ws, which can be found in Appendix A. The first ten representations and warranties listed in appendix A are based on those set forth in Moody's special report "Moody's Proposed Enhancements to U.S. Residential Mortgage Securitizations: Call for Comments,"¹ published on March 26, 2008. They cover matters such as property valuation, income verification, fraud and data accuracy. Moody's believes that the R&Ws listed in Appendix A would afford investors greater protection than those typically found in past securitizations. In addition, Moody's has identified a minimum set of R&Ws that an RMBS transaction must include for Moody's to rate the transaction, though it is unlikely that the securities issued in a transaction providing only the minimum R&Ws will achieve an investment grade rating. These minimum R&Ws can be found in Appendix B.

Overview of Moody's RMBS Enhancement Proposals

On March 26, 2008, Moody's published five proposals to enhance the U.S. RMBS securitization process.¹ Those proposals were: increased loan level data, stronger representations and warranties, independent third-party pre-securitization loan reviews, standardized forensic reviews for underperforming loans, and more comprehensive originator assessments. These enhancements are intended to work together to improve the reliability and transparency of information for RMBS transactions.

This paper addresses stronger representations & warranties (R&Ws). In this special report we present a baseline set of R&Ws and our criteria for analyzing the R&Ws provided for a transaction.

Separate papers released concurrently with this paper focus on pre- and post-securitization independent third-party reviews and our enhanced originator assessments.

Moody's continues to work with the American Securitization Forum (ASF) on Project RESTART and the Securities Industry and Financial Markets Association (SIFMA) to achieve an industry consensus for our proposed enhancements for U.S. RMBS securitization, including increased loan level data. The results of these projects are expected to be reported in Moody's publications throughout 2009.

¹ See "[Moody's Proposed Enhancements to U.S. Residential Mortgage Securitizations: Call for Comments](#)," Moody's Structured Finance, March 26, 2008.



Going forward, the R&Ws for each transaction will be reviewed on a case-by-case basis to evaluate the relative level of credit benefit they afford the securitization trust. R&Ws that closely match Moody's baseline set generally will be viewed as credit-neutral for purposes of Moody's ratings. R&Ws that lack one or more of the R&Ws in the baseline set, or key elements of those R&Ws, generally will be viewed by Moody's as providing less credit protection. However, it may be possible that weaknesses in the R&Ws provided in a given securitization may be offset through the provision of a more extensive third-party pre- and post-securitization loan level review.² Based on the nature of the R&Ws provided, the level of third-party, pre- and post-securitization reviews conducted, the financial strength and, where applicable, the originator assessment³ of the loan level R&W provider, Moody's may decide i) that additional credit protection is needed to achieve a given rating level, ii) to assign a lower rating or iii) to decline to rate the transaction.

Independent Third Party Loan Reviews

While R&Ws are important investor protections, it is important that additional steps be taken to reduce the likelihood that the R&Ws do not accurately characterize the loans going into the transaction. Therefore, as part of its credit analysis, Moody's also will look for a third party review of a sample of the loans underlying each RMBS transaction it rates in order to gauge how well the actual characteristics and qualities of the loans meet those being represented.²

Breaches of Representation and Warranties

Historically, RMBS transactions have not incorporated specific mechanisms or procedures, or obligated third parties, to identify breaches of representations and warranties. Also, procedures for enforcing repurchase obligations have been less than clear. Ambiguity surrounding these issues has increased the likelihood that an RMBS transaction will absorb losses on defaulted loans, even when loans breach R&Ws.

To address these issues and strengthen transaction governance, Moody's believes that, in addition to pre-securitization loan reviews, post-securitization forensic reviews² should be conducted on any loan that becomes severely delinquent⁴ during the initial 18 months following securitization. To obtain unbiased and timely determination of breaches, Moody's believes the forensic review should be conducted by an independent third party² within 30 days of the loan becoming severely delinquent. Reporting these breaches in the monthly remittance report along with a list of loans with breaches that have not been repurchased will increase transparency of the underlying R&W provider's performance. Moody's will consider such information in its ongoing analysis.

Remedies for breaches of R&Ws, particularly repurchase remedies, that have clear timeframes and guidelines within which the provider must operate to be in compliance with the terms of the transaction increase the probability of a timely and predictable resolution for breaches. Therefore, even where there are loan level R&Ws and pre-securitization loan level reviews, to the extent the mechanisms and procedures for breach resolution do not have such timeframes and guidelines, Moody's may decide i) that additional credit protection is needed to achieve a given rating level, ii) to assign a lower rating or iii) to decline to rate the transaction.

Criteria for Representations and Warranties Provider

In its credit analysis, Moody's will weigh the loan level R&W provider's financial strength and origination processes and performance.⁵ Moody's will not rate transactions where the loan level R&W provider⁶ has been assessed as "unacceptable" by Moody's or where the R&W provider does not have a sufficient net worth.⁷

2 See "[Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities \(RMBS\)](#)," Moody's Structured Finance, November 24, 2008.

3 See "[Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities \(RMBS\)](#)," Moody's Structured Finance, November 24, 2008.

4 Severely delinquent means 120+ days delinquent, in foreclosure, REO, or the loan was modified or a short payoff occurred and the lender experienced a loss or the borrower has filed for bankruptcy.

5 R&W providers for which an originator assessment would not be applicable will be assessed on a case-by-case basis. See "[Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities \(RMBS\)](#)," Moody's Structured Finance, November 24, 2008.

6 Moody's considers the R&W provider to be the originator for purposes of Moody's originator assessment review. Refer to "[Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities \(RMBS\)](#)," Moody's Structured Finance, November 24, 2008, for more details.

7 To have sufficient net worth, the R&W provider must have an "adjusted tangible equity" at least equal to 1% of the volume of total securitization and whole loan sale exposure for the prior 12 months (which amount may be adjusted if (a) expected future securitization and whole loan activity differs from the prior 12 months or (b) if repurchase history of a particular R&W provider is higher than expected). "Adjusted tangible equity" generally will equal pure common equity minus ((1/2 (Mortgage Servicing Rights + I/O Strips + Residuals)). Moody's will consider the net worth of an entity other than the R&W provider if such entity has provided the securitization trust with an irrevocable guaranty of the R&W provider's obligations (or like arrangement).

APPENDIX A

Proposed Baseline Representations and Warranties

The substantive elements of the baseline R&Ws are described below. It is anticipated that the specific form or wording of the R&Ws in each transaction will vary from these conceptual descriptions. Moody's will view the R&Ws in any given transaction as being in line with the baseline R&Ws so long as they are clearly drafted and all of the elements of the baseline R&Ws are addressed. In general, Moody's believes that adding a knowledge qualifier such as "To the best of the R&W provider's knowledge..." to any R&W materially diminishes the credit protection afforded by the R&W.

1. Property Valuation -

- Each mortgage loan with a written appraisal, as indicated on the mortgage loan schedule, contains a written appraisal prepared by an appraiser licensed or certified by the applicable governmental body in which the mortgaged property is located and in accordance with the requirements of Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- The appraisal was written, in form and substance, to (i) customary Fannie Mae or Freddie Mac standards for mortgage loans of the same type as such mortgage loans and (ii) USPAP standards, and satisfies applicable legal and regulatory requirements.
- The appraisal was made and signed prior to the final approval of the mortgage loan application.
- The person performing any property valuation (including an appraiser) received no benefit from, and such person's compensation or flow of business from the loan originator was not affected by, the approval or disapproval of the mortgage loan.
- The selection of the person performing the property valuation was made independently of the broker (where applicable) and the originator's loan sales and loan production personnel. The selection of the appraiser met Fannie Mae's and Freddie Mac's criteria for selecting an independent appraiser.
- For each mortgage loan where the value of the related mortgaged property was derived from an automated valuation model (AVM), as indicated on the mortgage loan schedule, the model used has been duly researched by the originator and, to the best of the originator's knowledge, provides an accurate assessment of the property value.
- For each mortgage loan where the value of the related mortgaged property was derived from a brokers price opinion (BPO), as indicated on the mortgage loan schedule, the BPO was conducted by a licensed real estate broker or realtor licensed in the jurisdiction of the subject property.

