

Mortgage Company Financial Performance

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Agenda

- Overview of MBA/STRATMOR Peer Group Program
- Highlights of First Half 2006 Results (annualized)
- Production Trends and Results
- Technology and Corporate Administration
- Servicing Trends and Results
- Questions and Answers

MBA/STRATMOR Peer Group Program: 2006 Participants

ABN Amro
Access National
Action Mortgage
AmSouth Bank
Aurora Loan Services, Inc.
Bank of America
BNY Mortgage
BB&T
BSM Financial
CCO Mortgage Corp
Charter Mortgage Company
Chase Home Mortgage
Chase Manhattan Funding
Cherry Creek Mortgage Company
CIT Consumer Finance
CMG Mortgage
Colonial Savings
Decision One Mortgage
E*Trade Financial
EquiFirst Corporation
EverBank
Fidelity & Trust Mortgage
Fieldstone Mortgage Company
First Horizon Home Mortgage

First Merit Mortgage Corporation
First NLC Financial Services
Fremont Investment & Loan
GN Mortgage
Guild Mortgage
Home 123, Prime Division
HomeBanc
HomeStreet Bank
HSBC Mortgage Services
Huntington Mortgage Company
ING Direct
LoanCity
Long Beach Mortgage
Market Street Mortgage Corp
Meritage Mortgage Corporation
Morgan Stanley Credit Corporation
Mortgage Lenders Network USA
National City Home Loan Services,
Inc.
National City Mortgage
Nationwide Advantage
NetBank, Inc.
New Century Financial Corporation
New South Federal Savings Bank

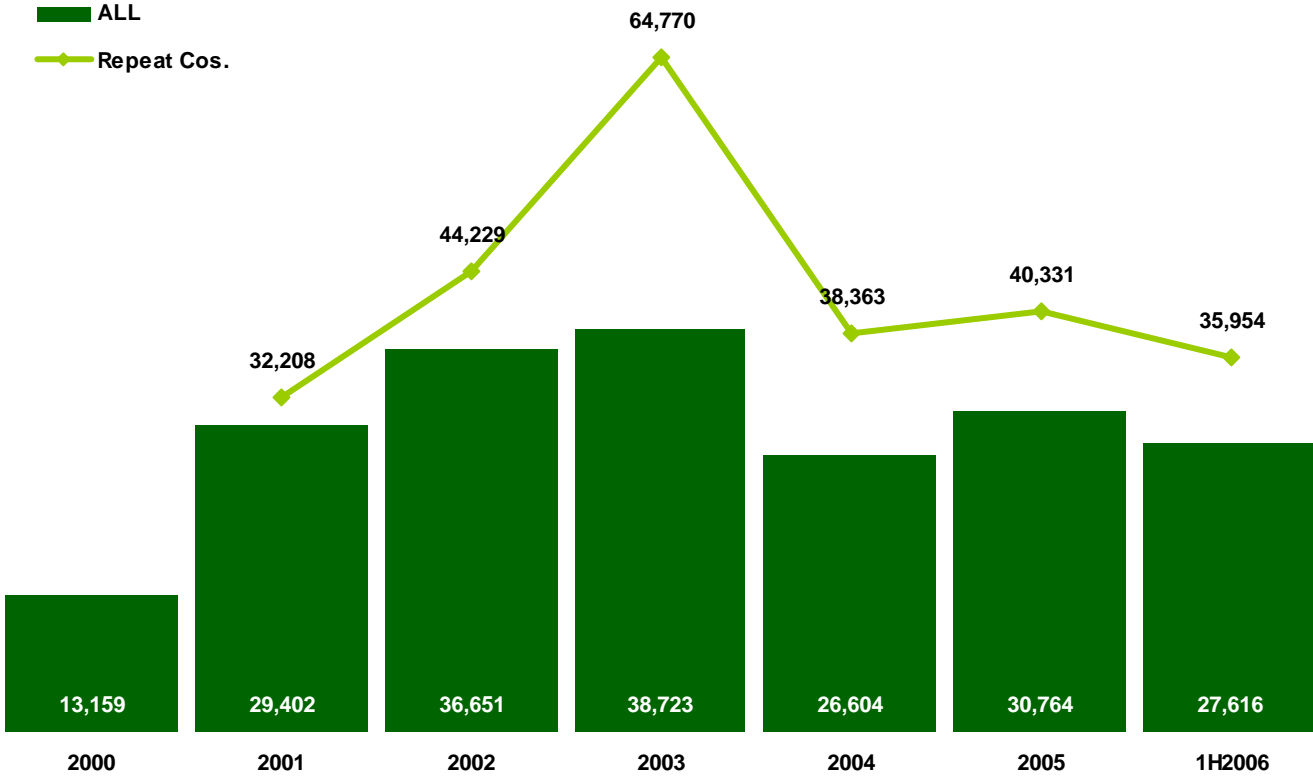
Novastar
Ocwen Financial Corporation
Option One Mortgage Corporation
PHH Mortgage
Plaza Home Mortgage
Regions Mortgage
Residential Mortgage Capital
ResMae Financial Corporation
Saxon Mortgage
SBMC Mortgage
Shea Financial Services
Silver State Mortgage
SunTrust Mortgage
Synovus Mortgage Corporation
Taylor, Bean and Whitaker Mortgage
USAA
Vitek Mortgage Group
Wachovia Mortgage Corporation
Washington Mutual
WinStar Mortgage Partners
WMC Mortgage Corp.

1H2006 Highlights: Lenders in Top 50

- Overall company profitability (“pretax net financial income”) significantly down in 1H06, due to net production losses combined with weaker servicing performance. Among repeaters, net profits down by over 80 percent.
- Overall pretax production margins dropped to an average loss of 12.6 basis points (\$252 per loan) in 2006 from a gain of 13.9 basis points (\$260 per loan) in 2005. Peak production margins were in 2002 and 2003, averaging over 90 basis points.
 - » Production volumes down slightly from 2004-2005 levels, but no precipitous drop.
 - » Production income down only slightly from 2005 to 2006 – the shoe really dropped in second half of 2004.
 - » Production expenses up in all channels: retail; broker; direct; and correspondent.
- On a repeater company basis, Net Servicing Financial Income declined to \$84 per loan in 1H06 from \$135 per loan in 2005 due to increased MSR hedge losses.
- Technology operating expenses and capital expenditures continued to increase in 1H06 as lenders addressed technology projects that were postponed during the refinance boom years.

