7A(c)(2)
802.4

Verne, B. Michael

From: [redacted]
Sent: Wednesday, March 08, 2006 12:11 PM
To: Verne, B. Michael
Subject: Valuation of Non-Exempt Assets Issue

Mike--

I need some guidance concerning valuation of non-exempt assets. A client is considering buying all of the stock of a company that is in the business of originating, servicing and selling mortgage loans. The servicing of mortgage loans will continue after the mortgage loans have been sold. I understand that the originating of mortgage loans, servicing of those mortgage loans while held by the originating company and the sale of those mortgage loans (as well as any assets directly related that business) is exempt under 7A(c)(2) and 802.4. I also understand that the servicing of mortgage loans that have been sold is not exempt and must be valued for purposes of determining whether the size-of-transaction test is satisfied (we believe that this is the only non-exempt asset).

In valuing the business of servicing mortgage loans that have been sold, I expect that the client would make a fair market valuation based on this business being a going concern. In doing so, does the client assume that the company will continue to originate mortgage loans that will be sold, which will replenish the pool of mortgage loans that it services? We do not believe that the company services loans that it does not originate. Alternatively, does the client treat the origination of mortgage loans as completely exempt and, therefore, a business that does not occur for purposes of the HSR valuation? By doing so, the client would value the business based on the servicing that it does for the existing mortgage loans that it has sold, but would assume that once these mortgage loans have been paid in full, there would be no more servicing (since there would have been no more originations) -- in essence, a dead end business.

Blumenthal
3/8/06

I would appreciate any guidance that you could provide.

Best regards,

[redacted]