Although this representation contemplates alternative valuation methods such as AVMs or BPOs, Moody's generally views these alternative methods as less reliable than a properly performed appraisal. As a result, enhancement levels generally will be increased for such alternative valuation methods, even if they satisfy the applicable elements of the R&W.

2. Income/Employment/Assets:

- The originator verified the borrower's income, employment and/or assets in accordance with its written underwriting guidelines.
- The originator employed procedures designed to reasonably authenticate the documentation supporting such income, employment and/or assets.
- Where commercially reasonable, the originator utilized public and/or commercially available information in order to test the reasonableness of the income.
- The originator reviewed other attributes of the borrower, which may include but are not limited to, assets, disposable income, reserves and credit history, and reasonably determined that such attributes supported the income used to approve the loan.

3. Occupancy:

- The originator has given due consideration to factors, including but not limited to, other real estate owned by the borrower, commuting distance to work, appraiser comments and notes, the location of the property and any difference between the mailing address active in the servicing system and the subject property address to evaluate whether the occupancy status of the property as represented by the borrower is reasonable.

4. Early Payment Default Repurchase:⁸

- With respect to any mortgage loan originated not more than 90 days prior to the securitization closing date, the originator shall promptly repurchase such mortgage loan if, by the third mortgage loan due date following the securitization closing date, the borrower has made neither of the two preceding monthly payments.

5. Data:

- The information on the mortgage loan schedule relating to the terms of the mortgage loan and the mortgage note⁹ is true and correct in all material respects.
- The information on the mortgage loan schedule and the information that was provided to Moody's are consistent with the contents of the originator's records and the underlying loan files.
- The mortgage loan schedule contains all the fields requested by Moody's.
- Any seller or builder concession has been subtracted from the appraised value of the mortgaged property for purposes of determining the LTV and CLTV.
- Except for information specified to be as of the origination date of the mortgage loan, the mortgage loan schedule contains the most current information possessed by the originator.
- No FICO score listed on the mortgage loan schedule was more than 4 months old at the time of securitization.
- No appraisal or other property valuation listed on the mortgage loan schedule was more than 3 months old at the time of loan closing.

6. Fraud:

- No fraud or misrepresentation, material error or omission or gross negligence has taken place on the part of any person in connection with the origination of the mortgage loan, the determination of the value of the mortgaged property, or the sale or servicing of the mortgage loan prior to the securitization closing date.¹⁰

7. Underwriting:

- Each mortgage loan was either (i) underwritten in substantial conformance to the originator's underwriting guidelines in effect at the time of origination without regard to any underwriter discretion or (ii) if not underwritten in substantial conformance to the originator's underwriting guidelines, has reasonable and documented compensating factors.

8. Mortgage Insurance:

- For mortgage loans with mortgage insurance, such mortgage loan has the benefit of a valid, binding and enforceable primary mortgage insurance policy issued by a primary mortgage insurer acceptable to Fannie Mae and Freddie Mac.
- The form and substance of such mortgage insurance policy is in substantial conformance with primary mortgage insurance policies acceptable to Fannie Mae and Freddie Mac.

9. Mortgage Insurance Repurchase:⁸

- With respect to any mortgage loan having mortgage insurance, in the event the mortgage insurer rejects, denies, or rescinds a claim on the basis of any defect in connection with the origination of the mortgage loan or the servicing of the mortgage loan prior to the securitization closing date (a "mortgage insurer rejection"), other than as a result of the mortgage insurer's breach of its obligations or insolvency, the originator shall either repurchase such mortgage loan or pay the trust the amount of such claim within 30 days from such mortgage insurer rejection.

⁸ This obligation is technically a covenant, not a R&W.

⁹ Such information would include the identity of the originator, lien position, loan type, loan amount, interest rate, term to maturity, first payment date, interest rate caps and floors, prepayment penalty terms, property location and other key terms listed in the mortgage or the mortgage note.

¹⁰ So long as the transaction provides for a post-closing forensic review of severely delinquent loans, remedies for a breach of this R&W due solely to borrower fraud or misrepresentation may expire if notice of such breach is not given by the later of (a) 18 months after the securitization closing date and (b) 12 months after the expiration of any teaser or interest-only period on the mortgage loan.

- If the originator has a good-faith dispute of such mortgage insurer rejection, it shall notify the trustee of the basis of such dispute and shall have an additional period of up to 30 days to resolve such dispute.
- If at the end of such additional 30 day period, the claim still remains unpaid, the originator shall immediately repurchase such mortgage loan or pay the trust the amount of such claim.

10. Regulatory Compliance:

- Each mortgage loan complies with all applicable federal, state and local laws including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws.

11. Borrower:

- Each borrower is a natural person.
- As of origination, each borrower was legally permitted to reside in the United States.
- No borrower is a debtor in any state or federal bankruptcy or insolvency proceeding.
- No borrower had a prior bankruptcy in the last ten years.¹¹
- No borrower previously owned a property in the last ten years that was the subject of a foreclosure during the time the borrower was the owner of record.¹¹

12. Source of Loan Payments:

- No loan payment has been escrowed as part of the loan proceeds on behalf of the borrower.
- No payments due and payable under the terms of the note and mortgage or deed of trust, except for seller or builder concessions or temporary buydown funds, have been paid by any person who was involved in, or benefited from, the sale or purchase of the mortgaged property or the origination, refinancing, sale, purchase or servicing of the mortgage loan other than the borrower.

13. Downpayment:

- For each mortgage loan whose proceeds were used to purchase the related mortgaged property, the borrower paid at least the lesser of (a) 100% minus the CLTV of the mortgage loan and (b) 5% of the purchase price, with his/her own funds.

14. No Prior Liens:

- Immediately prior to the transfer and assignment of the mortgage loan to the securitization trust, the seller was the sole owner and holder of the mortgage loan free and clear of any and all liens, pledges, charges or security interests of any nature.
- The seller has good and marketable title and has full right and authority to sell and assign the mortgage loan.

15. Enforceability and Priority of Lien:

- The mortgage is a valid, subsisting and enforceable [first] [second] lien on the property therein described.
- The mortgaged property is free and clear of all encumbrances and liens having priority over the lien of the mortgage except for liens for real estate taxes and special assessments not yet due and payable; and any security agreement, chattel mortgage or equivalent document related to, and delivered to the custodian.
- The mortgage establishes in the seller a valid and subsisting [first] [second] lien on the property described therein and the seller has full right to sell and assign the same to the securitization trust.

16. Complete Mortgage Files:

- All of the required loan documents have been delivered to the custodian in accordance with the requirements of the governing document.

¹¹ Moody's recognizes that non-prime and sub-prime securitization pools will contain some borrowers who have a history of foreclosure or bankruptcy. However, in general, to be credit-neutral the expectation is that the criteria listed in the R&W will be met.

17. No Modifications:

- Unless otherwise noted on the mortgage loan schedule, none of the mortgage loans have been modified in any material respect. If a mortgage loan has been modified, the modified terms are reflected on the mortgage loan schedule.
- None of the mortgage loans have been satisfied, canceled or subordinated in whole or in part.
- With respect to each mortgage loan, the mortgaged property has not been released in whole or in part from the lien of the mortgage.

18. Taxes Paid:

- All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, which previously became due and owing have been paid, or an escrow of funds has been established, to the extent permitted by law, in an amount sufficient to pay for every such item which remains unpaid.

19. No Damage / Condemnation:

- The mortgaged property is undamaged so as to affect adversely the value of the mortgaged property as security for the mortgage loan or the use for which the premises were intended.
- There is no proceeding pending or threatened for the total or partial condemnation of the mortgaged property.

20. No Mechanics Liens:

- The mortgaged property is free and clear of all mechanics' and materialmen's liens or liens in the nature thereof.

21. Fee Simple Estate / No Encroachments / Compliance with Zoning:

- The mortgaged property consists of a fee simple estate in real property.¹²
- All of the improvements which are included for the purpose of determining the appraised value of the mortgaged property lie wholly within the boundaries and building restriction lines of such property.
- No improvements on adjoining properties encroach upon the mortgaged property (unless insured against under the related title insurance policy).
- The mortgaged property and all improvements thereon comply with all requirements of any applicable zoning and subdivision laws and ordinances.