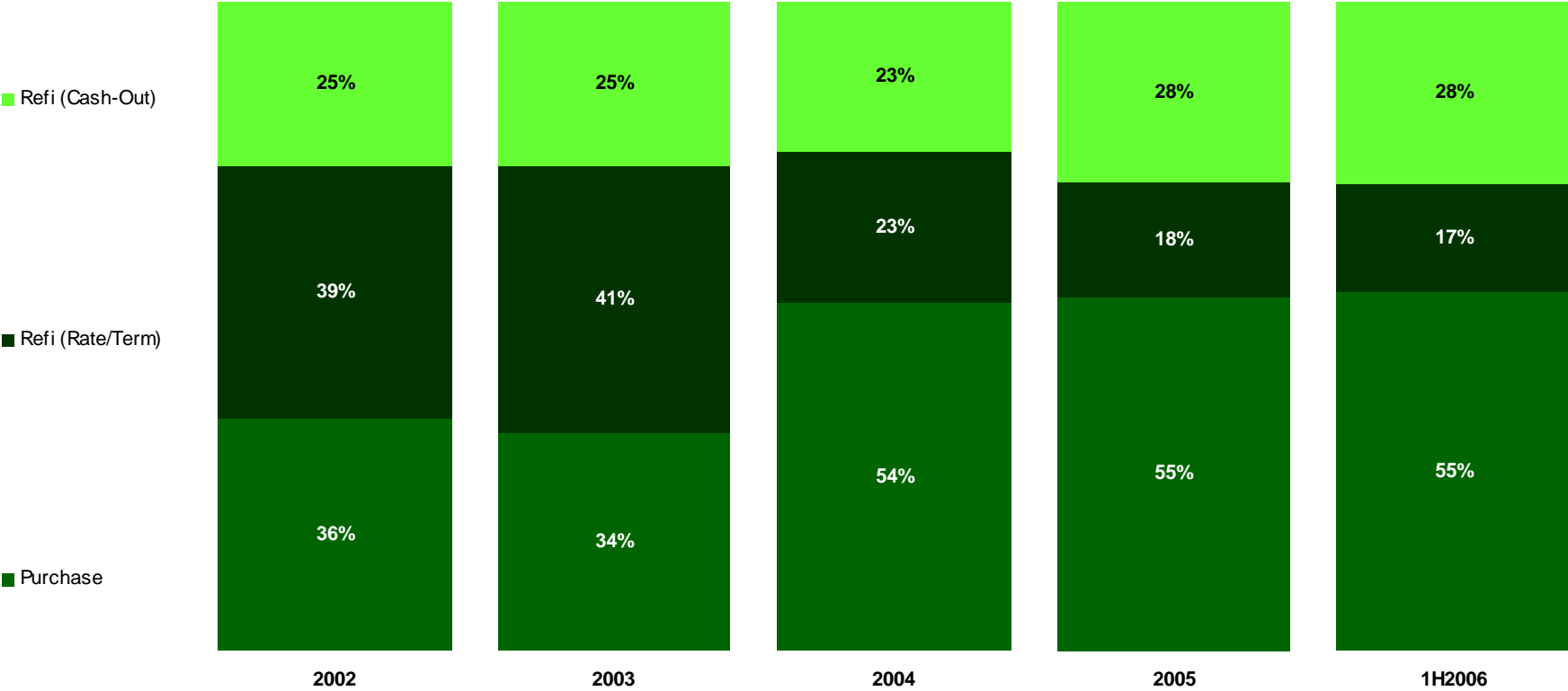
Production Trends and Results

Production Volume (\$M)



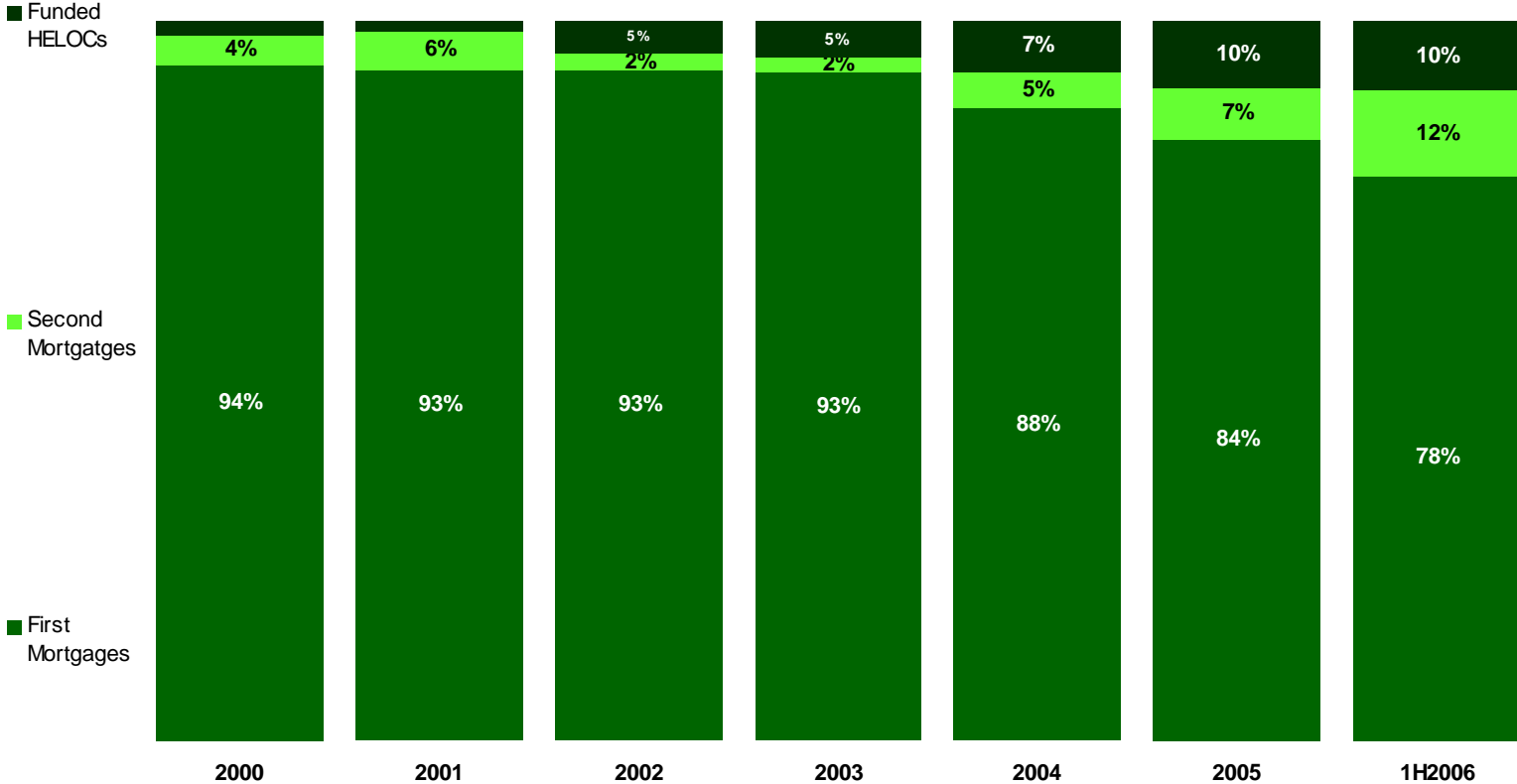
Production volume for the Top 50 lenders declined by roughly 10 percent. Did we change credit or underwriting standards to keep volumes up?

Purchase vs Refis (% based on \$)



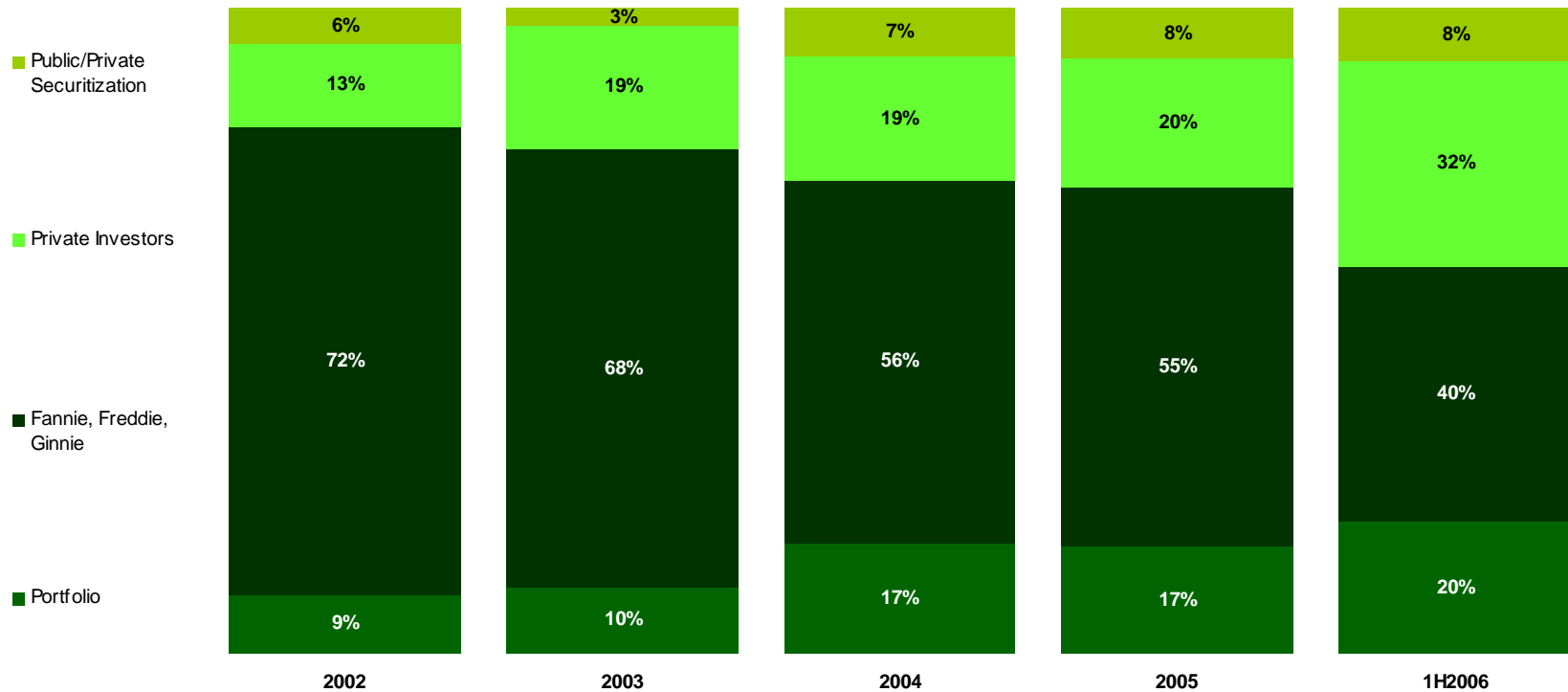
No material change in Rate/term refinancing share vs. cash-out refinances and purchases in 2006

