



Business Strategies for an Illiquid Market

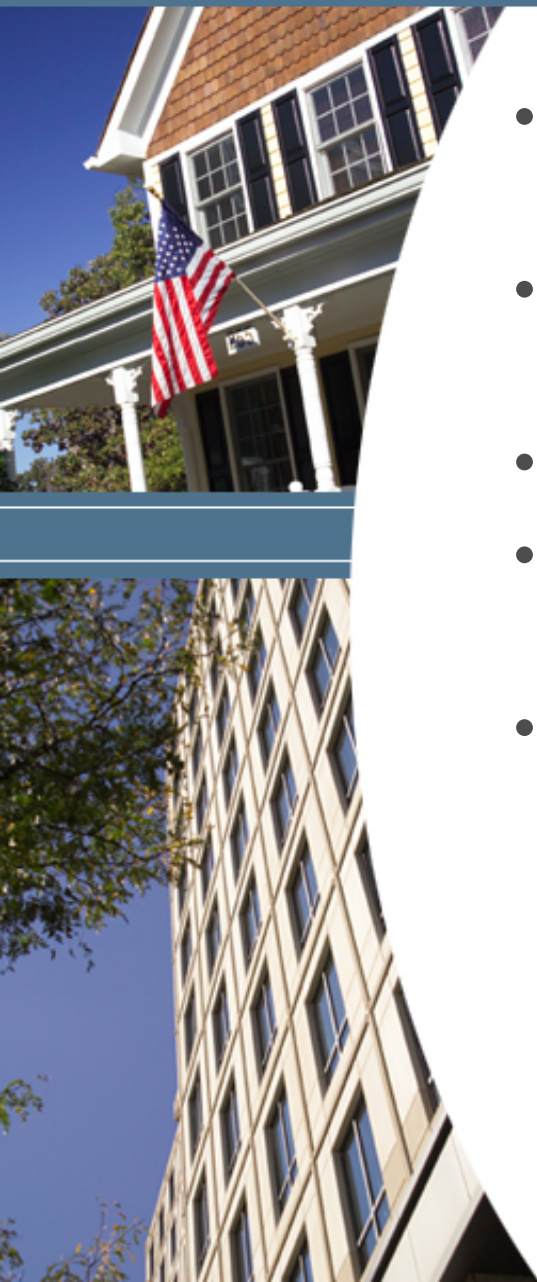
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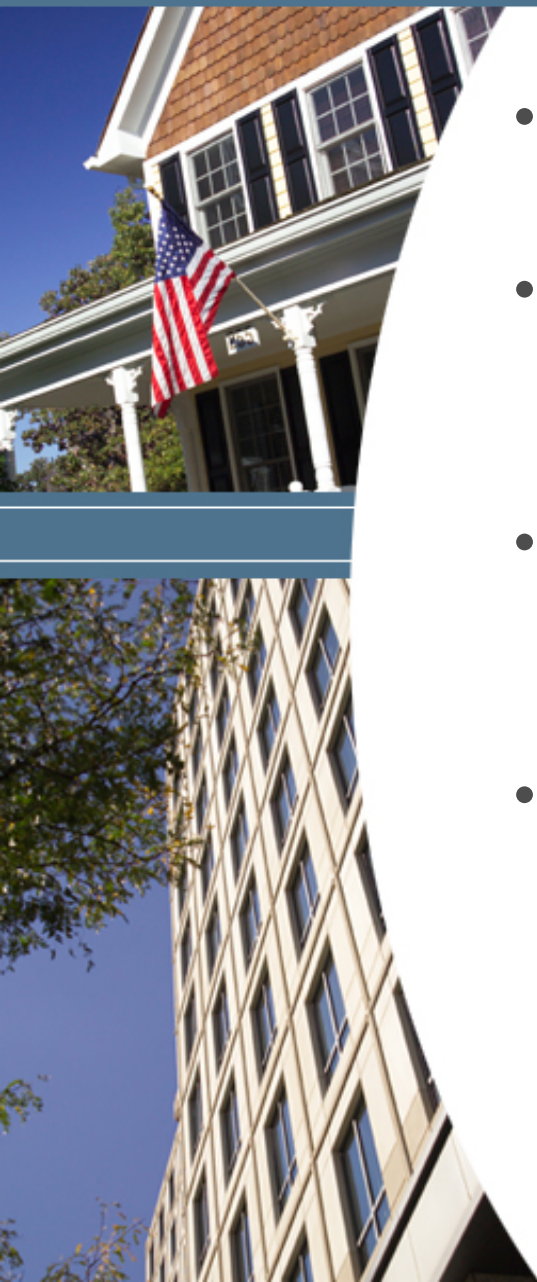
Manatt, Phelps & Phillips, LLP

