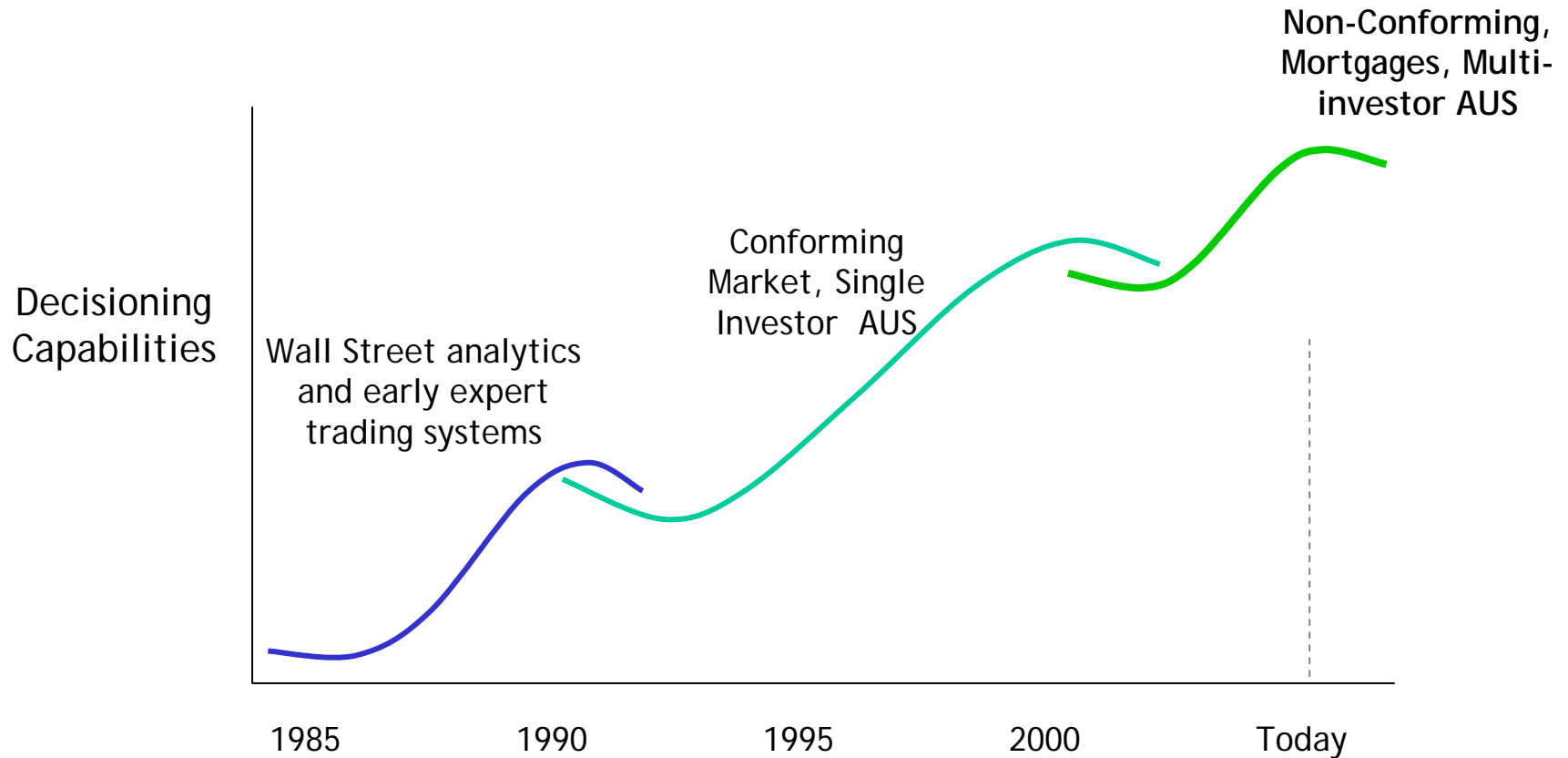




New Age Automated Underwriting Systems

Mortgage Bankers Association
2006 Residential Underwriting Conference
November 2006

The Evolution of Automated Underwriting



I have two decades of experience in sophisticated decision tools

The IDEAL System incorporate these attributes:

- return a decision in seconds
- handle product and pricing as well as full underwriting
- be agnostic / independent
- must enable business users to author rules in English
- incorporate non-traditional measures of credit-worthiness
- come with pre-built components out-of-the-box
- handle all mortgage loan products and all credit grades
- automatically handle exceptions
- have embedded workflow

The IDEAL System

“lenders ‘say yes’ to virtually every borrower, and say it fast to borrowers in all credit grades and those with nontraditional credit profiles, suggest loan programs to back the ‘yes’ and offer a risk-adjusted price.”