Production Mix (% based on #)



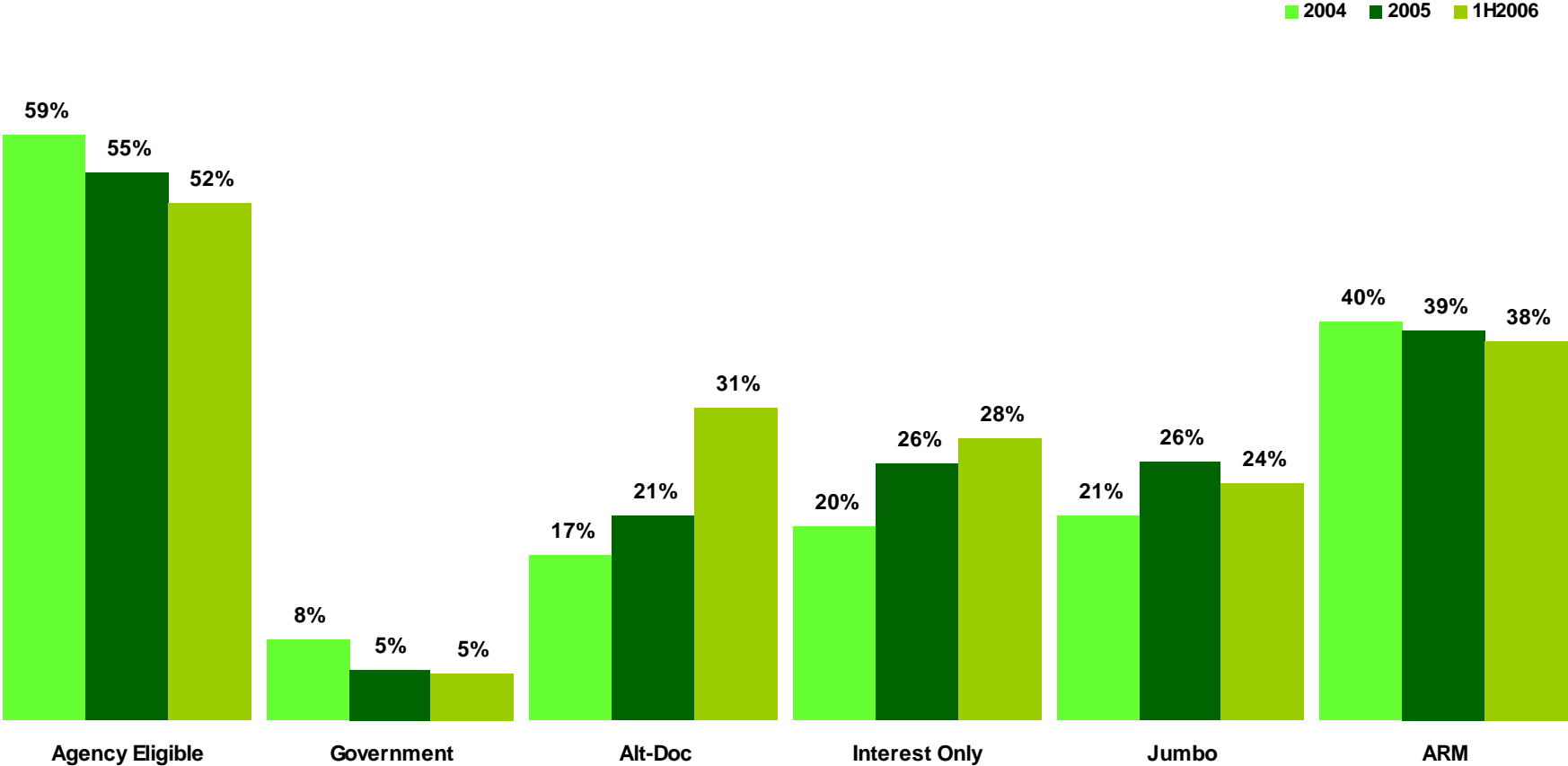
Second lien volume has increased significantly since 2003, with piggyback HELOC and second mortgage volume accounting for 13 percent of total volume in 2006.

Investor Mix (% based on \$)