I. Partnering with Portfolio Lenders To Address Existing Loans

Proposition: The “credit crunch” is not one big problem, but rather is many individual problems.

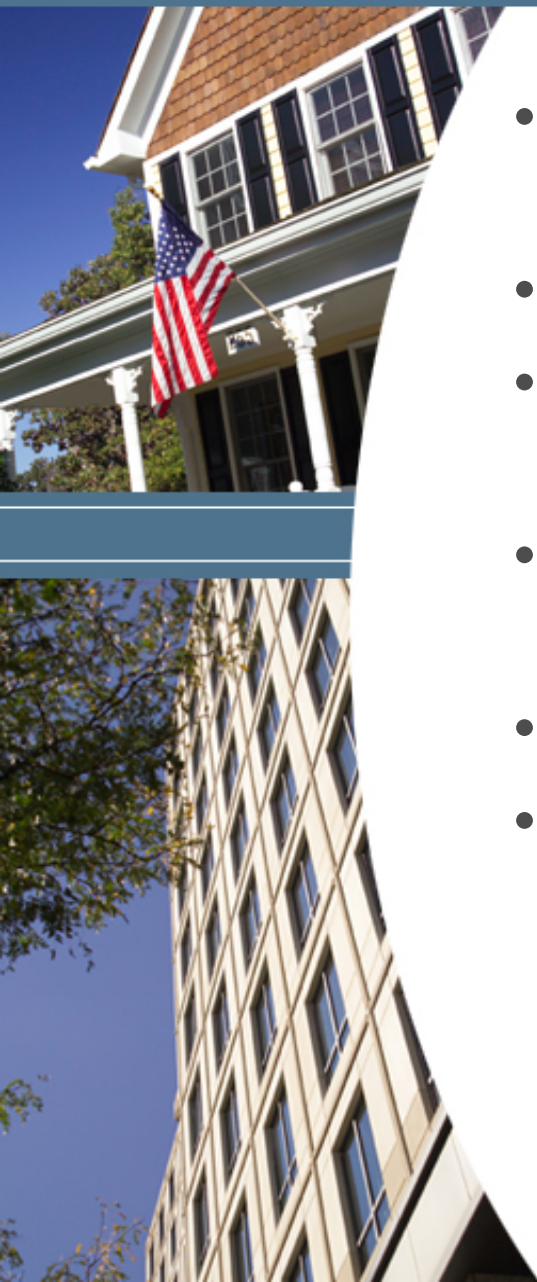
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- Though an estimated 9 million home loans are under water, plenty of them are not.
 - Many homeowners who used non-prime credit would have qualified for prime credit.
 - Others would now qualify for prime credit.
 - Some people are in the wrong loan; others are in the wrong home.
 - In sum, every situation is different.

Proposition: The options for dealing with loans are numerous and changing.