22. No Usury:

- The mortgage loan is not usurious.

23. Legally Occupied:

- All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the mortgaged property and, with respect to the use and occupancy of the same, including, but not limited to, certificates of occupancy and fire underwriting have been made or obtained from the appropriate authorities.

24. Mortgage Loan Legal and Binding:

- The mortgage note, the related mortgage and other agreements executed in connection therewith are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law).
- All parties had legal capacity to execute the documents.
- Such documents have been duly and properly executed.

25. Proceeds Fully Disbursed / Recording Fees Paid:

- The proceeds of the Mortgage Loan have been fully disbursed.
- There is no requirement for future advances.

¹² If the mortgage loan is secured by co-op shares or a residential long-term lease, a R&W addressing this type of mortgage loan should be included.

- All requirements as to completion of improvements and as to disbursements of any escrow funds therefore have been complied with.
- All costs, fees and expenses incurred in making, closing or recording the mortgage loan have been paid.

26. Existence of Title Insurance:

- The mortgage loan is covered by an American Land Title Association mortgagee title insurance policy or other generally acceptable form of policy or insurance acceptable to Fannie Mae or Freddie Mac, issued by a title insurer acceptable to Fannie Mae or Freddie Mac insuring the originator, its successors and assigns, as to the [first] [second] priority lien of the mortgage in the original principal amount of the mortgage loan.
- The assignment to the securitization trust of such mortgagee title insurance policy does not require any consent of or notification to the insurer which has not been obtained.
- Such mortgagee title insurance policy is in full force and effect.
- No claims have been made under such mortgagee title insurance policy.
- No prior holder of the related mortgage has done, by act or omission, anything which would impair the coverage of such mortgagee title insurance policy.

27. Hazard Insurance:

- The mortgaged property is insured by an insurer acceptable to Fannie Mae or Freddie Mac against loss by fire and such hazards as are covered under a standard extended coverage endorsement.
- The amount of coverage is not less than the lesser of 100% of the insurable value of the mortgaged property and the outstanding principal balance of the mortgage loan, but in no event less than the minimum amount necessary to fully compensate for any damage or loss on a replacement cost basis.
- If the mortgaged property is a condominium unit, it is included under the coverage afforded by a blanket policy for the project.
- If upon origination of the mortgage loan, the mortgaged property was in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards, a flood insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration is in effect with a generally acceptable insurance carrier.
- If applicable, the amount of flood hazard coverage is not less than the least of (A) the outstanding principal balance of the mortgage loan, (B) the full insurable value of the mortgaged property and (C) the maximum amount of insurance which was available under the National Flood Insurance Act of 1968, as amended.
- Each mortgage obligates the mortgagor thereunder to maintain all such insurance at the mortgagor's cost and expense.

28. No Default:

- There is no default, breach, violation or event of acceleration existing under the mortgage or the related mortgage note and no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration.
- No default breach, violation or event of acceleration has been waived.
- No foreclosure action is currently threatened or has been commenced with respect to the mortgage loan.

29. No Rescission:

- No mortgage note or mortgage is subject to any right of rescission, set-off, counterclaim or defense.
- None of the terms will render the mortgage note or mortgage unenforceable or subject it to any right of rescission, set-off, counterclaim or defense.
- No such right of rescission, set-off, counterclaim or defense has been asserted.

30. Enforceable Right of Foreclosure:

- Each mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security.
- There is no homestead or other exemption available to the Mortgagor which would interfere with such right of foreclosure.

31. Mortgaged Property is 1-4 Family:

- Unless noted on the mortgage loan schedule, each mortgaged property is located in the United States and consists of a one- to four-unit residential property, which may include a detached home, townhouse, condominium unit or a unit in a planned unit development or, in the case of mortgage loans secured by co-op shares, leases or occupancy agreements.

32. Mortgage Loan Qualifies for REMIC:

- The mortgage loan is a "qualified mortgage" within the meaning of Section 860G(a)(3) of the Internal Revenue Code of 1986, as amended.

33. Lost Note Affidavit:

- With respect to each mortgage where a lost note affidavit has been delivered to the custodian in place of the related mortgage note, the related mortgage note is no longer in existence.

34. Doing Business:

- All parties that have had any interest in such mortgage loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) in compliance with any and all applicable licensing requirements of the laws of the state wherein the related mortgaged property is located.

35. Environmental Laws:

- As of origination of the mortgage loan, the mortgaged property was in material compliance with all applicable environmental laws pertaining to environmental hazards including, without limitation, asbestos.

36. Loans Current / Prior Delinquencies:

- Unless noted on the mortgage loan schedule, all payments required to be made up to the due date immediately preceding the cut-off date for such mortgage loan under the terms of the related mortgage note have been made and no mortgage loan had more than one delinquency in the 12 months preceding the cut-off date.

APPENDIX B:

Moody's Minimum Set of Representations and Warranties

Moody's may analyze an RMBS transaction for which only this minimum set of R&Ws is provided. It is highly unlikely, however, that the issued securities would achieve investment grade ratings under such circumstances.

1. Data:

- The information on the mortgage loan schedule and the information provided to Moody's are consistent with the contents of the underlying loan files.

2. No Fraud:

- No fraud, misrepresentation, material error or omission or gross negligence has taken place on the part of the originator or, to the best of the originator's knowledge, any other party in connection with the origination of the mortgage loan, the determination of the value of the mortgaged property, or the sale or servicing of the mortgage loan prior to the securitization closing date.

3. Regulatory Compliance:

- Each mortgage loan complies with all applicable federal, state and local laws including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws.

4. No Prior Liens:

- Immediately prior to the transfer and assignment contemplated herein, the seller was the sole owner and holder of the mortgage loan free and clear of any and all liens, pledges, charges or security interests of any nature.
- The seller has good and marketable title and has full right and authority to sell and assign the mortgage loan.

5. Enforceability and Priority of Lien:

- The mortgage is a valid, subsisting and enforceable [first] [second] lien on the property therein described.
- The mortgage establishes in the seller a valid and subsisting [first] [second] lien on the property described therein and the seller has full right to sell and assign the same to the securitization trust.

6. Mortgage Loan Legal and Binding:

- The mortgage note, the related mortgage and other agreements executed in connection therewith are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law).
- All parties had legal capacity to execute the documents.
- Such documents have been duly and properly executed.

7. No Rescission:

- No mortgage note or mortgage is subject to any right of rescission, set-off, counterclaim or defense.
- None of the terms will render the mortgage note or mortgage unenforceable or subject it to any right of rescission, set-off, counterclaim or defense.
- No such right of rescission, set-off, counterclaim or defense has been asserted.

8. Enforceable Right of Foreclosure:

- Each mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security.
- There is no homestead or other exemption available to the mortgagor which would interfere with such right of foreclosure.

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The Importance of Representations and Warranties in RMBS Transactions

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CONTENTS

- Summary Opinion
- Importance of Representations and Warranties
- Provider's Ability to Honor Its Obligations Is Key

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SUMMARY OPINION

Moody's believes that representations and warranties against the inclusion of certain loans in securitized transactions provide a small but important protection against losses. The party making the representations is required to repurchase or substitute for any loan that is noncompliant. In arriving at total credit enhancement for each securitized transaction, Moody's takes into consideration the value of such repurchase and substitution provisions by analyzing the financial and operational history of the transaction's sponsor. In general, sponsors with investment-grade ratings are acceptable providers of representations and warranties for **Aaa**-rated securities. In certain instances, however, Moody's has used a case-by-case analysis for unrated companies that may also be acceptable for securitized trusts.



IMPORTANCE OF REPRESENTATIONS AND WARRANTIES

One of the ways RMBS investors are protected from losses in a transaction is through the representations and warranties (R&W) provided by the originator/seller regarding the mortgage loans it has sold to the securitization trust. These provisions require that a seller repurchase or substitute any loan that is discovered to materially and adversely affect the transaction.

R&Ws can be designed to limit uncertainties about loans in a pool in a variety of ways and to different degrees. Standard R&Ws are intended to protect investors from misinformation regarding loan characteristics, as well as guard against risks such as fraud, previous liens, and/or regulatory noncompliance.¹ (See *Appendix 1* for a list of standard R&Ws in residential mortgage-backed transactions.)

