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# THE FUTURE OF SUBPRIME LENDING

(IS THERE A FUTURE?)





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# A HISTORY OF SUBPRIME COMMON SENSE LENDING THE THREE “C’S”

CREDIT

CAPACITY

COLLATERAL

✓ 2 OUT OF 3 NEEDED TO FUND A LOAN





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# THE FIVE WORST WORDS IN BUSINESS

“Everybody else is doing it!”





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# 2005-2006 NO COMMON SENSE IN LENDING

- LAYERED RISK
- NO CREDIT
- NO INCOME
- NO COLLATERAL (100% financing)
  
- NOT EVEN 1 OUT OF 3





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# THE RESULT

- ❑ BORROWER HAS NO INCENTIVE TO PAY OR STAY
- ❑ MBS & CDO FAIL TO CASH FLOW
- ❑ AAA RATINGS WORTH 90 CENTS
- ❑ BBB- RATINGS GO FROM 97 CENTS TO 30 CENTS
- ❑ INVESTORS ABANDON MBS/CDO'S
- ❑ NO LIQUIDITY
- ❑ MARGIN CALLS
- ❑ MASSIVE CLOSINGS AND JOB LOSSES





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# WHERE DO WE GO FROM HERE?

- FLIGHT TO QUALITY?
- LEGISLATION?
- MARKET LIQUIDITY?





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# THE FUTURE BACK TO BASICS

- ❑ RATING AGENCIES HAVE TO CONVINCING INVESTORS THAT AAA IS AAA
- ❑ LEGISLATORS & REGULATORS HAVE TO AVOID CREATING LAWS THAT END UP HURTING THOSE THEY ARE TRYING TO PROTECT (OVERRACTING “SAR/BOX”)
- ❑ LENDERS NEED TO GET BACK TO THE THREE “C’S”





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# HOW WILL IT LOOK

## MBS/CDO

- CUSTOMER
  - BROKER
  - MORTGAGE BANKER
  - INVESTMENT BANKER
  - RATING AGENCIES
  - SERVICER
  - INVESTOR
- STRONGER REPS AND WARRANTS WILL BE REQUIRED
  - GREATER RESPONSIBILITY FOR ALL PARTIES BETWEEN THE CUSTOMER AND THE INVESTOR





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# OR THE OLD FINANCE COMPANY MODEL

CUSTOMER

COMMERCIAL PAPER TO FINANCE PORTFOLIO

MAYBE BROKER

LENDER/SERVICER





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# THERE WILL BE A FUTURE

- ❖ **SUPRIME LENDING SUPPLIES ACCESS TO CREDIT TO AN UNDERSERVED MARKET.**
- ❖ **SUBPRIME LOANS ARE ESSENTIAL AND INDESPENSABLE AND MAINTAINING THEIR EXISTANCE IS FUNDEMENTAL TO THE FABRIC OF THE U.S. ECONOMY.**