Scott Kersnar

The Technology Exists Today

- Continued adoption of automated underwriting decisions
- “Certified”, reusable AU decisions and prices
- Broader use for product eligibility and pricing - “best ex”
- Change at the pace of business, consistently beating competitors to new markets and new products,
- Greatly enhance transparency, accuracy and control,
- Operate at far lower costs to acquire, implement and maintain
- Perform at high levels of reliability with very fast response times

Overture Technologies

- Unmatched industry experience
 - Fannie Mae's Desktop Underwriter
 - Freddie Mac's Loan Prospector
 - Mozart 5.0 - PPE / AUS solution
- Business and technology thought leadership
- Robust, proven rules based technology
- Unparalleled speed and lowest total cost

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Hispanic National Mortgage Association

MBA Underwriting Conference – San Antonio

New Age Underwriting

November 9, 2006

Leonardo Simpser



Who is HNMA?

History

- Founded November 2003
- For-profit company with a defined social mission
- Sponsored and capitalized by prominent members of Hispanic Community

Mission

- To bring prosperity to the Hispanic Community through increased homeownership

Vision

- Transform the mortgage market so that the homeownership gap between the Hispanic and the general population is completely eliminated

Business Units

- HNMA Retail Ventures: pursuing opportunities in retail mortgage origination through its investment in Ilumina Mortgage, a JV with Wells Fargo
- HNMA Secondary Markets: develops partnerships to provide secondary market liquidity to loans with Hispanic-specific characteristics
- HAUS Systems: Division creating technology and quantitative models to measure Hispanic creditworthiness

HNMA Board of Advisors

Luis Maizel



**Henry
Cisneros**



Gary Acosta



Jack Kemp



Bruce Karatz



**David
Aufhauser**



**Antonia
Hernandez**



**Moctesuma
Esparza**



**Danny
Villanueva**



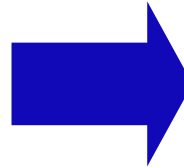
**Ana Maria
Fernandez-
Haar**



WHAT IS THE PROBLEM?



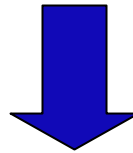
**CREDITWORTHY
BORROWERS**



High Cost Loans

Credit Denials

Fraud to Approve



WEALTH GAP

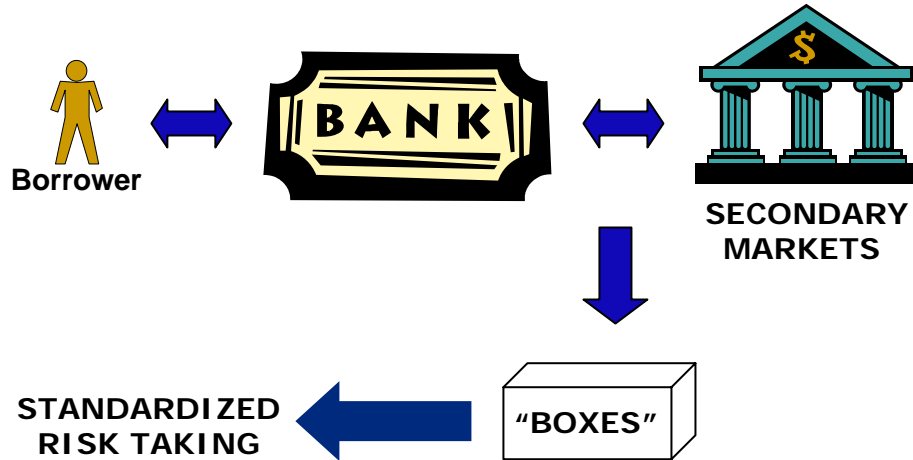
SOCIAL CRISIS

WHY DOES THE PROBLEM EXIST?

