

**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	Chapter 11
	)	
HomeBanc Mortgage Corporation, <i>et al.</i> , <sup>1</sup>	)	Case No. 07-11079 (KJC)
	)	
Debtors.	)	Joint Administration Pending
_____		)

**AFFIDAVIT OF DONALD R. RAMON IN SUPPORT  
OF CHAPTER 11 PETITIONS AND FIRST DAY ORDERS**

STATE OF GEORGIA	)	
	)	ss:
COUNTY OF DEKALB	)	

Donald R. Ramon, being duly sworn, deposes and says:

1. I am the Senior Vice President and Controller of HomeBanc Corp. ("HomeBanc"),<sup>2</sup> a Georgia corporation, and the parent company of HomeBanc Mortgage Corporation, a Delaware corporation, ("HMBC"). On August 9, 2007 (the "Petition Date"), HomeBanc, HMBC and their various direct and indirect affiliates, HomeBanc Funding Corp. ("HomeBanc Funding"), HomeBanc Funding Corp. II ("HomeBanc Funding II"), HMB Acceptance Corp. ("HMB Acceptance"), and HMB Mortgage Partners, LLC ("Mortgage Partners") (collectively, the "Debtors") each commenced a case under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in this Court. I have been employed by

<sup>1</sup> The last four digits of the taxpayer identification numbers for each of the Debtors follow in parentheses: (i) HomeBanc Mortgage Corporation (2745); (ii) HomeBanc Corp. (3067); (iii) HomeBanc Funding Corp. II (6229); (iv) HMB Acceptance Corp. (6280); (v) HMB Mortgage Partners, LLC (9446); and (vi) HomeBanc Funding Corp. (5742). Each of these entities has a mailing address of: 2002 Summit Boulevard, Suite 100, Atlanta, GA 30319.

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the corresponding First Day Orders (as defined herein).

the Debtors since March, 2005 and I am familiar with the day-to-day operations, businesses, and financial affairs of the Debtors.

2. HomeBanc is a mortgage real estate investment trust (“REIT”) that earns net interest income from its investment in mortgage loans and securities and, through its taxable subsidiaries, earns fee income from originating, servicing, and selling mortgage loans. Until the Debtors were forced to discontinue operations, as further described below, mortgages were originated by certain of the Debtors through a network of loan origination offices (the “Retail Origination Business”). Some of the loans originated by the Debtors were – and continue to be – serviced by the Debtors.

3. Upon commencement of these Chapter 11 cases, the Debtors will continue to operate as debtors in possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

4. I submit this affidavit to assist the Court and other parties in interest in understanding the circumstances that compelled the commencement of these Chapter 11 cases, and in support of the various motions and applications, filed contemporaneously herewith, seeking issuance and entry of first day orders. Except as otherwise indicated, all facts set forth in this affidavit are based upon my personal knowledge, my review of relevant documents, or my opinion based upon my experience, knowledge, and information concerning the Debtors’ operations and financial affairs. If I were called upon to testify, I would testify competently to the facts set forth in this affidavit. I am authorized by each of the Debtors to submit this affidavit.

## BACKGROUND

### **A. The Debtors' Business Operations**

5. Prior to the Petition Date, the Debtors' businesses primarily entailed the origination, servicing and sale of prime retail mortgage loans, as well as the investment in, and management of a portfolio comprised of, mortgage loans and mortgage-backed securities resulting from the securitization of residential mortgage loans. The Debtors historically have offered an array of mortgage products, and primarily have made loans to borrowers with good, and in nearly all cases "prime," credit profiles. The majority of the Debtors' investment portfolio has consisted of prime adjustable-rate mortgage ("ARM") loans (and interests in securitized pools thereof), as well as mortgage-backed securities of other issuers.

6. As of December 31, 2006, the Debtors held a leveraged portfolio of mortgage loans held for investment and mortgage-backed securities in the amount of approximately \$5.7 billion. As of December 31, 2006, the Debtors operated more than 21 loan production offices located in Georgia, Florida and North Carolina. The Debtors originated approximately \$5.9 billion in aggregate principal amount of loans in 2006.

7. A large component of the Debtors' businesses is the servicing of loans. Through their servicing business, the Debtors' collect mortgage payments, administer tax and insurance escrows, respond to borrower inquiries and maintain control over collection and default mitigation processes. As of December 31, 2006, the Debtors serviced approximately 39,355 loans with an aggregate principal amount of approximately \$8.0 billion. The Debtors continue to conduct the servicing business, which constitutes a valuable asset of the Debtors' estates.

8. As of June 30, 2007, on an unaudited book value basis, the Debtors had total assets of approximately \$5.1 billion and total liabilities of approximately \$4.9 billion. As of the Petition Date, the Debtors had 184 employees.