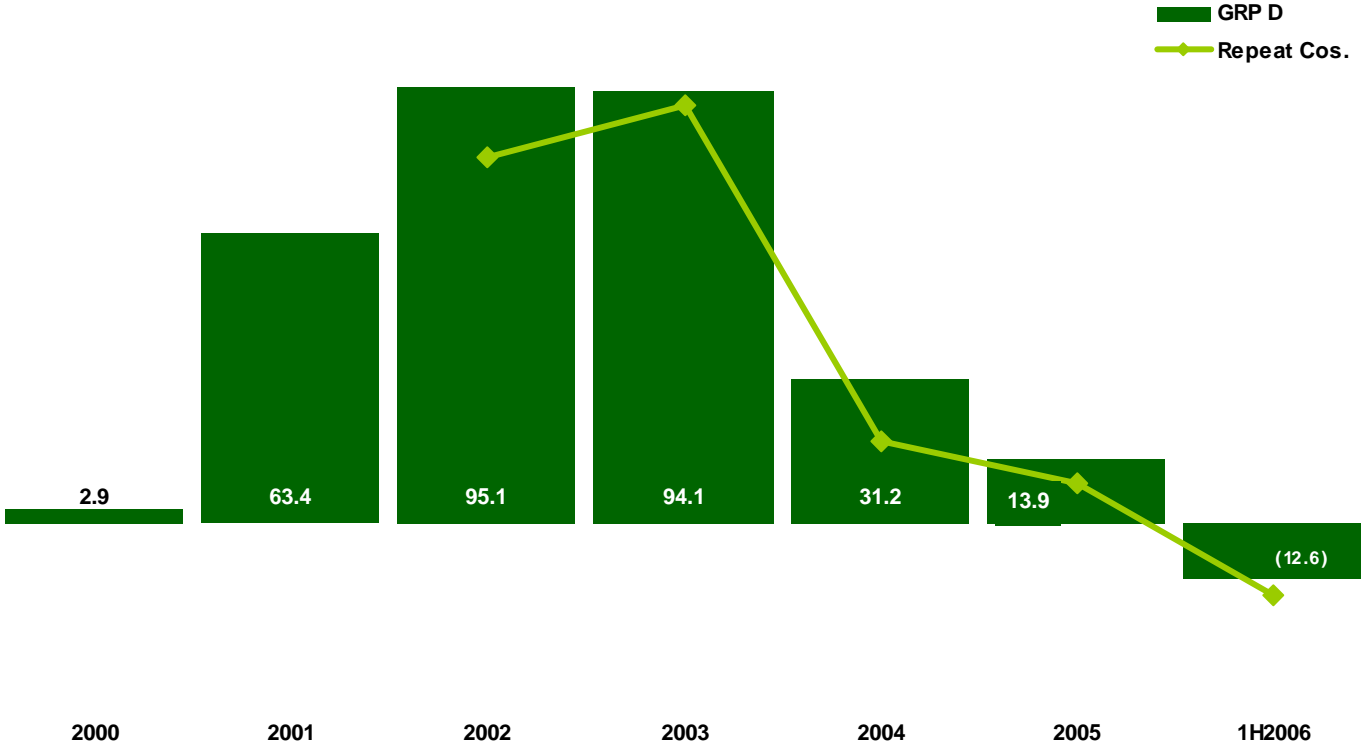


Agency share has declined since 2002, while private investor share and portfolio share have increased.

Product Type as Percentage of Total Originations (\$)



Net Production Income (bps)



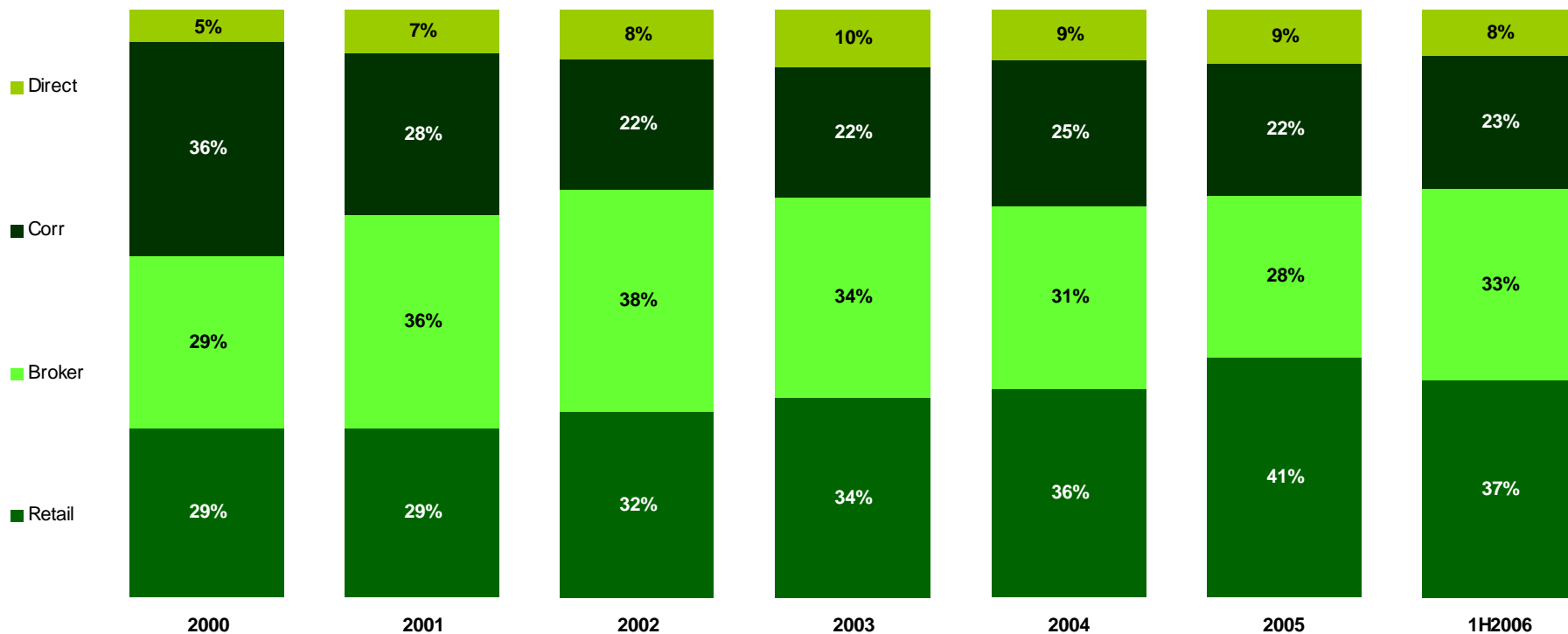
Pre-tax net production profits down, primarily due to lower interest spread resulting from flat yield curve, and production expenses that continued to rise.

Net Production Income and Expense (bps)

	2000	2001	2002	2003	2004	2005	1H2006
Total Production Income	169	185	202	208	168	154	156
Total Production Expense	166	121	107	114	137	140	168
Net Prod. Financial Income	3	63	95	94	31	14	(13)
# Loans Originated per FTE	61	100	95	93	60	65	57

- Due to changing product mix, net gain on sale actually was up in 1H2006 compared to 2005, but declining interest spread countered this gain.
- Production expenses in basis points are at their highest level since inception of the PGR study. How can mortgage companies manage costs in current mortgage environment?

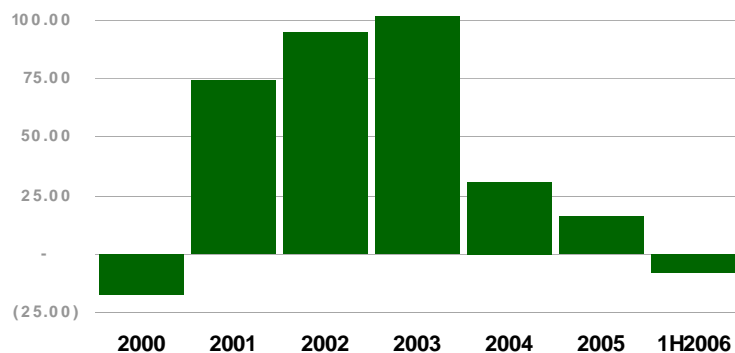
Channel Mix (% based on \$)



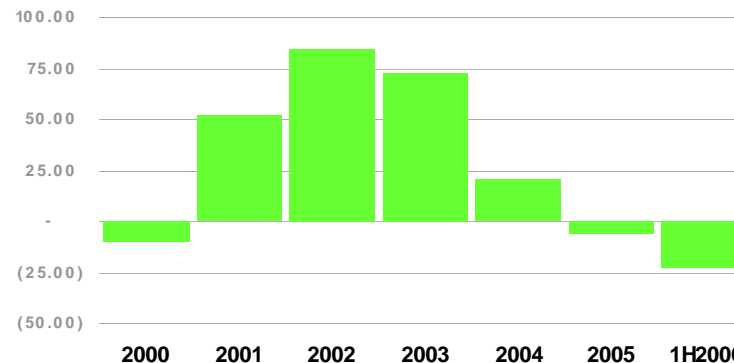
No huge channel share changes, though the structure of the correspondent channel appears to be changing for some companies.