PROVIDER'S ABILITY TO HONOR ITS OBLIGATION IS KEY

In calculating credit enhancement for each securitized transaction, Moody's takes into consideration the value of such repurchase and substitution provisions to the extent that they can remedy against losses. That is why the willingness and financial ability of the party who provides the representations and warranties are key to the provisions' ultimate value to the transaction.

In general, Moody's evaluates the benefit of representations and warranties based on the rating of the company that provides them. Companies with investment grade ratings as low as **Baa3** often provide standard R&Ws for **Aaa**-rated securities without an adverse credit impact.

However, in certain cases where failure to satisfy the R&W could lead to substantial losses other arrangements for alleviating such risks must be made. For example, a **Baa3**-rated company's R&W cannot guard against losses to a trust that is subject to unlimited damages from the application of a particularly strict predatory lending rule.

Moody's may also conclude that certain unrated companies' R&Ws are satisfactory for highly-rated securities. For instance, operating affiliates of investment-grade companies with established "industry-norm" practices and procedures for loan compliance may be acceptable to provide standard R&Ws. A good example is GMAC-RFC, whose R&Ws are accepted by Moody's because of its established market presence and practices as well as the strength of its parent, GMAC.

For other unrated or non-investment grade companies that are frequent securitizers, procedures to ensure that loans comply with the standard R&W provisions become more important. With a sufficient combination of strong procedures and borderline financial standing, these parties may prove acceptable for providing R&W on transactions.

In such cases, Moody's would prefer that the company have either strong, established practices and procedures to ensure compliance, and adequate tangible net worth relative to its R&W liability,² or a **Ba3** or better rating.

For those securitizers that don't meet the above standards, Moody's would seek additional credit enhancement, or financial backing from another company, or acceptable third-party verification of compliance with the standard R&Ws. In the latter case, the company must have established "industry-norm" practices and procedures for loan compliance, and Moody's must also be fully satisfied with the due diligence or auditing review of information supporting the R&Ws.

1 Although 3rd parties such as transaction accountants and auditors have some obligation to review loan files and characteristics, these reviews are not of sufficient depth to validate the compliance of all loans.

2 The Net Worth (TNW) Test: Adjusted tangible equity should be at least equal to 0.5% of the volume of total securitization exposure for two years. Generally TNW will equal pure common equity-((1/2 (MSRs+I/O Strips+Residuals)). If repurchase history of a particular sponsor is very high then the TNW must be adjusted upwards to reflect higher repurchases.

APPENDIX 1

- Generally issuers/sponsors of securitized transactions represent and warrant as to the following with respect to the loans in a trust:
- Validity and enforceability of the lien
- Transfer of good title to the trust
- Disclosure about the delinquent loans in the pool
- Disclosure regarding taxes owed on a property
- Disclosure regarding the state of repairs on a property
- Full compliance with applicable Federal, state and local laws including predatory lending laws
- Disclosure regarding loan characteristics and accuracy of the information in the loan schedule
- Disclosure regarding the source of loan originations and whether they were regulated entities.
- Validity of the title insurance policy on each loan
- Validity of primary mortgage insurance on the loans which were disclosed to have such insurance
- Validity of any other insurance policy including those with respect to the loans, the servicer or the issuer
- Validity and enforceability of the mortgage note
- Disclosure on the type of appraisals used for each property
- Disclosure on underwriting standards used for the loans
- Existence of due-on-sale clauses

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Moody's Criteria for Evaluating Representations and Warranties in U.S. Residential Mortgage Backed Securitizations (RMBS)**

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SUMMARY OPINION

Moody's is updating its rating criteria for evaluating the protection afforded by loan-level representations and warranties ("R&Ws"). Our goal with this report is to standardize our methodology so that Moody's is equipped to further improve its ability to assess credit risk. The credit benefit that Moody's ascribes to the R&Ws will depend upon a) the content of the specific R&Ws, b) the contractual oversight and remedies in place for breaches of R&Ws and c) the financial strength of the entity making the loan level R&Ws and, where applicable, the strength of its origination processes and procedures. Although Moody's has reviewed R&Ws as part of its overall evaluation of transactions in the past, our updated criteria more specifically address the aspects of R&Ws that we believe will improve transparency, data integrity and accountability for U.S. RMBS. The updated criteria described in this report generally will apply to U.S. RMBS issued after the publication date of this paper. Moody's welcomes your comments on this special report; please direct them to cpc@moody.com.

Representations and Warranties

Moody's has identified a baseline set of R&Ws, which can be found in Appendix A. The first ten representations and warranties listed in appendix A are based on those set forth in Moody's special report "Moody's Proposed Enhancements to U.S. Residential Mortgage Securitizations: Call for Comments,"¹ published on March 26, 2008. They cover matters such as property valuation, income verification, fraud and data accuracy. Moody's believes that the R&Ws listed in Appendix A would afford investors greater protection than those typically found in past securitizations. In addition, Moody's has identified a minimum set of R&Ws that an RMBS transaction must include for Moody's to rate the transaction, though it is unlikely that the securities issued in a transaction providing only the minimum R&Ws will achieve an investment grade rating. These minimum R&Ws can be found in Appendix B.

¹ See "[Moody's Proposed Enhancements to U.S. Residential Mortgage Securitizations: Call for Comments](#)," Moody's Structured Finance, March 26, 2008.

**** As of September 22, 2009 this methodology contains an update regarding seasoned loans in the annex at the end of the report. ****

Overview of Moody's RMBS Enhancement Proposals

On March 26, 2008, Moody's published five proposals to enhance the U.S. RMBS securitization process.¹ Those proposals were: increased loan level data, stronger representations and warranties, independent third-party pre-securitization loan reviews, standardized forensic reviews for underperforming loans, and more comprehensive originator assessments. These enhancements are intended to work together to improve the reliability and transparency of information for RMBS transactions.

This paper addresses stronger representations & warranties (R&Ws). In this special report we present a baseline set of R&Ws and our criteria for analyzing the R&Ws provided for a transaction.

Separate papers released concurrently with this paper focus on pre- and post-securitization independent third-party reviews and our enhanced originator assessments.

Moody's continues to work with the American Securitization Forum (ASF) on Project RESTART and the Securities Industry and Financial Markets Association (SIFMA) to achieve an industry consensus for our proposed enhancements for U.S. RMBS securitization, including increased loan level data. The results of these projects are expected to be reported in Moody's publications throughout 2009.



Moody's Investors Service

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Going forward, the R&Ws for each transaction will be reviewed on a case-by-case basis to evaluate the relative level of credit benefit they afford the securitization trust. R&Ws that closely match Moody's baseline set generally will be viewed as credit-neutral for purposes of Moody's ratings. R&Ws that lack one or more of the R&Ws in the baseline set, or key elements of those R&Ws, generally will be viewed by Moody's as providing less credit protection. However, it may be possible that weaknesses in the R&Ws provided in a given securitization may be offset through the provision of a more extensive third-party pre- and post-securitization loan level review.² Based on the nature of the R&Ws provided, the level of third-party, pre- and post-securitization reviews conducted, the financial strength and, where applicable, the originator assessment³ of the loan level R&W provider, Moody's may decide i) that additional credit protection is needed to achieve a given rating level, ii) to assign a lower rating or iii) to decline to rate the transaction.

Independent Third Party Loan Reviews

While R&Ws are important investor protections, it is important that additional steps be taken to reduce the likelihood that the R&Ws do not accurately characterize the loans going into the transaction. Therefore, as part of its credit analysis, Moody's also will look for a third party review of a sample of the loans underlying each RMBS transaction it rates in order to gauge how well the actual characteristics and qualities of the loans meet those being represented.²

Breaches of Representation and Warranties

Historically, RMBS transactions have not incorporated specific mechanisms or procedures, or obligated third parties, to identify breaches of representations and warranties. Also, procedures for enforcing repurchase obligations have been less than clear. Ambiguity surrounding these issues has increased the likelihood that an RMBS transaction will absorb losses on defaulted loans, even when loans breach R&Ws.