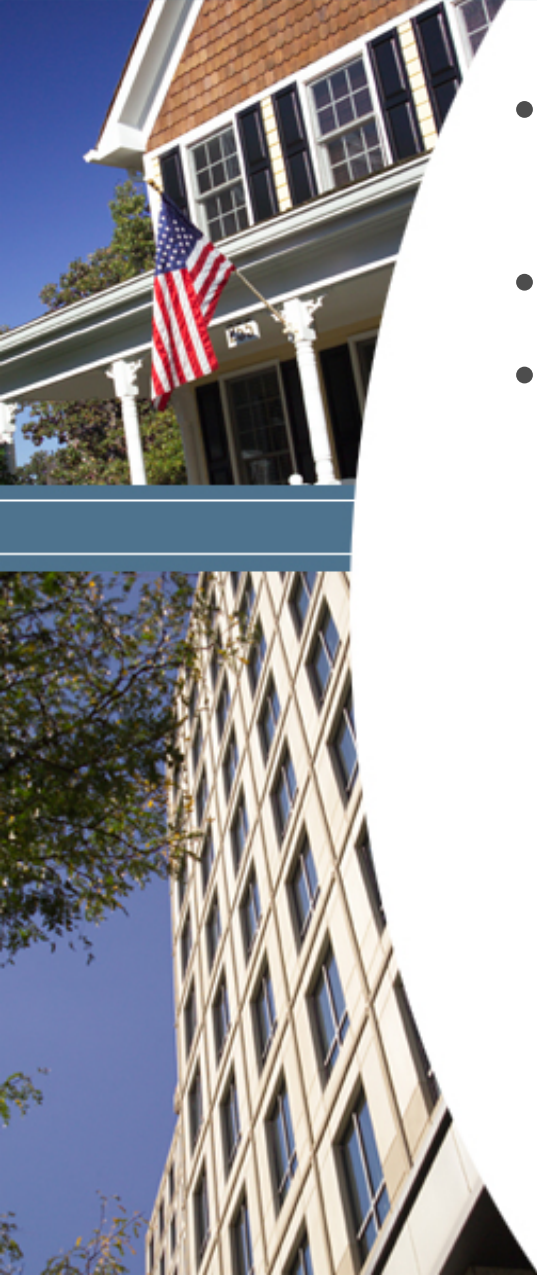
- Fed actions are making both ARM adjustments and refinancing rates more manageable options.
- Legislation has increased the conforming (Fannie/Freddie eligible) loan sector, which still has liquidity.
- Modifications consistent with Dec. 2007 “Framework” are now generally accepted for portfolio and securitized loans.
- Additional proposals are floated almost daily for legislative, regulatory and industry consensuses that may afford relief in specific situations.

Proposition: Applying available options to individual home loans takes manpower, expertise and time.

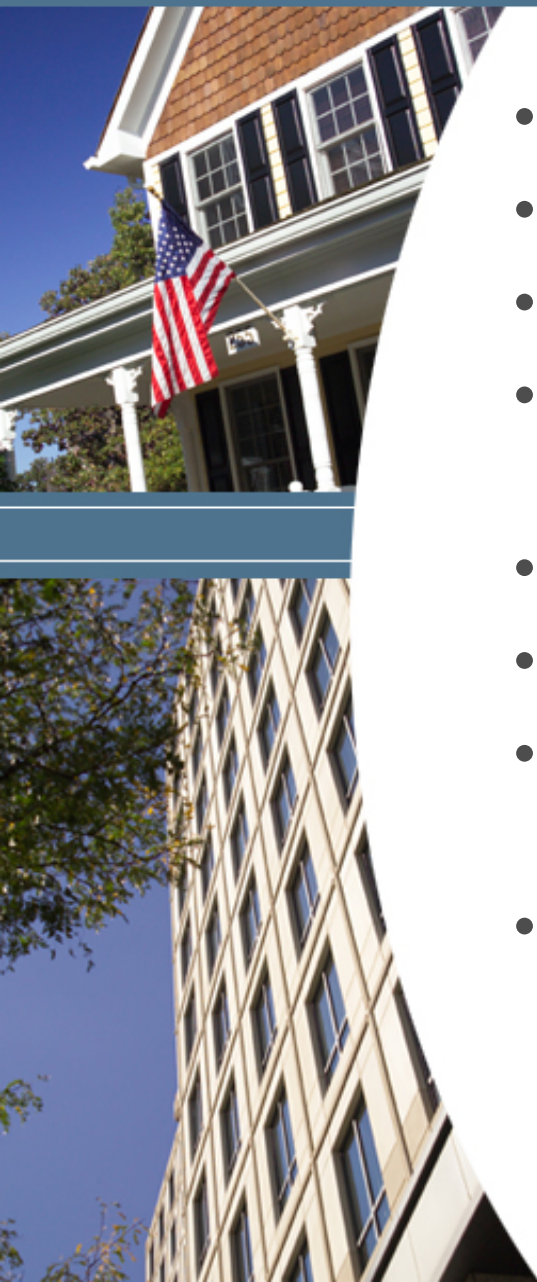


- Determining the facts – appraisal, detection of fraud, eligibility for new loan or modification.
- Contacting homeowners and discussing options.
- Matching up homeowners' situation with lender's range of options.
- Documenting refinance or modification once choice is made.
- Funding refinance if that choice is made.
- Managing an orderly deed-in-lieu or foreclosure if needed.