### **The Warehouse Facility**

9. In order to maintain adequate liquidity pending the ultimate sale of their loans, the Debtors entered into a warehouse financing arrangement (the "Warehouse Facility"). The arrangement is documented under a Master Repurchase Agreement facility, with JP Morgan Chase as lead lender. In addition, the Debtors are a party to a Loan and Security Agreement (the "Loan Agreement") among JP Morgan Chase as administrative agent and various lenders. The Loan Agreement provides for a \$75 million committed facility to provide the Debtors with working capital. As of the Petition Date, approximately \$67 million principal amount (plus interest, fees and expenses) is outstanding under the Loan Agreement. Pursuant to this facility, the loans are sold to an institution for a purchase price that is generally thought to be less than the fair market value of the loans. The sale is subject to an obligation of the Debtors to repurchase the loans at a price equal to the original purchase price, plus a differential representing the time value of money and is subject to an obligation on the part of the purchaser to resell the loan to the Debtors at that price. The Master Repurchase Agreement generally permits the purchaser to periodically mark the purchased loans to market and, if the value of the loans has declined, to demand additional margin payments. If the Debtors fail to meet a margin call, the purchasers are entitled to declare an event of default and accelerate the Debtors' obligation to repurchase, thus extinguishing that right. The Debtors also warehoused financed loans under other smaller repurchase facilities.

## **Loan Sales and Securitizations**

10. As noted above, the Debtors sold a portion of the mortgage loans that they originated in the secondary mortgage market through whole loan sales or in the form of securitizations. With respect to mortgage loans that the Debtors originated but did not securitize, the Debtors typically sold those loans in the secondary mortgage market to securities dealers, large national banks, Fannie Mae, Freddie Mac and other institutional loan buyers. Typically, the Debtors sold loans on a limited recourse basis in order to reduce exposure to default risk, except that pursuant to the underlying purchase agreements, the Debtors generally committed to repurchase or substitute a loan if (i) a payment default occurred early in the life of the loan (an “Early Payment Default” or “EPD claim”), (ii) the selling entity breached its representations and warranties or (iii) the loan did not comply with the underwriting standards or other requirements of the ultimate investor.

11. The Debtors sold most of the loans they originated. Some loans were sold into securitization trusts, some of which were sold to investors and some of which the Debtors retained a residual interest. The securitization trusts are distinct legal entities not included in the Debtors’ Chapter 11 filings.

## **Loan Servicing**

12. An active part of the Debtors’ business is its servicing platform, which is conducted through HMBC. Loans are serviced primarily for the trusts of the Debtors’ securitizations and for Fannie Mac, Freddie Mac and other third-party purchasers of the loans originated by the Debtors. Loan servicing activities are designed and implemented to ensure that the borrowers repay each loan in a mortgage servicing portfolio in accordance with its terms. The Debtors’ servicing business collects mortgage payments, administers tax and

insurance escrows, responds to borrower inquiries and enables the Debtors to maintain control over the collection and default mitigation processes. The loan servicing business also provides the Debtors with a stable cash flow.

13. As of December 31, 2006, the Debtors serviced approximately 39,355 loans with an aggregate principal amount of approximately \$8.0 billion. The Debtors receive a fee for each loan serviced. These servicing fees are typically collected from the monthly payments made by the borrowers on the loans. In addition, the Debtors receive other remuneration for loan servicing including float benefits representing interest earned on collection accounts where mortgage payments are held pending remittance to investors, as well as mortgagor-contracted fees such as late fees and, in some cases, prepayment penalties.

#### **Investment Portfolio**

14. In addition to owning loans pending sale, the Debtors purchase mortgage backed securities.

15. As of December 31, 2006, the Debtors held a leveraged portfolio of mortgage loans and mortgage-backed securities in the amount of approximately \$5.7 billion.

### **B. The Corporate Structure**

#### **HomeBanc Mortgage Corporation and its Direct Subsidiaries**

16. HMBC, a Delaware corporation, is a direct, wholly owned subsidiary of HomeBanc, a Georgia corporation. HMBC is the direct obligor with respect to certain other transactions. HMBC wholly owns HMB Mortgage Partners, LLC, a Delaware limited liability company. HMBC also wholly owns other non-debtor entities. HMBC is the operating company that originates loans and serves as the servicing arm for the Debtors' loans as well as loans for third parties.

### **HomeBanc Corp. and its Direct Subsidiaries**

17. HomeBanc, a Georgia corporation, operates as a REIT for federal income tax purposes, and its common stock was publicly traded on the New York Stock Exchange under the symbol "HMB." HMB is the ultimate parent of each of the other Debtors. HomeBanc guarantees certain obligations of other Debtors and non-debtors, and is the direct obligor with respect to certain other transactions.

18. HomeBanc wholly owns HomeBanc Funding, a Delaware corporation, HomeBanc Funding II, a Delaware corporation, and HMB Acceptance, a Delaware corporation.