To address these issues and strengthen transaction governance, Moody's believes that, in addition to pre-securitization loan reviews, post-securitization forensic reviews² should be conducted on any loan that becomes severely delinquent⁴ during the initial 18 months following securitization. To obtain unbiased and timely determination of breaches, Moody's believes the forensic review should be conducted by an independent third party² within 30 days of the loan becoming severely delinquent. Reporting these breaches in the monthly remittance report along with a list of loans with breaches that have not been repurchased will increase transparency of the underlying R&W provider's performance. Moody's will consider such information in its ongoing analysis.

Remedies for breaches of R&Ws, particularly repurchase remedies, that have clear timeframes and guidelines within which the provider must operate to be in compliance with the terms of the transaction increase the probability of a timely and predictable resolution for breaches. Therefore, even where there are loan level R&Ws and pre-securitization loan level reviews, to the extent the mechanisms and procedures for breach resolution do not have such timeframes and guidelines, Moody's may decide i) that additional credit protection is needed to achieve a given rating level, ii) to assign a lower rating or iii) to decline to rate the transaction.

Criteria for Representations and Warranties Provider

In its credit analysis, Moody's will weigh the loan level R&W provider's financial strength and origination processes and performance.⁵ Moody's will not rate transactions where the loan level R&W provider⁶ has been assessed as "unacceptable" by Moody's or where the R&W provider does not have a sufficient net worth.⁷

2 See "Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities (RMBS)," Moody's Structured Finance, November 24, 2008.

3 See "Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS)," Moody's Structured Finance, November 24, 2008.

4 Severely delinquent means 120+ days delinquent, in foreclosure, REO, or the loan was modified or a short payoff occurred and the lender experienced a loss or the borrower has filed for bankruptcy.

5 R&W providers for which an originator assessment would not be applicable will be assessed on a case-by-case basis. See "Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS)," Moody's Structured Finance, November 24, 2008.

6 Moody's considers the R&W provider to be the originator for purposes of Moody's originator assessment review. Refer to "Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS)," Moody's Structured Finance, November 24, 2008, for more details.

7 To have sufficient net worth, the R&W provider must have an "adjusted tangible equity" at least equal to 1% of the volume of total securitization and whole loan sale exposure for the prior 12 months (which amount may be adjusted if (a) expected future securitization and whole loan activity differs from the prior 12 months or (b) if repurchase history of a particular R&W provider is higher than expected). "Adjusted tangible equity" generally will equal pure common equity minus (1/2 (Mortgage Servicing Rights + I/O Strips + Residuals)). Moody's will consider the net worth of an entity other than the R&W provider if such entity has provided the securitization trust with an irrevocable guaranty of the R&W provider's obligations (or like arrangement).

APPENDIX A

Proposed Baseline Representations and Warranties

The substantive elements of the baseline R&Ws are described below. It is anticipated that the specific form or wording of the R&Ws in each transaction will vary from these conceptual descriptions. Moody's will view the R&Ws in any given transaction as being in line with the baseline R&Ws so long as they are clearly drafted and all of the elements of the baseline R&Ws are addressed. In general, Moody's believes that adding a knowledge qualifier such as "To the best of the R&W provider's knowledge...", to any R&W materially diminishes the credit protection afforded by the R&W.

1. Property Valuation -

- Each mortgage loan with a written appraisal, as indicated on the mortgage loan schedule, contains a written appraisal prepared by an appraiser licensed or certified by the applicable governmental body in which the mortgaged property is located and in accordance with the requirements of Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- The appraisal was written, in form and substance, to (i) customary Fannie Mae or Freddie Mac standards for mortgage loans of the same type as such mortgage loans and (ii) USPAP standards, and satisfies applicable legal and regulatory requirements.
- The appraisal was made and signed prior to the final approval of the mortgage loan application.
- The person performing any property valuation (including an appraiser) received no benefit from, and such person's compensation or flow of business from the loan originator was not affected by, the approval or disapproval of the mortgage loan.
- The selection of the person performing the property valuation was made independently of the broker (where applicable) and the originator's loan sales and loan production personnel. The selection of the appraiser met Fannie Mae's and Freddie Mac's criteria for selecting an independent appraiser.
- For each mortgage loan where the value of the related mortgaged property was derived from an automated valuation model (AVM), as indicated on the mortgage loan schedule, the model used has been duly researched by the originator and, to the best of the originator's knowledge, provides an accurate assessment of the property value.
- For each mortgage loan where the value of the related mortgaged property was derived from a brokers price opinion (BPO), as indicated on the mortgage loan schedule, the BPO was conducted by a licensed real estate broker or realtor licensed in the jurisdiction of the subject property.

Although this representation contemplates alternative valuation methods such as AVMs or BPOs, Moody's generally views these alternative methods as less reliable than a properly performed appraisal. As a result, enhancement levels generally will be increased for such alternative valuation methods, even if they satisfy the applicable elements of the R&W.

2. Income/Employment/Assets:

- The originator verified the borrower's income, employment and/or assets in accordance with its written underwriting guidelines.
- The originator employed procedures designed to reasonably authenticate the documentation supporting such income, employment and/or assets.
- Where commercially reasonable, the originator utilized public and/or commercially available information in order to test the reasonableness of the income.
- The originator reviewed other attributes of the borrower, which may include but are not limited to, assets, disposable income, reserves and credit history, and reasonably determined that such attributes supported the income used to approve the loan.

3. Occupancy:

- The originator has given due consideration to factors, including but not limited to, other real estate owned by the borrower, commuting distance to work, appraiser comments and notes, the location of the property and any difference between the mailing address active in the servicing system and the subject property address to evaluate whether the occupancy status of the property as represented by the borrower is reasonable.

4. Early Payment Default Repurchase:⁸

- With respect to any mortgage loan originated not more than 90 days prior to the securitization closing date, the originator shall promptly repurchase such mortgage loan if, by the third mortgage loan due date following the securitization closing date, the borrower has made neither of the two preceding monthly payments.

5. Data:

- The information on the mortgage loan schedule relating to the terms of the mortgage loan and the mortgage note⁹ is true and correct in all material respects.
- The information on the mortgage loan schedule and the information that was provided to Moody's are consistent with the contents of the originator's records and the underlying loan files.
- The mortgage loan schedule contains all the fields requested by Moody's.
- Any seller or builder concession has been subtracted from the appraised value of the mortgaged property for purposes of determining the LTV and CLTV.
- Except for information specified to be as of the origination date of the mortgage loan, the mortgage loan schedule contains the most current information possessed by the originator.
- No FICO score listed on the mortgage loan schedule was more than 4 months old at the time of securitization.
- No appraisal or other property valuation listed on the mortgage loan schedule was more than 3 months old at the time of loan closing.

6. Fraud:

- No fraud or misrepresentation, material error or omission or gross negligence has taken place on the part of any person in connection with the origination of the mortgage loan, the determination of the value of the mortgaged property, or the sale or servicing of the mortgage loan prior to the securitization closing date.¹⁰

7. Underwriting:

- Each mortgage loan was either (i) underwritten in substantial conformance to the originator's underwriting guidelines in effect at the time of origination without regard to any underwriter discretion or (ii) if not underwritten in substantial conformance to the originator's underwriting guidelines, has reasonable and documented compensating factors.

8. Mortgage Insurance:

- For mortgage loans with mortgage insurance, such mortgage loan has the benefit of a valid, binding and enforceable primary mortgage insurance policy issued by a primary mortgage insurer acceptable to Fannie Mae and Freddie Mac.
- The form and substance of such mortgage insurance policy is in substantial conformance with primary mortgage insurance policies acceptable to Fannie Mae and Freddie Mac.

9. Mortgage Insurance Repurchase:⁸

- With respect to any mortgage loan having mortgage insurance, in the event the mortgage insurer rejects, denies, or rescinds a claim on the basis of any defect in connection with the origination of the mortgage loan or the servicing of the mortgage loan prior to the securitization closing date (a "mortgage insurer rejection"), other than as a result of the mortgage insurer's breach of its obligations or insolvency, the originator shall either repurchase such mortgage loan or pay the trust the amount of such claim within 30 days from such mortgage insurer rejection.