Proposition: Portfolio lenders lack the manpower to handle this process internally.

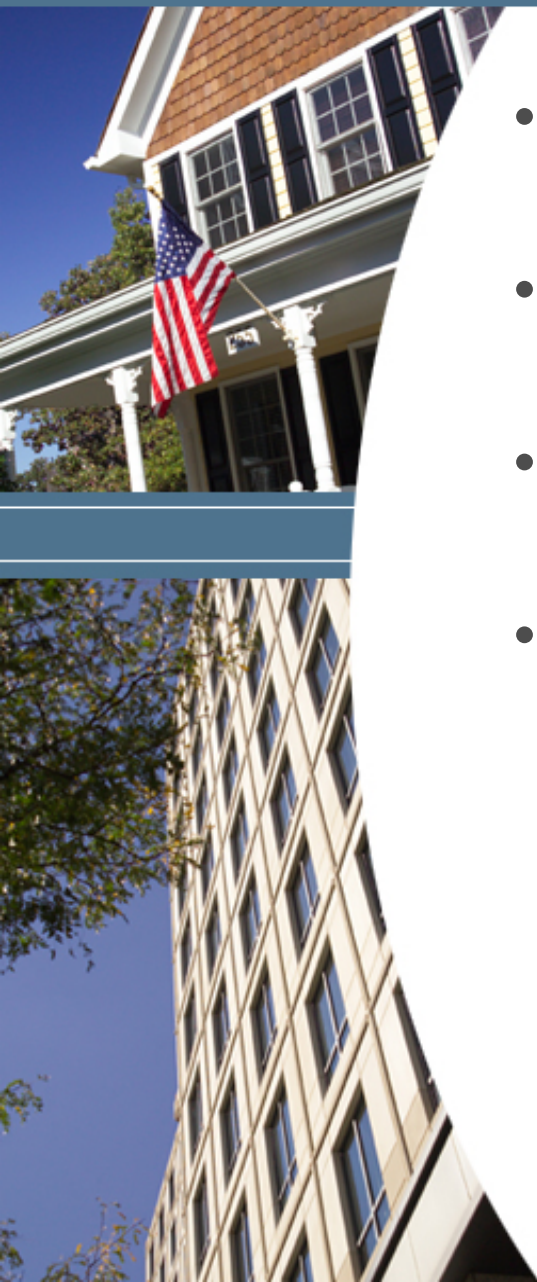
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- Many portfolio lenders never had loan internal origination capacity.
 - Many portfolio lenders have downsized.
 - Individual customer management is inherently often a local function.

Solution: Outsourcing the management of refinancing, loan modification and loss mitigation.

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- **Elements:**
 - Agreed set of “rules”
 - Scripts for customer communications
 - Joint Marketing Agreement, to enable sharing of customer data
 - State licensing consistent with agreed tasks
 - Pricing for services (fee-based; commission; etc.)
 - Structures for responding to market changes, individual situations
 - Independent contractor status

