

Loss Mitigation The New Secondary Marketing Department Activity

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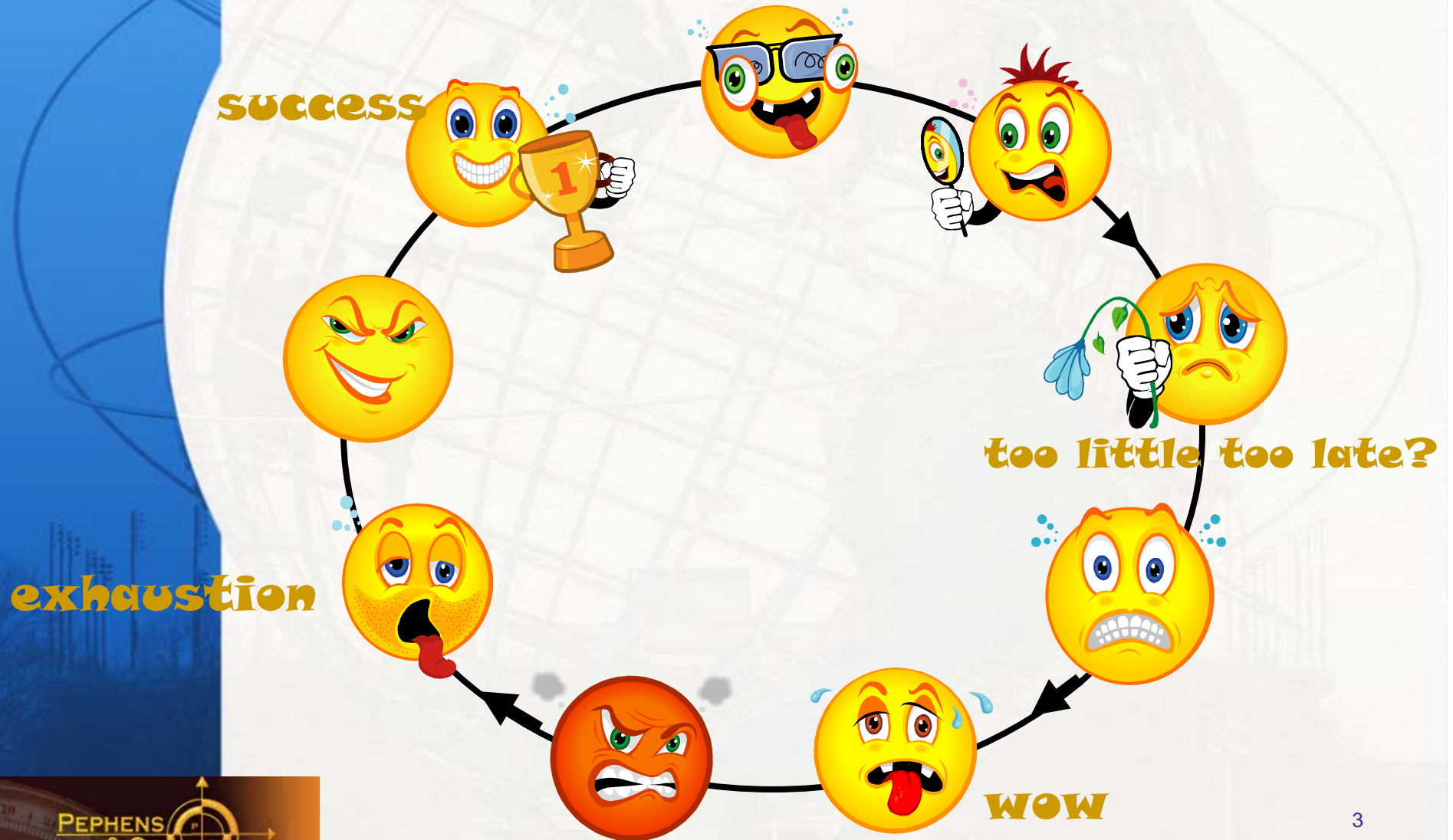
What the *Heck* is Loss Mitigation?



Why talk about it at a Secondary Conference?

- ✓ High level of Investor/Conduit interaction
- ✓ Repurchased assets s/n/b treated the same as "serviced loans"
- ✓ Proactive response required to prevent foreclosure – to which product knowledge and loan origination experience is required

Do you feel like you are going in circles?



What we didn't know then, and wish we did

- ✓ MBS Issuers can be demanding for specific niche products, then pull the plug - overnight
- ✓ The Push-Down effect
- ✓ Increasing number of repurchases – not just in the Sub-sub prime space like we thought



STEP 1: PERFORMANCE ASSESSMENT

- ✓ What happens when a borrower doesn't make a payment on a loan we are holding?
- ✓ What happens when a NOD is received?
- ✓ How do we respond to repurchase requests?
- ✓ What happens when we are unable to sell into secondary market?
- ✓ Do we have any policies or procedures?

STEP 2: WILL OUR PARTNERS HELP US?

- ✓ How can our warehouse lenders assist in longer-term financing?
- ✓ What will our Investors / Conduits do to help us?
- ✓ Do we need to reassess Investor Relationships?
- ✓ What are our rights to challenge our Investors?
- ✓ Do we have good legal counsel to chase others?
- ✓ Are there alternate avenues to sell loans besides current investors?

STEP 3: KEEP PRODUCTION ROLLING

- ✓ Conduct a thorough review of loan product offerings
- ✓ Identify alternate products and investors that meet the needs of the company's lending niche
- ✓ Focusing beyond a single product class
- ✓ RAPIDLY!!! and Proactively need to re-design product offerings and pricing methods
- ✓ Goal = Minimizing future product exposure and the risk of losing production

STEP 4: BECOME LOSS MITIGATION SPECIALISTS

Repurchase Requests are definitely one of a lender's worse nightmare. Proactively safeguarding the company is the first step.

- ✓ An internal collection effort is critical – especially when you do not service the loans you have originated
- ✓ Identifying a resource that is responsible for proactively contacting borrowers
- ✓ Becoming a proficient collection agent & default managers works



- ✓ Turning to the loan and quickly identifying options is imperative:
 - Restructure / Modify the transaction
 - Identifying alternative sources of interim financing and temporarily holding the loans.
 - Working with the investor to negotiate a settlement, actual repurchase or indemnification.
 - Identify sources for "Scratch and Dent" sales
 - Working with the originating parties to share in the loss

Consider this....

MBA's National Secondary Market
Conference & Expo 2007



- ✓ Obtain performance data from buyers
- ✓ Hard-money investing market
- ✓ Be ready to move out of specific high risk niches
- ✓ Best execution methodologies based upon flat "pricing" alone, does not build long term value in relationships with investors
- ✓ Don't "roll-over" for the investor
- ✓ Hire a great attorney to chase 3rd parties when fraud is suspected
- ✓ Bad brokers need to be reported
- ✓ Monitor the performance of *funded* high risk loans
- ✓ Be proactive, not reactive, with all relationships and transactions



IT'S NOT JUST "MAKING THE ENDS MEET".... IT'S SURVIVAL!!

- ✓ Minimize losses *while* sustaining production



- ✓ Be quick & nimble, and able address time sensitive situations quickly and efficiently.



IN CONCLUSION...YOU NEED TO CHOOSE...



OR



- A Loss Mitigation Strategy protects:
- ➔ Earnings & Capital
 - ➔ May save valued relationships
 - ➔ Will prevent the loss of financing
(and more!)