⁸ This obligation is technically a covenant, not a R&W.

⁹ Such information would include the identity of the originator, lien position, loan type, loan amount, interest rate, term to maturity, first payment date, interest rate caps and floors, prepayment penalty terms, property location and other key terms listed in the mortgage or the mortgage note.

¹⁰ So long as the transaction provides for a post-closing forensic review of severely delinquent loans, remedies for a breach of this R&W due solely to borrower fraud or misrepresentation may expire if notice of such breach is not given by the later of (a) 18 months after the securitization closing date and (b) 12 months after the expiration of any teaser or interest-only period on the mortgage loan.

- If the originator has a good-faith dispute of such mortgage insurer rejection, it shall notify the trustee of the basis of such dispute and shall have an additional period of up to 30 days to resolve such dispute.
- If at the end of such additional 30 day period, the claim still remains unpaid, the originator shall immediately repurchase such mortgage loan or pay the trust the amount of such claim.

10. Regulatory Compliance:

- Each mortgage loan complies with all applicable federal, state and local laws including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws.

11. Borrower:

- Each borrower is a natural person.
- As of origination, each borrower was legally permitted to reside in the United States.
- No borrower is a debtor in any state or federal bankruptcy or insolvency proceeding.
- No borrower had a prior bankruptcy in the last ten years.¹¹
- No borrower previously owned a property in the last ten years that was the subject of a foreclosure during the time the borrower was the owner of record.¹¹

12. Source of Loan Payments:

- No loan payment has been escrowed as part of the loan proceeds on behalf of the borrower.
- No payments due and payable under the terms of the note and mortgage or deed of trust, except for seller or builder concessions or temporary buydown funds, have been paid by any person who was involved in, or benefited from, the sale or purchase of the mortgaged property or the origination, refinancing, sale, purchase or servicing of the mortgage loan other than the borrower.

13. Downpayment:

- For each mortgage loan whose proceeds were used to purchase the related mortgaged property, the borrower paid at least the lesser of (a) 100% minus the CLTV of the mortgage loan and (b) 5% of the purchase price, with his/her own funds.

14. No Prior Liens:

- Immediately prior to the transfer and assignment of the mortgage loan to the securitization trust, the seller was the sole owner and holder of the mortgage loan free and clear of any and all liens, pledges, charges or security interests of any nature.
- The seller has good and marketable title and has full right and authority to sell and assign the mortgage loan.

15. Enforceability and Priority of Lien:

- The mortgage is a valid, subsisting and enforceable [first] [second] lien on the property therein described.
- The mortgaged property is free and clear of all encumbrances and liens having priority over the lien of the mortgage except for liens for real estate taxes and special assessments not yet due and payable; and any security agreement, chattel mortgage or equivalent document related to, and delivered to the custodian.
- The mortgage establishes in the seller a valid and subsisting [first] [second] lien on the property described therein and the seller has full right to sell and assign the same to the securitization trust.

16. Complete Mortgage Files:

- All of the required loan documents have been delivered to the custodian in accordance with the requirements of the governing document.

¹¹ Moody's recognizes that non-prime and sub-prime securitization pools will contain some borrowers who have a history of foreclosure or bankruptcy. However, in general, to be credit-neutral the expectation is that the criteria listed in the R&W will be met.

17. No Modifications:

- Unless otherwise noted on the mortgage loan schedule, none of the mortgage loans have been modified in any material respect. If a mortgage loan has been modified, the modified terms are reflected on the mortgage loan schedule.
- None of the mortgage loans have been satisfied, canceled or subordinated in whole or in part.
- With respect to each mortgage loan, the mortgaged property has not been released in whole or in part from the lien of the mortgage.

18. Taxes Paid:

- All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, which previously became due and owing have been paid, or an escrow of funds has been established, to the extent permitted by law, in an amount sufficient to pay for every such item which remains unpaid.

19. No Damage / Condemnation:

- The mortgaged property is undamaged so as to affect adversely the value of the mortgaged property as security for the mortgage loan or the use for which the premises were intended.
- There is no proceeding pending or threatened for the total or partial condemnation of the mortgaged property.

20. No Mechanics Liens:

- The mortgaged property is free and clear of all mechanics' and materialmen's liens or liens in the nature thereof.

21. Fee Simple Estate / No Encroachments / Compliance with Zoning:

- The mortgaged property consists of a fee simple estate in real property.¹²
- All of the improvements which are included for the purpose of determining the appraised value of the mortgaged property lie wholly within the boundaries and building restriction lines of such property.
- No improvements on adjoining properties encroach upon the mortgaged property (unless insured against under the related title insurance policy).
- The mortgaged property and all improvements thereon comply with all requirements of any applicable zoning and subdivision laws and ordinances.

22. No Usury:

- The mortgage loan is not usurious.

23. Legally Occupied:

- All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the mortgaged property and, with respect to the use and occupancy of the same, including, but not limited to, certificates of occupancy and fire underwriting have been made or obtained from the appropriate authorities.

24. Mortgage Loan Legal and Binding:

- The mortgage note, the related mortgage and other agreements executed in connection therewith are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law).
- All parties had legal capacity to execute the documents.
- Such documents have been duly and properly executed.

25. Proceeds Fully Disbursed / Recording Fees Paid:

- The proceeds of the Mortgage Loan have been fully disbursed.
- There is no requirement for future advances.

¹² If the mortgage loan is secured by co-op shares or a residential long-term lease, a R&W addressing this type of mortgage loan should be included.

- All requirements as to completion of improvements and as to disbursements of any escrow funds therefore have been complied with.
- All costs, fees and expenses incurred in making, closing or recording the mortgage loan have been paid.

26. Existence of Title Insurance:

- The mortgage loan is covered by an American Land Title Association mortgagee title insurance policy or other generally acceptable form of policy or insurance acceptable to Fannie Mae or Freddie Mac, issued by a title insurer acceptable to Fannie Mae or Freddie Mac insuring the originator, its successors and assigns, as to the [first] [second] priority lien of the mortgage in the original principal amount of the mortgage loan.
- The assignment to the securitization trust of such mortgagee title insurance policy does not require any consent of or notification to the insurer which has not been obtained.
- Such mortgagee title insurance policy is in full force and effect.
- No claims have been made under such mortgagee title insurance policy.
- No prior holder of the related mortgage has done, by act or omission, anything which would impair the coverage of such mortgagee title insurance policy.

27. Hazard Insurance:

- The mortgaged property is insured by an insurer acceptable to Fannie Mae or Freddie Mac against loss by fire and such hazards as are covered under a standard extended coverage endorsement.
- The amount of coverage is not less than the lesser of 100% of the insurable value of the mortgaged property and the outstanding principal balance of the mortgage loan, but in no event less than the minimum amount necessary to fully compensate for any damage or loss on a replacement cost basis.
- If the mortgaged property is a condominium unit, it is included under the coverage afforded by a blanket policy for the project.
- If upon origination of the mortgage loan, the mortgaged property was in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards, a flood insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration is in effect with a generally acceptable insurance carrier.
- If applicable, the amount of flood hazard coverage is not less than the least of (A) the outstanding principal balance of the mortgage loan, (B) the full insurable value of the mortgaged property and (C) the maximum amount of insurance which was available under the National Flood Insurance Act of 1968, as amended.
- Each mortgage obligates the mortgagor thereunder to maintain all such insurance at the mortgagor's cost and expense.

28. No Default:

- There is no default, breach, violation or event of acceleration existing under the mortgage or the related mortgage note and no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration.
- No default breach, violation or event of acceleration has been waived.
- No foreclosure action is currently threatened or has been commenced with respect to the mortgage loan.

29. No Rescission:

- No mortgage note or mortgage is subject to any right of rescission, set-off, counterclaim or defense.
- None of the terms will render the mortgage note or mortgage unenforceable or subject it to any right of rescission, set-off, counterclaim or defense.
- No such right of rescission, set-off, counterclaim or defense has been asserted.

30. Enforceable Right of Foreclosure:

- Each mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security.
- There is no homestead or other exemption available to the Mortgagor which would interfere with such right of foreclosure.