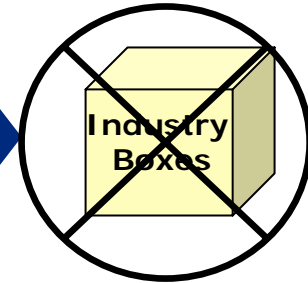
BUT...

Standardization -> Efficiency

Left Some Outside...



CREDI WORTHY
BORROWERS



MAIN CHARACTERISTICS OF BORROWERS LEFT 'OUTSIDE,' UNDERWRITING CHALLENGES

WILLINGNESS TO PAY

- Limited credit histories
- Low or no FICO scores

ABILITY TO PAY

- True household income? - Cash income / multiple jobs / income pooling
- Job stability \neq Income Stability

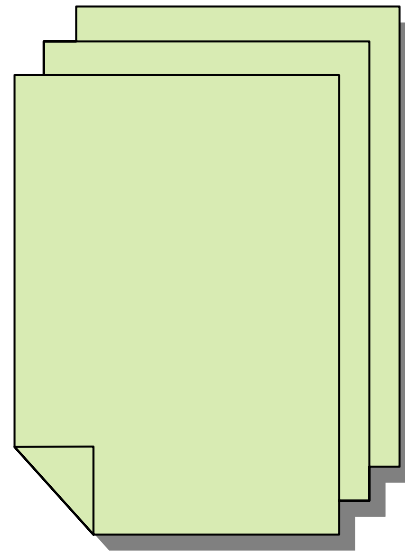
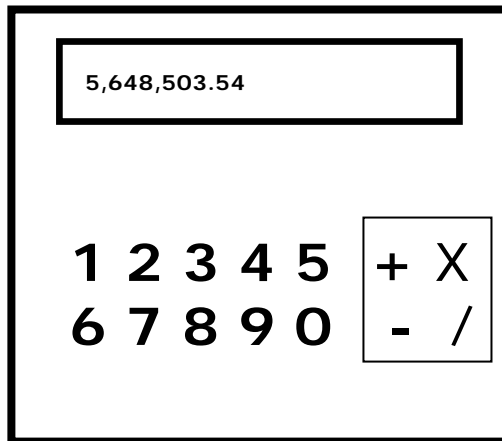
ECONOMICS

- Labor intensive process; challenges to scale
- Low balance loans
- Risk bearing?

