

801.10

**Verne, B. Michael**

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**From:** [REDACTED]  
**Sent:** Tuesday, April 22, 2008 7:04 PM  
**To:** Verne, B. Michael  
**Subject:** Question regarding mortgage servicing transaction

Mike, hope all is well.

We had a vexing question regarding a purchase of mortgaging servicing rights.

Assume someone contemplates buying all of the mortgaging servicing rights that a seller owns for \$8 million but, in connection with the transaction will also reimburse the current owner an amount equal to the so-called "Unreimbursed Advances" made by the Seller and all "accrued and unpaid Servicing Fees."

"Unreimbursed Advances" refers to payments the servicer has made on behalf of the mortgagees to pay for things like insurance and property taxes. Assume this amount is large - say \$300 million. In the ordinary course, the mortgagee would pay these back. The seller, which also operates a bank, is not through this transaction exiting entirely the business of extending credit to customers, although it is exiting the mortgage servicing business (and may well later sell out of the banking business entirely, although, again, not in this transaction). So one might argue this piece of it is an ordinary course disposal.

Accrued and unpaid Servicing Fees refers to what the servicer is entitled to from the mortgage holder for servicing but has not yet received. (This is in the nature of accounts receivable I suppose.) Assume this amount is about \$30 million.

Under 802.4, I understand the transaction would not be reportable unless the "Unreimbursed Advances" are reportable assets. I would think they are not under the ordinary course argument (or perhaps something else), but wondered if you have ever encountered this issue before or could offer guidance.

I understand that the other two categories (the \$8 million for the mortgage servicing rights themselves and the payment for accrued and unpaid servicing fees) probably are reportable based on interpretations I have seen, particularly Interp. 9 in the ABA book (referring to HSR Informal Interpretation Letters #0410001 and 0406002) and Formal Interpretation 9.

[REDACTED]

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I'd be inclined to look at the unreimbursed advances as cash equivalents (similar to prepaid expenses which we have categorized as such), so the value of the transaction would be \$38 MM.

BM  
4/23/08