31. Mortgaged Property is 1-4 Family:

- Unless noted on the mortgage loan schedule, each mortgaged property is located in the United States and consists of a one- to four-unit residential property, which may include a detached home, townhouse, condominium unit or a unit in a planned unit development or, in the case of mortgage loans secured by co-op shares, leases or occupancy agreements.

32. Mortgage Loan Qualifies for REMIC:

- The mortgage loan is a "qualified mortgage" within the meaning of Section 860G(a)(3) of the Internal Revenue Code of 1986, as amended.

33. Lost Note Affidavit:

- With respect to each mortgage where a lost note affidavit has been delivered to the custodian in place of the related mortgage note, the related mortgage note is no longer in existence.

34. Doing Business:

- All parties that have had any interest in such mortgage loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) in compliance with any and all applicable licensing requirements of the laws of the state wherein the related mortgaged property is located.

35. Environmental Laws:

- As of origination of the mortgage loan, the mortgaged property was in material compliance with all applicable environmental laws pertaining to environmental hazards including, without limitation, asbestos.

36. Loans Current / Prior Delinquencies:

- Unless noted on the mortgage loan schedule, all payments required to be made up to the due date immediately preceding the cut-off date for such mortgage loan under the terms of the related mortgage note have been made and no mortgage loan had more than one delinquency in the 12 months preceding the cut-off date.

APPENDIX B:

Moody's Minimum Set of Representations and Warranties

Moody's may analyze an RMBS transaction for which only this minimum set of R&Ws is provided. It is highly unlikely, however, that the issued securities would achieve investment grade ratings under such circumstances.

1. Data:

- The information on the mortgage loan schedule and the information provided to Moody's are consistent with the contents of the underlying loan files.

2. No Fraud:

- No fraud, misrepresentation, material error or omission or gross negligence has taken place on the part of the originator or, to the best of the originator's knowledge, any other party in connection with the origination of the mortgage loan, the determination of the value of the mortgaged property, or the sale or servicing of the mortgage loan prior to the securitization closing date.

3. Regulatory Compliance:

- Each mortgage loan complies with all applicable federal, state and local laws including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws.

4. No Prior Liens:

- Immediately prior to the transfer and assignment contemplated herein, the seller was the sole owner and holder of the mortgage loan free and clear of any and all liens, pledges, charges or security interests of any nature.
- The seller has good and marketable title and has full right and authority to sell and assign the mortgage loan.

5. Enforceability and Priority of Lien:

- The mortgage is a valid, subsisting and enforceable [first] [second] lien on the property therein described.
- The mortgage establishes in the seller a valid and subsisting [first] [second] lien on the property described therein and the seller has full right to sell and assign the same to the securitization trust.

6. Mortgage Loan Legal and Binding:

- The mortgage note, the related mortgage and other agreements executed in connection therewith are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law).
- All parties had legal capacity to execute the documents.
- Such documents have been duly and properly executed.

7. No Rescission:

- No mortgage note or mortgage is subject to any right of rescission, set-off, counterclaim or defense.
- None of the terms will render the mortgage note or mortgage unenforceable or subject it to any right of rescission, set-off, counterclaim or defense.
- No such right of rescission, set-off, counterclaim or defense has been asserted.

8. Enforceable Right of Foreclosure:

- Each mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security.
- There is no homestead or other exemption available to the mortgagor which would interfere with such right of foreclosure.

ANNEX:

Updated Criteria For Evaluating Representations And Warranties In U.S. RMBS For Seasoned Loans¹

Moody's has modified its criteria for evaluating representations and warranties in U.S. RMBS for seasoned and non-performing loans to better reflect risks associated with older collateral. For these transactions, the set of Baseline R&Ws listed on Appendix A is replaced with the R&Ws below and the R&W provider criteria have been clarified. All other aspects of Moody's original criteria for evaluating representations and warranties in U.S. RMBS remain the same.

Baseline R&Ws:

1. Property Valuation² -

- Each mortgage loan with a written appraisal, as indicated on the mortgage loan schedule, contains a written appraisal prepared by an appraiser licensed or certified by the applicable governmental body in which the mortgaged property is located and in accordance with the requirements of Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- The appraisal was written, in form and substance, to (i) customary Fannie Mae or Freddie Mac standards for mortgage loans of the same type as such mortgage loans and (ii) USPAP standards, and satisfies applicable legal and regulatory requirements.
- For each mortgage loan where the value of the related mortgaged property was derived from an automated valuation model (AVM), as indicated on the mortgage loan schedule, the model used has been duly researched by the originator and, to the best of the originator's knowledge, provides an accurate assessment of the property value.
- For each mortgage loan where the value of the related mortgaged property was derived from a brokers price opinion (BPO), as indicated on the mortgage loan schedule, the BPO was conducted by a licensed real estate broker or realtor licensed in the jurisdiction of the subject property.

2. Occupancy:

- The sponsor has given due consideration to factors, including but not limited to any difference between the mailing address active in the servicing system and the subject property address to evaluate whether the occupancy status of the property as originally represented by the borrower is still reasonable.

3. Data:

- The information on the mortgage loan schedule and the information provided to Moody's are true and correct in all material respects
- Except for information specified to be as of the origination date of the mortgage loan, the mortgage loan schedule contains the most current information possessed by the originator.
- No FICO score listed on the mortgage loan schedule was more than 120 days old at the time of securitization.
- No appraisal or other property valuation listed on the mortgage loan schedule was more than 120 days old at the time of securitization.³

4. No Fraud

- No fraud, misrepresentation, material error or omission or gross negligence has taken place on the part of the sponsor and to the best of the sponsor's knowledge, any other party in connection with the origination of the mortgage loan, the determination of the value of the mortgaged property, or the sale or servicing of the mortgage loan prior to the securitization closing date.

1 For purposes of this document a seasoned loan is defined as a currently performing loan that is at least 18 months from its first scheduled payment date. Generally all loans in the pool must be seasoned to be eligible for the seasoned loan R&Ws, however, non-performing loans less than 18 months seasoned that are included in seasoned pools will be eligible for the seasoned loan criteria as well.

2 If the sponsor has obtained an updated property valuation, this R&W pertains to the updated property valuation; otherwise this R&W pertains to the original property valuation. Sponsor refers to the issuer, banker, originator or any party supplying data to Moody's for credit evaluation.

3 To be considered credit-neutral, property values for seasoned loans should be less than 120 days old, refer to the annex within "Moody's Enhanced Approach to Originator Assessments", 9/22/2009.

5. Regulatory Compliance:⁴

- Each mortgage loan complies with all applicable federal, state and local laws including, without limitation, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws.

6. Borrower:⁴

To the best of the sponsor's knowledge:

- Each borrower is a natural person.
- As of origination, each borrower was legally permitted to reside in the United States.
- No borrower is a debtor in any state or federal bankruptcy or insolvency proceeding. No borrower had a prior bankruptcy in the last ten years⁵.
- No borrower previously owned a property in the last ten years that was the subject of a foreclosure during the time the borrower was the owner of record⁵.

7. Source of Loan Payments:⁴

To the best of the sponsor's knowledge:

- No loan payment has been escrowed as part of the loan proceeds on behalf of the borrower.
- No payments due and payable under the terms of the note and mortgage or deed of trust, except for seller or builder concessions or temporary buydown funds, have been paid by any person who was involved in, or benefited from, the sale or purchase of the mortgaged property or the origination, refinancing, sale, purchase or servicing of the mortgage loan other than the borrower.

8. No Prior Liens:

- Immediately prior to the transfer and assignment contemplated herein, the seller was the sole owner and holder of the mortgage loan or property (if REO) free and clear of any and all liens, pledges, charges or security interests of any nature.
- The seller has good and marketable title and has full right and authority to sell and assign the mortgage loan or property.

9. Enforceability and Priority of Lien:⁴

- The mortgage is a valid, subsisting and enforceable [first] [second] lien on the property therein described
- The mortgage establishes in the seller a valid and subsisting [first] [second] lien on the property described therein and the seller has full right to sell and assign the same to the securitization trust.