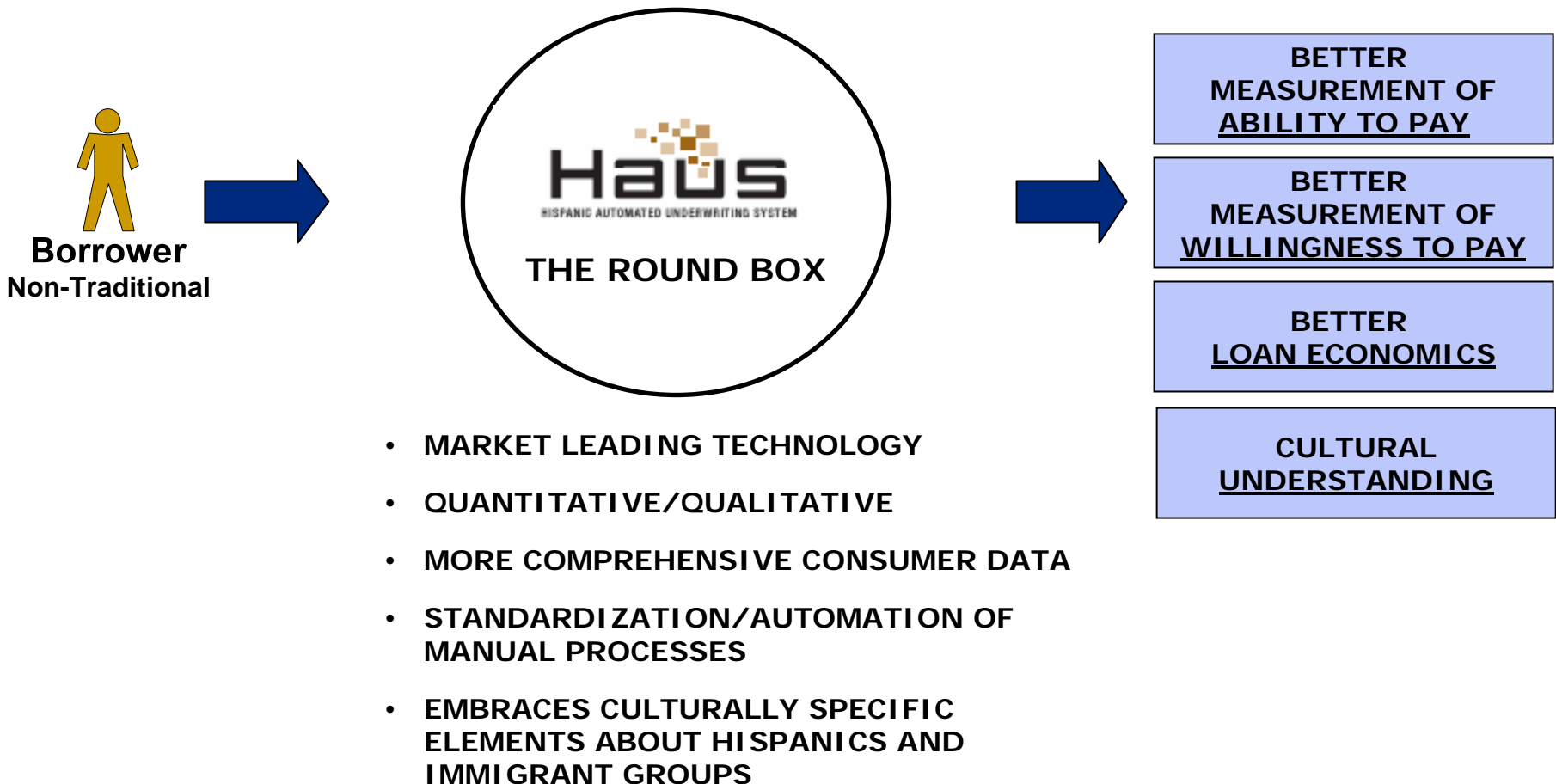
CULTURAL NUANCES

- Language
- Fear of Process, Other

3 LEADING EDGE TECHNOLOGIES USED TO UNDERWRITE AND ORIGINATE LOANS FOR THESE BORROWERS



WHAT IS THE SOLUTION?



ABC'S OF SOLUTION:

A) MEASURING RISK MORE ACCURATELY

- Break cycle of no info / no approval
- Incorporate Cultural Nuances
- Tap into alternative sources of information
- Capture new borrower data (Hispanic/EM centric)
- Continuous Research and Development

B) PROCESSING LOANS MORE EFFICIENTLY

Hispanic/EM loans have a higher origination cost:

- Small balance
- Non-traditional credit histories and income structures
- Language/Culture
- Little education on US home-buying process

A AND B ARE NECESSARY BUT NOT ENOUGH...