Net Production Margins by Channel

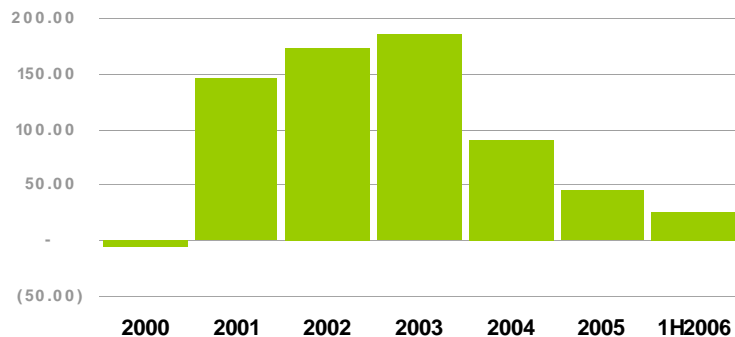
Retail



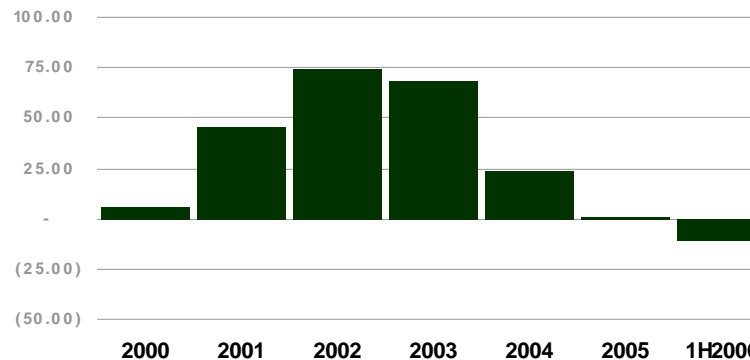
Broker



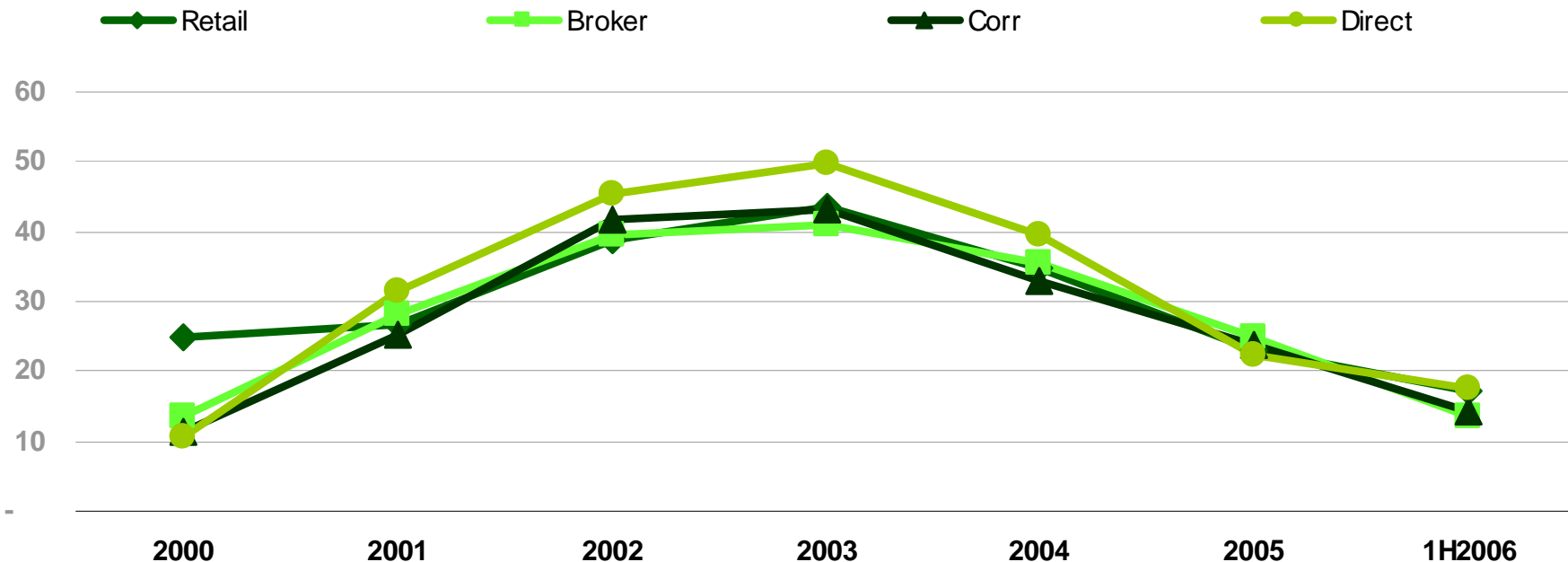
Direct



Corr

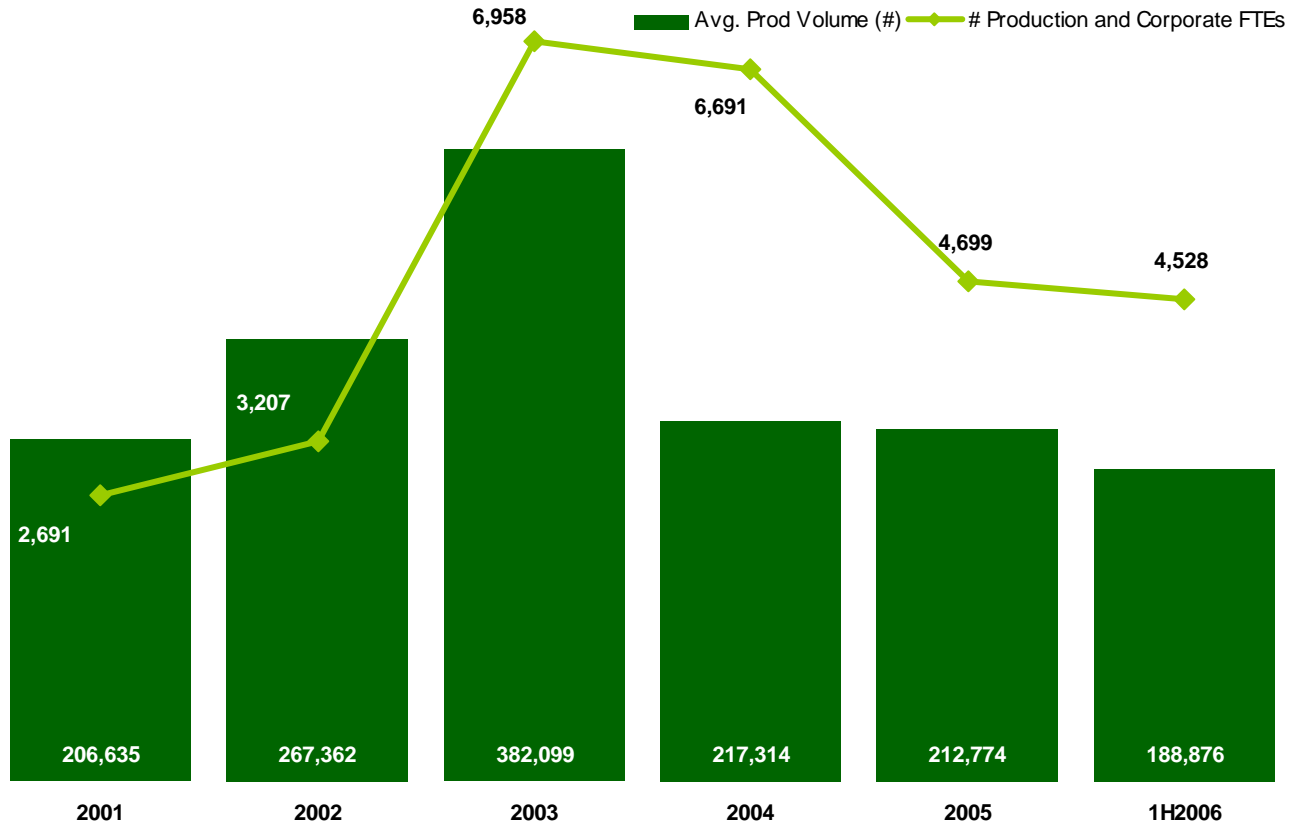


Interest Spreads in bps



Interest spreads continued to drop, averaging about 15 bps in 1H06.

Production Employment Trends vs. Origination Volume – Repeater Cos.



