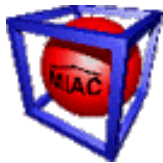


Commercial Servicing Rights

Market Overview & Valuation Considerations

Presentation by Mortgage Industry Advisory Corporation (MIAC)

November 2006



Overview of 2006 Servicing Market

Market Values

- Values for seasoned CMBS, FNMA, FHLMC, GNMA & FHA servicing rose approx. 10-15%, almost exclusively due to increases in earnings rates on escrow, replacement reserve and float balances.
- Prices on new issue CMBS servicing was strong in 2006. Approx. half of all new CMBS servicing is competitively bid in regular dealer auctions.

Supply & Demand

- Agency MSR portfolio sales volume was light in 2006.
- Most Portfolio owners continue to hold on to MSRs not wanting to sever relationships with their borrowers.
- M&A activity was lighter in 2006 than 2005. However, consolidation is continuing at a modest pace.

Commercial MSR's -Market Dynamics

- Most of servicing growth over the past five years is through either new master and primary CMBS purchases or through corporate acquisitions.
- Servicers are continuing to specialize in product niches such as GNMA/FHA, FNMA DUS, CMBS, Life Company and Special Servicing.
- Servicing income continues to be viewed as a hedge against a decrease in origination income & vice versa.
- Default rates are creeping upwards and will increase servicing costs.
- Technology is lowering the cost to service commercial loans resulting in rising servicing values.

Commercial MSR's

Valuation Considerations

- Each loan has its own unique servicing cash flow and should be valued individually.
- Difficult to do an apples-to-apples comparison of servicing even within the same investor type.
- FHA, GNMA, and FNMA DUS loans consistently produce the highest positive servicing cash flows due to a combination of high servicing fees, high replacement reserve balances and longer average life.
- CMBS servicing generally produce the lowest positive cash flows due to their lower servicing fees, lower net escrow earnings and shorter average life.

Current CMSR Valuation Practices

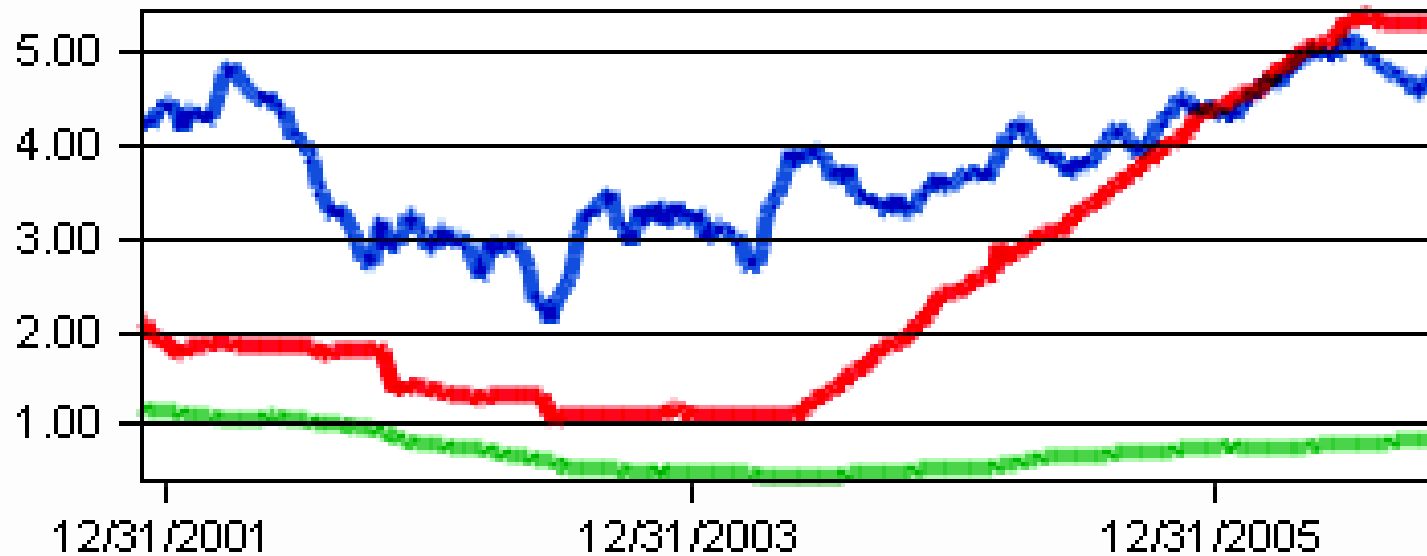
- Large Servicers value portfolio monthly utilizing LOCOM for GAAP Accounting
- Large Servicers value portfolio internally with proprietary cash flow model.
- Large Servicers that are Public Companies value quarterly including price sensitivity analysis
- New Originations are priced conservatively utilizing average benchmarks obtained from either internal or external market valuations.
- Several are actively hedging their interest rate risk on escrow, replacement reserve and float balances
- Middle Tier Servicers value portfolio Annually
- Some Servicers utilize actual performance within portfolio for their pricing assumptions vs. market based assumptions

Major Valuation Factors & FAS 156

- **Prepayment Speeds**- generally not a high volatility area due to lock outs and prepayment penalties
- **Earnings Rates on Escrows and P&I Float**- high volatility
- **Discount Rate or Required Yield**- generally a sticky assumption and not volatile
- **Earnings Spread on Replacement Reserves** - high volatility
- **Cost to Service**- cost have been increasing but generally not volatile from period to period
- **Float Days for P&I Remittance** – generally not volatile from period to period
- **Default Rates**- not a issue for non recourse MSR's but could become a factor for DUS loans if there is a significant downward spiral in real estate values

Key Rates for CMSRs

Source: Bankrate.com



- Five-Year Treasury Constant Maturity
- BRM Nat'l Index, MMA interest rate
- 1 Month LIBOR Rate

FAS 156 & CMSR Asset Classes

CMSR Asset Classes to Think About ...

- Loan types with difficult Price Discovery - Bridge & Mezzanine loans, Construction loans
- Loans with large replacement reserves – earnings could be volatile
- Specific CMBS transactions- possibly large loan
- Watch List loans or low DSCR loans- market values may be more volatile

Commercial MSR's - Trends for 2007 and Beyond

- The overall supply of servicing for sale should drop due to a decrease in new CMBS issuance.
- Prices for all Commercial MSR portfolios will continue to stay strong as higher short term earnings rates improve returns.
- Demand for MSR portfolios will continue to outpace the supply.
- Overall Industry consolidation will continue to escalate in the foreseeable future. This may hurt MSR Market value transaction benchmarks?
- Servicing efficiency levels will continue be redefined.

Commercial MSR's - Trends for 2007 and Beyond (Cont.)

- Servicing platforms will expand into new product types (CDOs) and geographical markets.
- Regulation AB compliance will increase the pressure on small primary servicers to sell their non agency, securitized servicing rights.
- Servicing is transitioning from the back office to a business- the costs, work, legal and risks associated with servicing are playing an increasing role.
- Barrier to entry- technology and operational costs of portfolio due diligence favor the larger more well capitalized companies.

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