**MEASURING
CREDITWORTHINESS**

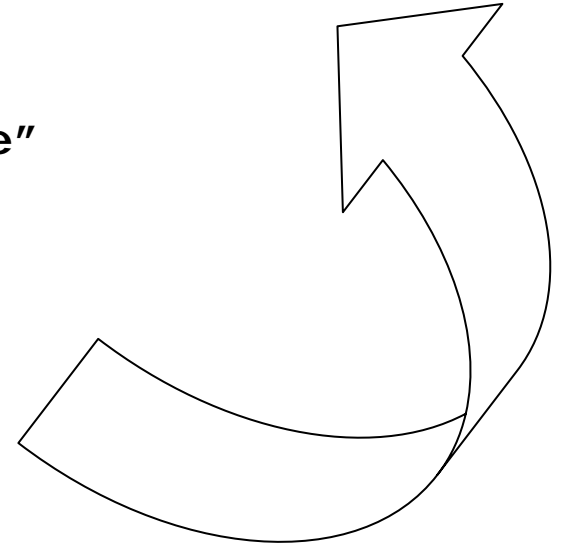
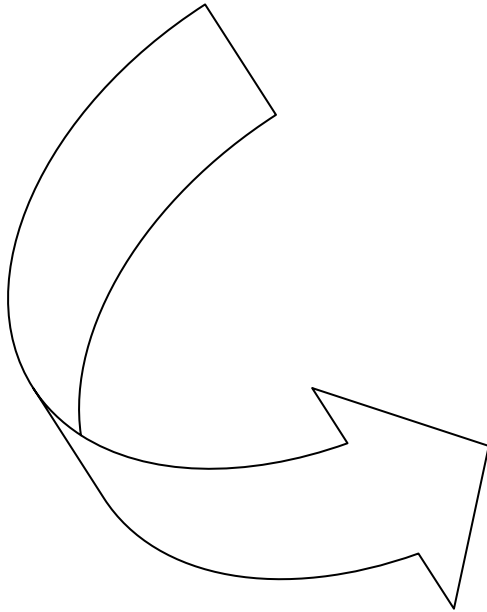