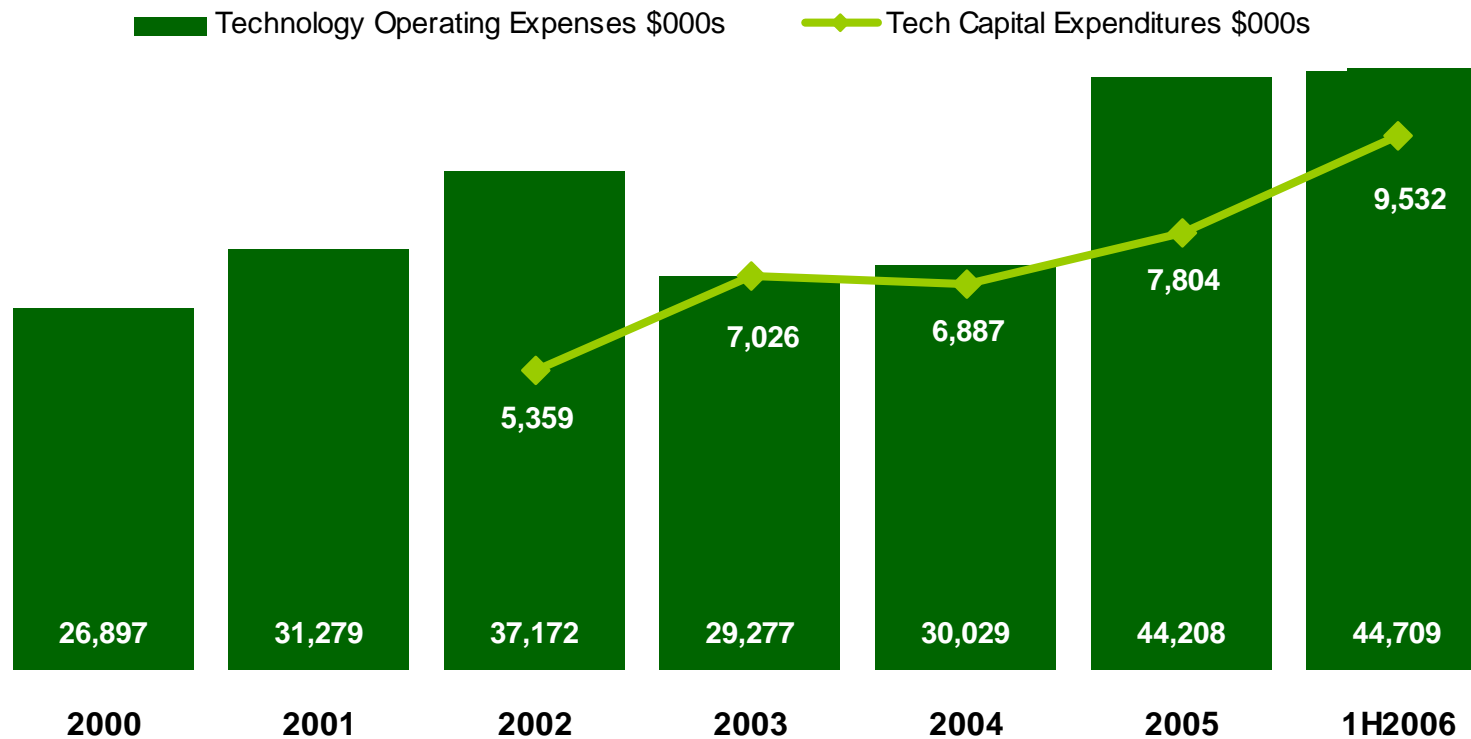
Avg. Production volume down by eleven percent in 1H06, while production and corporate FTEs down by four percent.

1H06 and Beyond – What is in Store for Production?

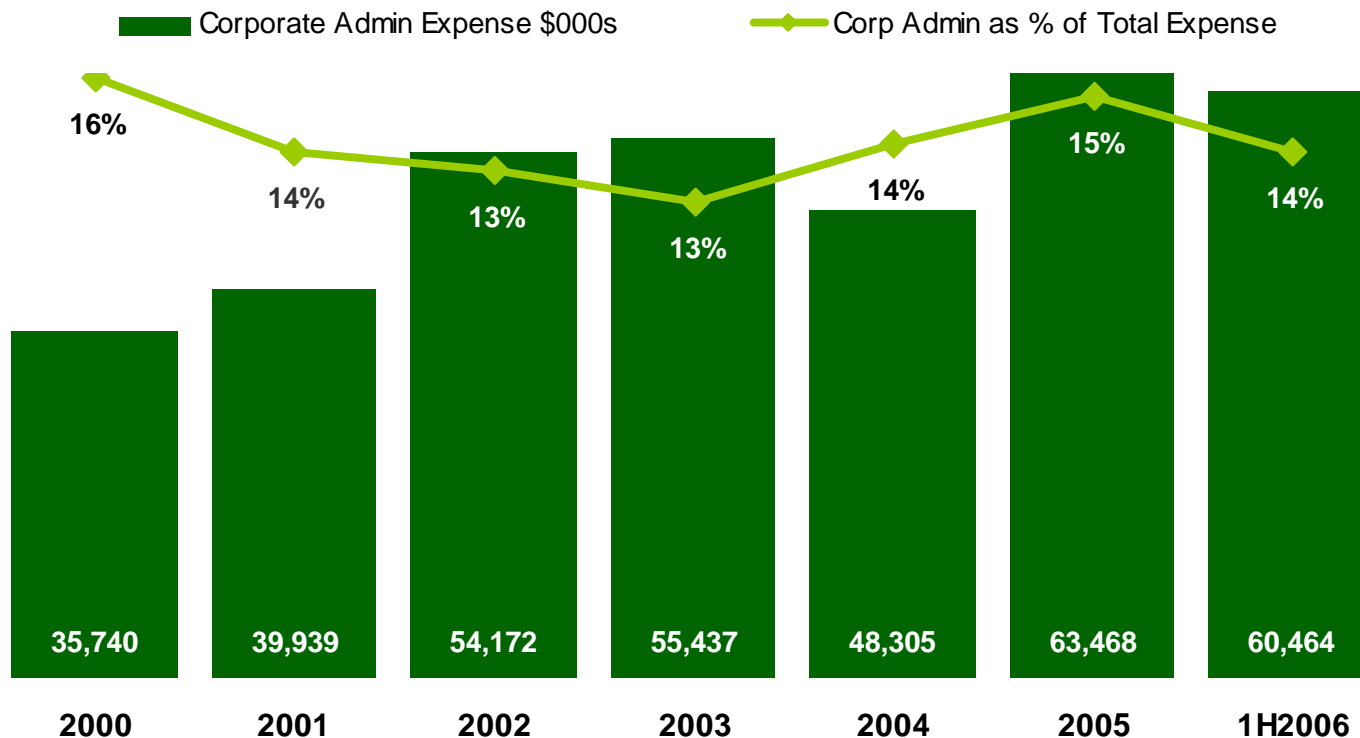
- Will production margins continue to fall?
- Will MBA's estimate of a 19 percent decline for 2005-2006 hold true?
- Interest spread – Any reprieve from flattening yield curve?
- To what extent will repurchases and investor indemnifications affect the bottom line?
- Remember our “excess capacity measures” from last year? Are two out the three measures exhausted? Is 2007 the year when cost reductions will really hit?
 - » Adjust Price
 - » Product/Credit Diversification
 - » Cost Reduction/Enhance Efficiency
- How will regulatory climate impact margins and volume?