10. Complete Mortgage Files:⁴

- All of the required loan documents have been delivered to the custodian in accordance with the requirements of the governing document.
- For each mortgage loan, all loan documents necessary to foreclose on the mortgaged property are included in the mortgage files delivered to the custodian. For each REO property, all documents needed to transfer title to the property have been delivered to the custodian.

11. No Modifications:⁴

- Unless otherwise noted on the mortgage loan schedule, none of the mortgage loans have been modified in any material respect. If a mortgage loan has been modified, the modified terms are reflected on the mortgage loan schedule.
- None of the mortgage loans have been satisfied, canceled or subordinated in whole or in part.
- With respect to each mortgage loan, the mortgaged property has not been released in whole or in part from the lien of the mortgage.

12. Taxes Paid:

- All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, which previously became due and owing have been paid, or an escrow of funds has been established, to the extent permitted by law, in an amount sufficient to pay for every such item which remains unpaid.

⁴ Not required for REO properties.

⁵ Moody's recognizes that non-prime and sub-prime securitization pools will contain some borrowers that have a history of foreclosure or bankruptcy. However, in general, to be credit-neutral the expectation is that the criteria listed in the R&W will be met. The sponsor should provide the number of years past since bankruptcy discharge or initial foreclosure proceeding on the mortgage loan schedule and to Moody's if available.

13. No Damage / Condemnation:

- The mortgaged property is undamaged so as to affect adversely the value of the mortgaged property as security for the mortgage loan or the use for which the premises were intended.
- There is no proceeding pending or threatened for the total or partial condemnation of the mortgaged property.

14. No Mechanics Liens:

- The mortgaged property is free and clear of all mechanics' and material men's liens or liens in the nature thereof.

15. Fee Simple Estate / No Encroachments / Compliance with Zoning:

- The mortgaged property consists of a fee simple estate in real property⁴.
- All of the improvements which are included for the purpose of determining the appraised value of the mortgaged property lie wholly within the boundaries and building restriction lines of such property.
- No improvements on adjoining properties encroach upon the mortgaged property (unless insured against under the related title insurance policy).
- The mortgaged property and all improvements thereon comply with all requirements of any applicable zoning and subdivision laws and ordinances.

16. No Usury:⁴

- The mortgage loan is not usurious.

17. Legally Occupied:

- All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the mortgaged property and, with respect to the use and occupancy of the same, including, but not limited to, certificates of occupancy and fire underwriting have been made or obtained from the appropriate authorities.

18. Mortgage Loan Legal and Binding:⁴

- The mortgage note, the related mortgage and other agreements executed in connection therewith are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law).
- All parties had legal capacity to execute the documents.
- Such documents have been duly and properly executed.

19. Proceeds Fully Disbursed / Recording Fees Paid:⁴

- The proceeds of the Mortgage Loan have been fully disbursed.
- There is no requirement for future advances.
- All requirements as to completion of improvements and as to disbursements of any escrow funds therefore have been complied with.
- All costs, fees and expenses incurred in making, closing or recording the mortgage loan have been paid.

20. Existence of Title Insurance:

- The mortgage loan is covered by an American Land Title Association mortgagee title insurance policy or other generally acceptable form of policy or insurance acceptable to Fannie Mae or Freddie Mac, issued by a title insurer acceptable to Fannie Mae or Freddie Mac insuring the originator, its successors and assigns, as to the [first] [second] priority lien of the mortgage in the original principal amount of the mortgage loan.
- The assignment to the securitization trust of such mortgagee title insurance policy does not require any consent of or notification to the insurer which has not been obtained.
- Such mortgagee title insurance policy is in full force and effect.
- No claims have been made under such mortgagee title insurance policy.
- No prior holder of the related mortgage has done, by act or omission, anything which would impair the coverage of such mortgagee title insurance policy.

21. Hazard Insurance:

- The mortgaged property is insured by an insurer acceptable to Fannie Mae or Freddie Mac against loss by fire and such hazards as are covered under a standard extended coverage endorsement.
- The amount of coverage is not less than the lesser of 100% of the insurable value of the mortgaged property and the outstanding principal balance of the mortgage loan, but in no event less than the minimum amount necessary to fully compensate for any damage or loss on a replacement cost basis.
- If the mortgaged property is a condominium unit, it is included under the coverage afforded by a blanket policy for the project.
- If upon origination of the mortgage loan, the mortgaged property was in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards, a flood insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration is in effect with a generally acceptable insurance carrier.
- If applicable, the amount of flood hazard coverage is not less than the least of (A) the outstanding principal balance of the mortgage loan, (B) the full insurable value of the mortgaged property and (C) the maximum amount of insurance which was available under the National Flood Insurance Act of 1968, as amended.
- Each mortgage obligates the mortgagor thereunder to maintain all such insurance at the mortgagor's cost and expense.

22. No Defense of Insurance Coverage:

- No action has been taken or failed to be taken, no event has occurred and no state or facts exists which has resulted or will result in an exclusion from, denial of, or defense to coverage under any applicable special hazard insurance policy or bankruptcy bond irrespective of the cause of such failure of coverage except the failure of the insurer to pay by reason of such insurer's breach of the insurance policy or the insurer's financial inability to pay

23. No Default:⁴

- There is no default, breach, violation or event of acceleration existing under the mortgage or the related mortgage note and no event which, with the passage of time or with notice and the expiration of any grace or cure period would constitute a default, breach, violation or event of acceleration.
- No default breach, violation or event of acceleration has been waived.
- Unless noted on the mortgage loan schedule, no foreclosure action is currently threatened or has been commenced with respect to the mortgage loan.

24. No Rescission:⁴

- No mortgage note or mortgage is subject to any right of rescission, set-off, counterclaim or defense.
- None of the terms will render the mortgage note or mortgage unenforceable or subject it to any right of rescission, set-off, counterclaim or defense.
- No such right of rescission, set-off, counterclaim or defense has been asserted.

25. Enforceable Right of Foreclosure:⁴

- Each mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security.
- There is no homestead or other exemption available to the mortgagor which would interfere with such right of foreclosure.

26. Subject Property is 1-4 Family:

- Unless noted on the mortgage loan schedule, each property is located in the United States and consists of a one- to four-unit residential property, which may include a detached home, townhouse, condominium unit or a unit in a planned unit development or, in the case of by co-op shares, leases or occupancy agreements.

27. Mortgage Loan Qualifies for REMIC:⁴

For REMIC transactions:

- The mortgage loan is a "qualified mortgage" within the meaning of Section 860G(a)(3) of the Code.

28. Doing Business:

To the best of the Seller's knowledge:

- All parties that have had any interest in such mortgage loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) in compliance with any and all applicable licensing requirements of the laws of the state wherein the related mortgaged property is located.

29. Environmental Laws:

- The property is in material compliance with all applicable environmental laws pertaining to environmental hazards including, without limitation, asbestos.

30. Loans Current / Prior Delinquencies:⁴

- Unless noted on the mortgage loan schedule, all payments required to be made up to the due date immediately preceding the cut-off date for such mortgage loan under the terms of the related mortgage note have been made and no mortgage loan had more than one delinquency in the 12 months preceding the cut-off date.

31. Servicing:⁴

- The servicing and collection practices used by the Servicer with respect to the Mortgage Loan have been in all respects legal, proper, prudent and customary in the mortgage servicing business. While the Mortgage Loan has been serviced by the Servicer, it has been serviced in accordance with the terms of the Mortgage Note or any applicable Forbearance Plan or Bankruptcy Plan

Criteria for Representations and Warranties Provider

The R&W provider must:

- a. be rated A1 or higher by Moody's

Or

- b. Provide additional .50% to 5% or more of the original balance of the collateral as credit enhancement ("CE") or liquid reserves ("LR") to cover losses incurred due to R&W breaches

- a. The amount of CE/LR will be determined based on

- i. the sample size of the third party pre-securitization review (TPR)
- ii. the results of the TPR
- iii. the amount of seasoning of the collateral
- iv. the past performance of the collateral

b. For example, if the sponsor elects to do 100% compliance/legal TPR, the result of which reveals minimal or no errors, the amount of CE/LR would tend toward the minimum of the range. Conversely, for a transaction where the sponsor elects to perform the minimum sample, a significantly higher CE/LR would be needed to absorb potential losses due to R&W breaches.

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