**PROVIDING
LIQUIDITY**

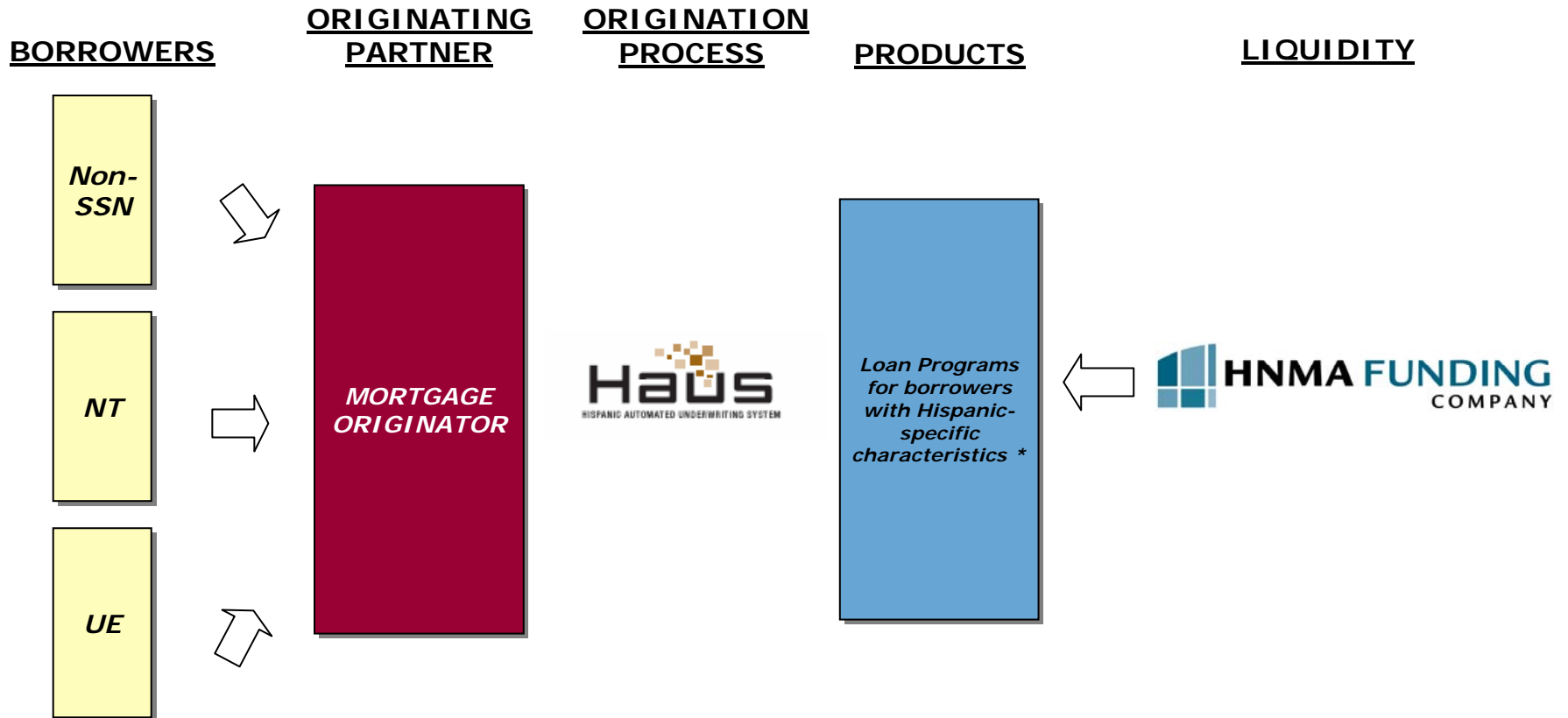


"The Innovation Triumvirate"

**ORIGINATION
EFFICIENCY**



WHAT DOES HNMA FUNDING DO?



* HNMA loan programs are for ALL borrowers; Hispanic-specific characteristics refers to the research that HNMA has done in order to build the programs; as such, the programs might be better suited for immigrant communities

THANK YOU!

WWW.HNMA.COM

WWW.HNMAFUNDING.COM

leonardo.simpser@hnma.com

HOW DOES HAUS HELP TO OVERCOME DIFFICULTIES?

EXISTING MARKET PROBLEMS

HAUS ANSWERS

WILLINGNESS TO PAY

- Limited credit histories
- Low or no FICO scores

- Automated NT Process for the Lender
- No training, more scalability

ABILITY TO PAY

- True household income? - Cash income / multiple jobs / income pooling
- Job stability \neq Income Stability

- Designed to deal with Hispanic-specific characteristics
- Years of quantitative and qualitative research build Hispanic-specific brain

ECONOMICS

- Labor intensive process; challenges to scale
- Low balance loans
- Risk bearing?

- Highly efficient and customized process
- Liquidity 'pre-approval'

CULTURAL NUANCES

- Language
- Fear of Process

- Hispanic-specific training from origination to sales
- HAUS is Hispanic-Centric



REDWOOD TRUST

New Age Automated Underwriting Systems

*Mortgage Bankers Association
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Company Overview – Redwood Trust Inc.

- Founded In 1994
- Publicly Traded REIT
- Current Market Cap Of \$1.3 Billion¹
- \$223 Billion Of Loans Under Management
- Large Investor In U.S. Jumbo Residential Mortgages
- Growing Commercial Portfolio
- Strong infrastructure for credit risk assessment, asset surveillance and loss mitigation