Mortgage Company Technology and Corporate Administration Trends

Average Firm Technology Spending (\$000s)

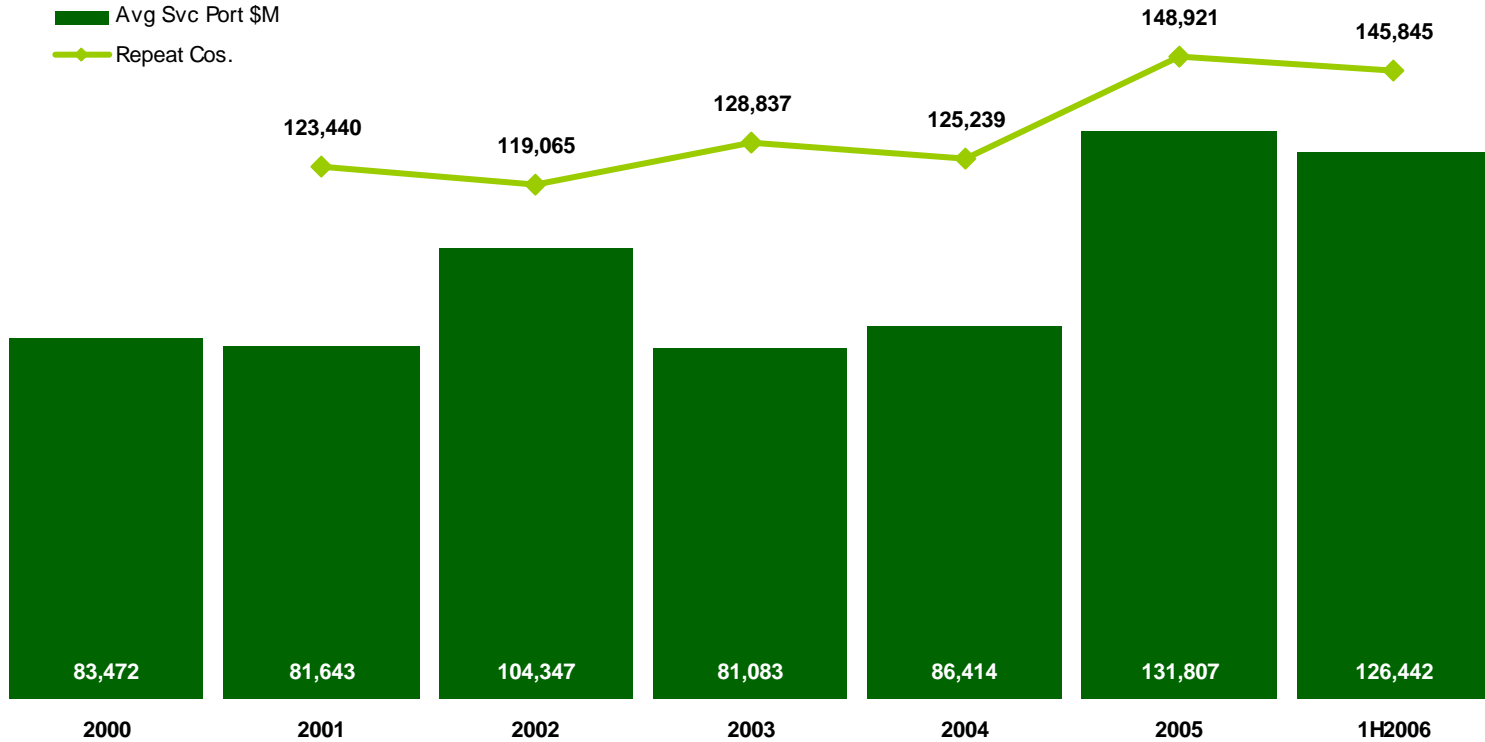


Corporate Administration (\$000s and as % of total expense)



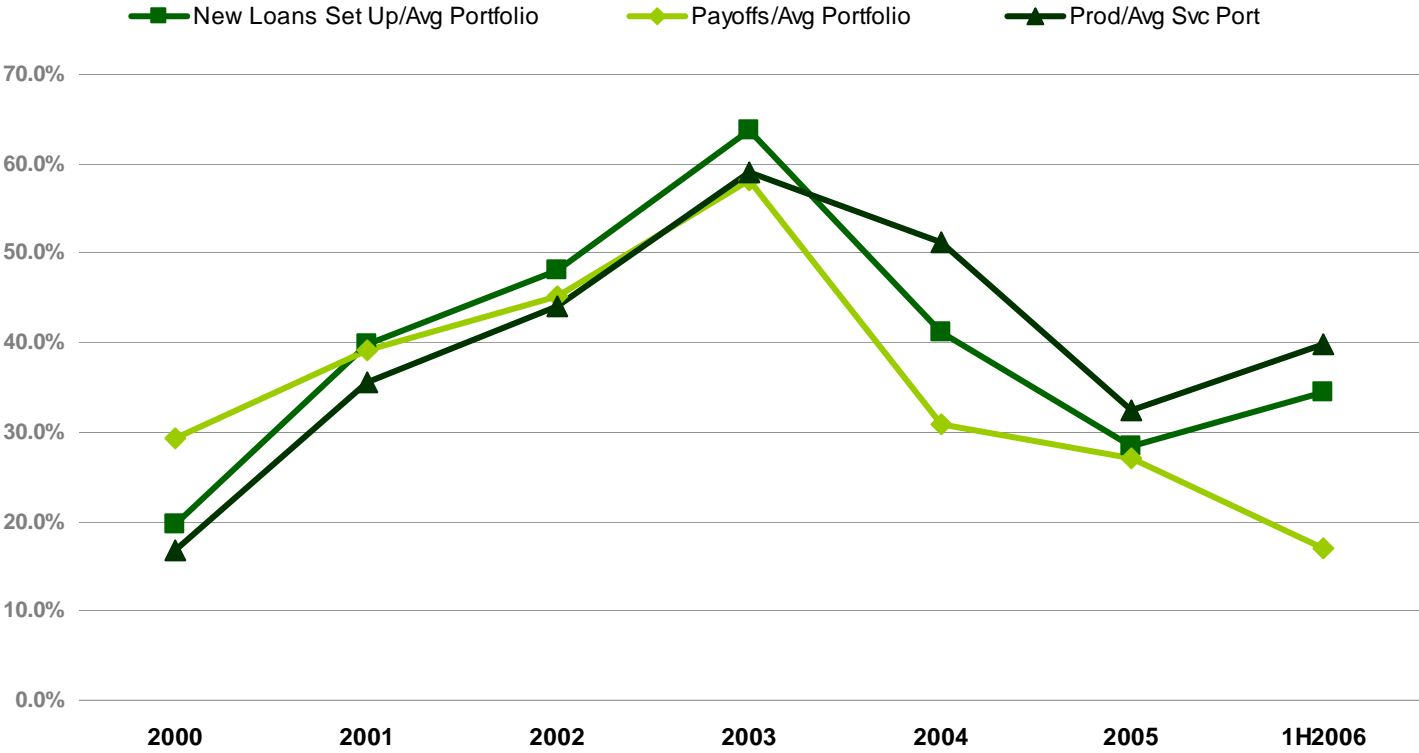
Servicing Trends and Results

Avg Firm Servicing Volume (\$Ms)



Average servicing portfolios down slightly from 2005 levels. Average loan balances continued to rise to \$150,500 in 1H06 from \$142,000 in 2005.