#### **C. Principal Indebtedness**

19. As noted above, to finance mortgage loan production, the Debtors used a credit facility generally in the form of a master repurchase agreement (the "Master Repurchase Agreement") with lenders under the Warehouse Facility (the "Warehouse Lenders") and with other lenders under similar repurchasing agreements. In addition, as mentioned above, the Debtors are a party to Loan Agreement. The Loan Agreement provides for a \$75 million committed facility to provide the Debtors with working capital. As of the Petition Date, approximately \$67 million principal amount (plus interest, fees and expenses) is outstanding under the Loan Agreement. Pursuant to the Master Repurchase Agreements, each Warehouse Lender provided borrowing ability to the Debtors. In the ordinary course of their businesses, the Debtors used each Warehouse Lender's credit facility, together with their own capital and borrowings under other arrangements, to fund the production of mortgage loans. Pursuant to the terms of the various Master Repurchase Agreements, the underlying Warehouse Lenders have the right to require, each time funds are advanced to

fund a mortgage loan, that the Debtors use a portion of their own capital to cushion that Warehouse Lender against nonperforming mortgage loans. These funds paid by the Debtors as a portion of the proceeds of the mortgage loans are referred to in the industry as the "haircut."

20. As described, the Debtors typically sold a mortgage loan shortly after originating it, generally within one to three months. When a mortgage loan is sold, the portion of the line of credit used to fund the mortgage loan is repaid to the Warehouse Lender and the haircut is returned to the Debtors.

21. Prior to the repayment, the Debtors' obligation to repay the Warehouse Lender is secured by a security interest in the mortgage loan originated with the funds from that Warehouse Lender's line of credit. The Master Repurchase Agreements require the Debtors' subsidiaries to maintain a collateral balance under the Master Repurchase Agreements such that the total value of the collateral securing the obligations under the Master Repurchase Agreements is at least equal to the value of the obligations under the mortgage loans minus the haircut. If the value of the collateral drops below that amount, the Warehouse Lender is entitled to make a margin call requiring the Debtors to post additional cash as collateral.

22. As noted above, under the Master Repurchase Agreements, each of the Warehouse Lenders has a right to accelerate the Debtors' repayment obligation (referred to as an obligation to repurchase the mortgage loans financed under the respective agreement) in the event of a default under the Repurchase Agreement including the failure to satisfy financial covenants (e.g., liquidity and minimum tangible net worth covenants). The Warehouse Lenders also have the right to cease providing financing to the Debtors in the



event of default. All of the Debtors' Warehouse Lenders have discontinued providing financing as a result of alleged defaults by the Debtors under the Master Repurchase Agreements.

**D. Other Prepetition Liabilities.**

23. In addition, the Debtors have accounts payable and other accrued expenses such as lease obligations and potential claims resulting from pending litigation, that may give rise to additional claims.

**EVENTS LEADING TO THESE CHAPTER 11 FILINGS**

24. As has been heavily publicized in the media, the secondary mortgage loan industry in America has virtually collapsed in the last few weeks and months. The rapid and severe devaluation of the Debtors' mortgage-backed securities and mortgage loan holdings was caused by, among other factors, a weakened housing market, falling real estate prices and a spike in consumer defaults on mortgage loan obligations. The downward pressure on loan and security values accelerated as more and more borrowers were forced to sell securities and loans in an effort to meet margin calls, such that, during the past several weeks, the markets for these assets has been disrupted to the point of dysfunction. The disruption in the credit and liquidity markets in the past few weeks was unprecedented in the Debtors' experience and caused major write-downs of its loan and security portfolios.

25. These events have adversely impacted many mortgage originators and mortgage investors. In the last two weeks, originators including Countrywide Financial Corp., Accredited Home Lenders Holding and American Home Mortgage Holdings, as well as mortgage investors, C-Bass and certain Bear Stearns funds, have issued press releases concerning lowered earnings, credit issues and bankruptcy.

26. In the case of the Debtors, these write downs led to significant margin calls with respect to the Debtors' credit facilities. As of early August, the Debtors became unable to meet these borrowing arrangements.

27. As a consequence, the Debtors' prepetition lenders, including the Warehouse Lenders under the Warehouse Credit Facility have provided the Debtors notices of purported defaults and have notified the Debtors that they intend to exercise certain rights, including the right to sell mortgage loans financed under the credit facilities and offset the proceeds from such a sale against amounts owed by the Debtors, or that they intend to retain the mortgage loans and will determine the value of the loans for the purpose of determining an offset against amounts owed by the Debtors. The Warehouse Lenders have also notified the Debtors that they reserve their purported rights to seek recovery of any shortfall after that offset. The Debtors have notified the Warehouse Lenders that the Debtors dispute certain allegations and reserve their rights with respect to these actions and that the Warehouse Lenders are obligated to proceed in a commercially reasonable manner in connection with any sale of assets subject to the Warehouse Facilities.