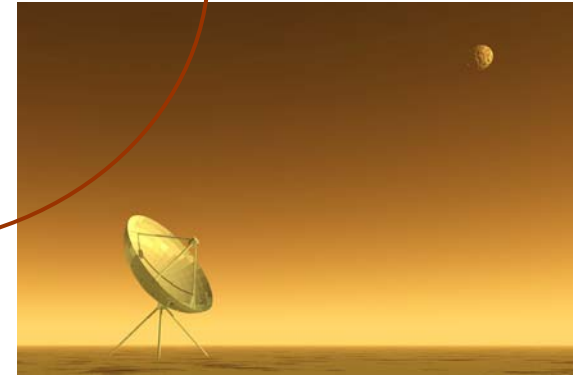
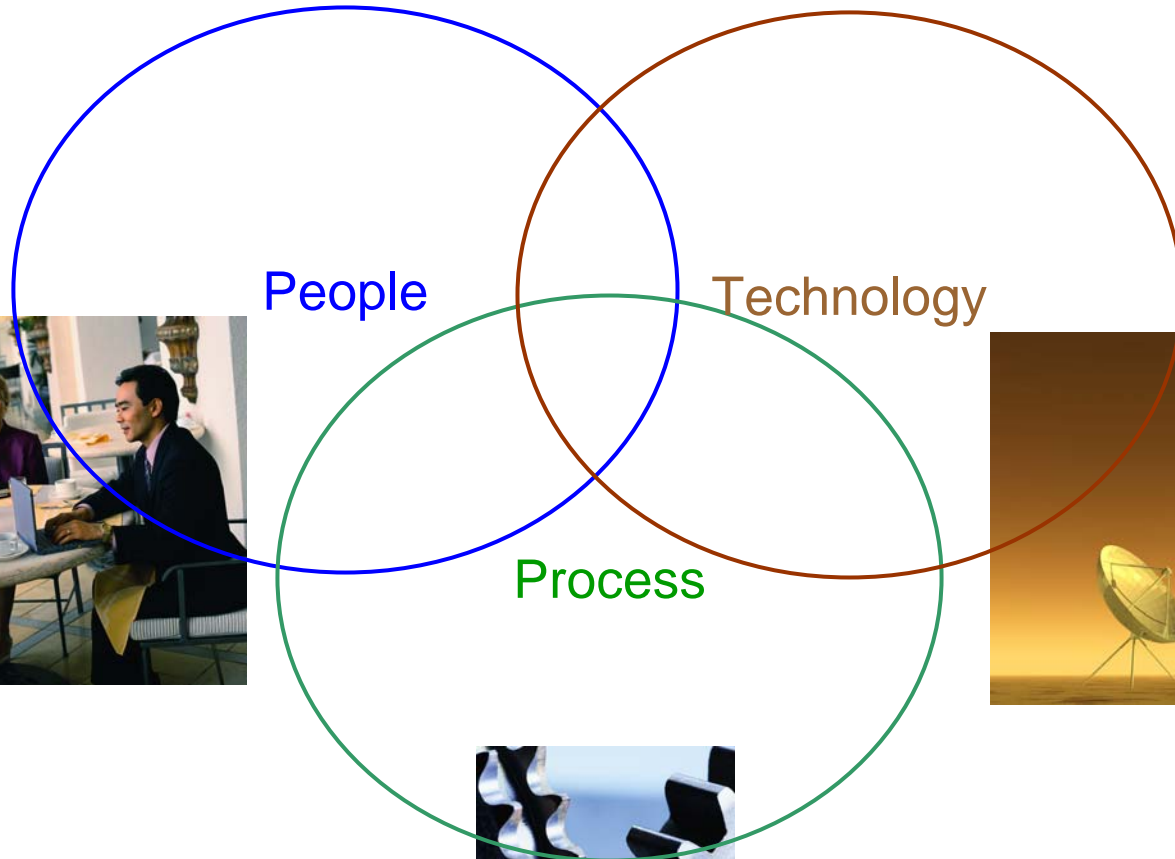
Note:

1) As of September 9, 2006





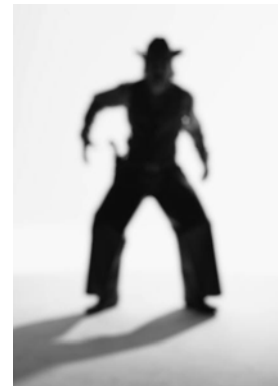
The usual suspects





Process

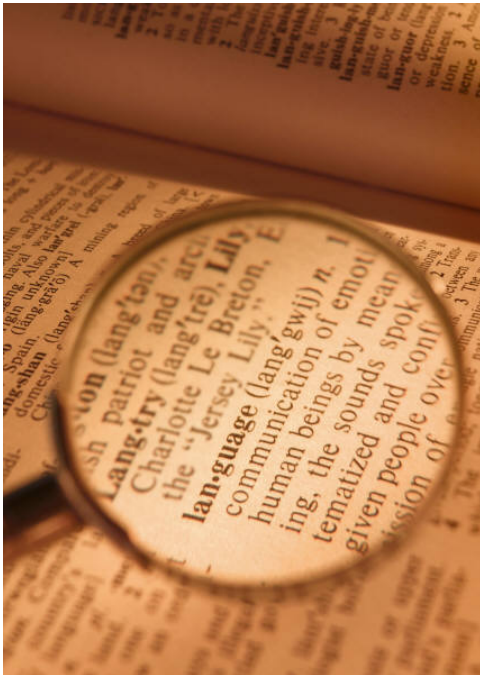
- AU is a function not a platform
- Just a piece of the puzzle
- Components create systems
- Big bang will get you shot





Technology

- It has to fit
- What if scenarios



- Help me understand
- Know the lingo



People

- Double whammy
- Skill set challenges
- Work/Work Balance





In conclusion....