Servicing Churn

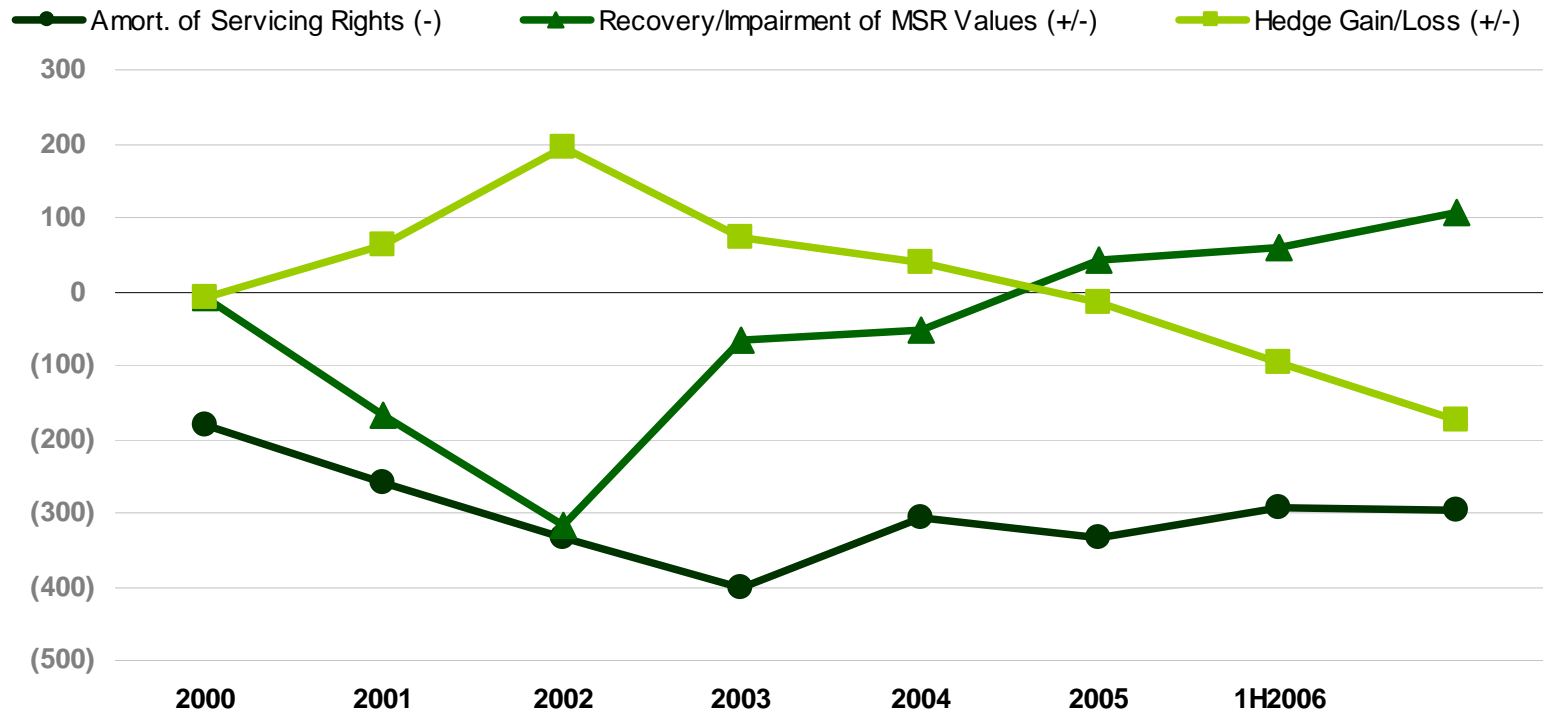


Net Servicing Income (\$ per loan)

\$/loan - Simple Averages:

	2000	2001	2002	2003	2004	2005	1H06	1H06 - Repeaters
Direct Servicing Income	387	405	431	441	444	485	473	474
Direct Expenses	64	71	86	94	84	74	90	78
Net Direct Servicing Income	323	334	345	346	361	411	384	396
Net Interest Income	(12)	(1)	(17)	(15)	8	33	35	47
FC & REO Servicing Expenses	8	16	8	6	9	10	6	2
Corporate Allocation	15	16	18	16	17	17	18	14
Net Operating Servicing Income	288	301	302	309	343	417	394	427
Amort/Impairment/Hedging	(171)	(359)	(446)	(383)	(316)	(308)	(317)	(343)
Net Financial Servicing Income	118	(59)	(144)	(75)	27	109	77	84

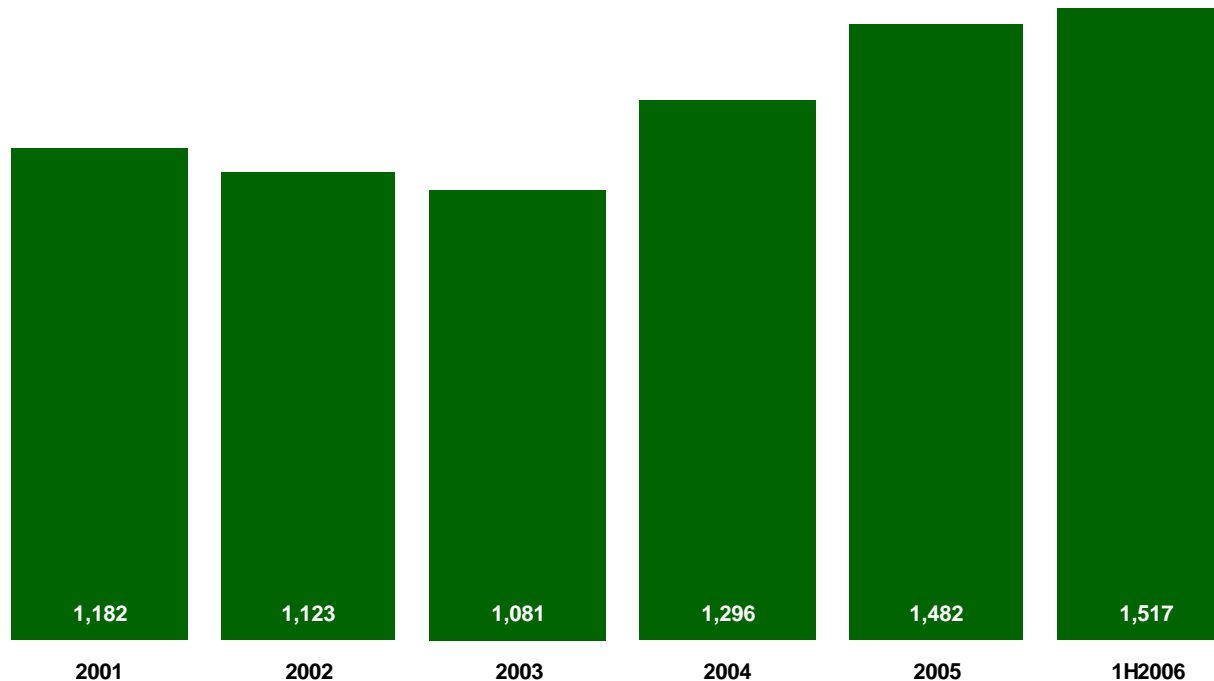
Amortization, Impairments and Hedge Gains/Losses (\$ per loan)



Components of Direct Expense

<u>\$/loan</u>	2003	2004	2005	1H2006	1H2006 Repeaters
Customer Service	15.21	15.93	15.57	19.48	14.81
Svc Technology	14.80	11.59	14.23	17.97	17.93
Default	13.00	15.04	13.93	15.18	13.77
Administration	19.03	13.62	9.69	12.72	10.90
Set-ups, Payoffs, Cashiering	17.29	11.81	10.93	10.16	9.04
Escrow	9.39	8.65	6.00	8.44	6.36
Investor Reporting	5.70	7.14	3.86	5.94	5.08
Total Direct Servicing Expenses	94.42	83.78	74.21	89.89	77.89
Average Delinquency/FC Rate	4.60%	4.57%	4.09%	3.33%	3.92%

Average # Loans Serviced per FTE – Repeater Cos.



1H06 and Beyond – What is in Store for Servicing?

- How will servicers be able to measure product cost differences at a time when many are moving toward product integration such as:
 - » Prime/subprime/Alt-A
 - » 1st/seconds/HELOCs
 - » Other bank services and mortgage combined
- Default rates expected to rise due to portfolio aging and resets, but by how much?
- Will servicers move from fair value to LOCOM help the servicing bottom line or will the accounting measure make little difference?
- Will movement towards outsourcing and/or offshoring continue?
- Will cost to service rise due to movement toward a different credit and product mix?

Questions & Answers