28. In addition, the Debtors received a notice of termination of the Debtors' status as an eligible servicer from Freddie Mac regarding servicing of Freddie Mac owned loans. Freddie Mac has notified the Debtors that such termination serves as the basis for disqualifying the Debtors from continuing to act as servicer for their loans. The Debtors have also disputed these allegations, as the Debtors' servicing business continues to efficiently and effectively service loans.

29. The Debtors, assisted by counsel and professional advisors, have worked diligently to preserve as much value as possible. Despite the Debtor's consideration of any

number of strategic alternatives, including, without limitation, a corporate reorganization and/or a transaction with a third party, the Debtors were forced to completely shut down their mortgage loan origination business.

30. On August 7, 2007, the Debtors implemented a reduction in their workforce, resulting in the termination of approximately 800 employees. The Debtors retained approximately 184 employees who are absolutely essential to the Debtors' remaining operations and continued orderly wind-down of all operations. It is anticipated that the employee headcount will reduce further as various wind-down tasks are completed and the Debtors' remaining assets are sold.

#### **FIRST-DAY MOTIONS AND APPLICATIONS**

31. As a result of my first-hand experience, and through my review of various materials and information, discussions with other of the Debtors' executives, and discussions with the Debtors' outside advisors, I have formed opinions as to (a) the necessity of obtaining the relief sought by the Debtors in the First Day Papers listed on Exhibit A, (b) the need for the Debtors to continue to operate effectively, and (c) the deleterious effects upon the Debtors of not obtaining such relief.

32. I have reviewed each of the First Day Papers (including the exhibits and schedules attached thereto) and, to the best of my knowledge, believe the facts set forth therein are true and correct. Such representation is based upon information and belief and through my review of various materials and information, as well as my experience and knowledge of the Debtors' operations and financial condition. If I were called upon to testify, I could and would, based upon the foregoing, testify competently to the facts set forth in each of the First Day Papers.

33. Accordingly, for the reasons stated herein and in each of the First Day Papers filed concurrently or in connection with the commencement of these cases, I respectfully request that each of the First Day Papers be granted in its entirety, together with such other and further relief as this Court deems just and proper.

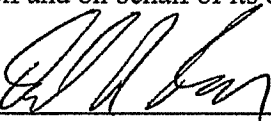
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**CONCLUSION**

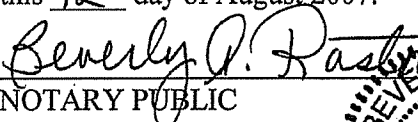
I respectfully request that all the First Day Orders be entered.

Dated: August 12, 2007.

HOMEBANC MORTGAGE CORPORATION  
(for itself and on behalf of its debtor subsidiaries)

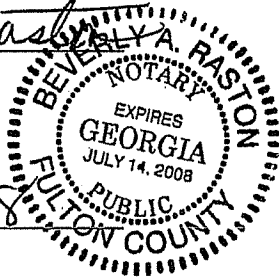
By:   
Donald R. Ramon  
Senior Vice President and Controller

Sworn to and subscribed before me  
this 12 day of August 2007.

  
NOTARY PUBLIC

Commission Expires:

7/14/2008



## **EXHIBIT A**

### **List of First Day Motions and Applications**

#### **A. Administrative and Procedural Matters**

1. Motion for Order Authorizing Joint Administration Pursuant to Bankruptcy Code Section 302, as Supplemented by Bankruptcy Rule 1015 and Local Rule 1015-1.
2. Application for Order Approving Debtors' Retention of Kurtzman Carson Consultants LLC as Claims, Notice and Balloting Agent Pursuant to 28 U.S.C. § 156(c), Bankruptcy Rule 2002(f) and Local Rule 2002-1(f).

#### **B. Stabilization of Business Operations of the Debtors**

1. Motion for an Order Pursuant to Sections 105(a), 345, and 503(b)(1) of the Bankruptcy Code (I) Authorizing Debtors to Maintain and Use Existing Bank Accounts and Business Forms, (II) Authorizing the Debtors to Maintain and Use Existing Cash Management System, (III) Extending the Debtors' Time to Comply with Section 345 of the Bankruptcy Code; and (IV) Granting Administrative Expense Status to Postpetition Intercompany Claims.
2. Motion for an Order (A) Authorizing, but not Directing, the Debtors to (I) Pay Certain Pre-Petition Wages, Compensation and Employee Benefits; and (II) Continue Payment of Wages, Compensation and Employee Benefits in the Ordinary Course of Business; and (B) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay all Checks Presented for Payment and to Honor all Transfer Requests Made by the Debtors Relating to the Foregoing.