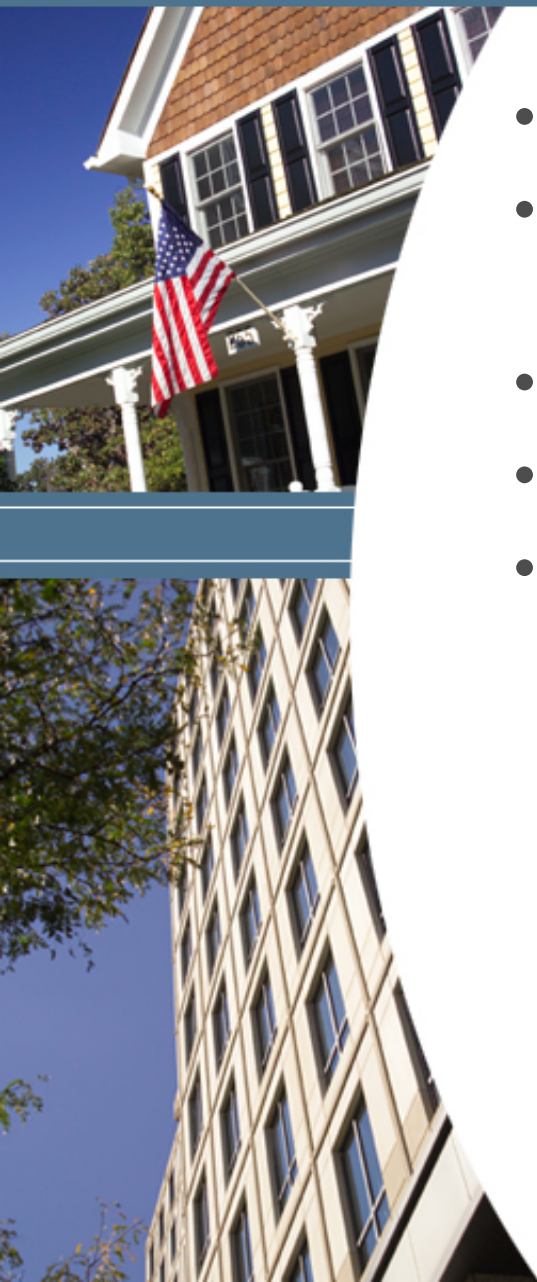
II. Merger and Acquisition Opportunities

Proposition: Home lending is a long-term business need in our economy.

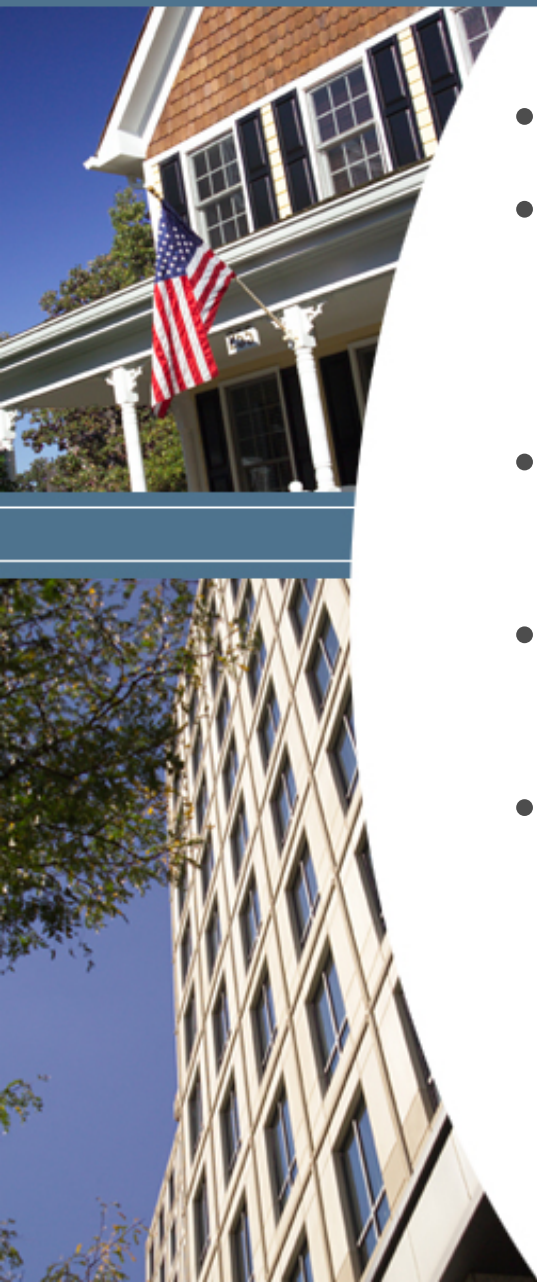


- Once Wall Street gets a handle on its pricing models, securitization is likely to resume.
- Even without securitization, mortgage finance in one form or another is a continuing need.
- The government is not going to allow the “American Dream” to disappear, as a concept.
- There is value in US real property.

Proposition: Investors are looking for opportunities.



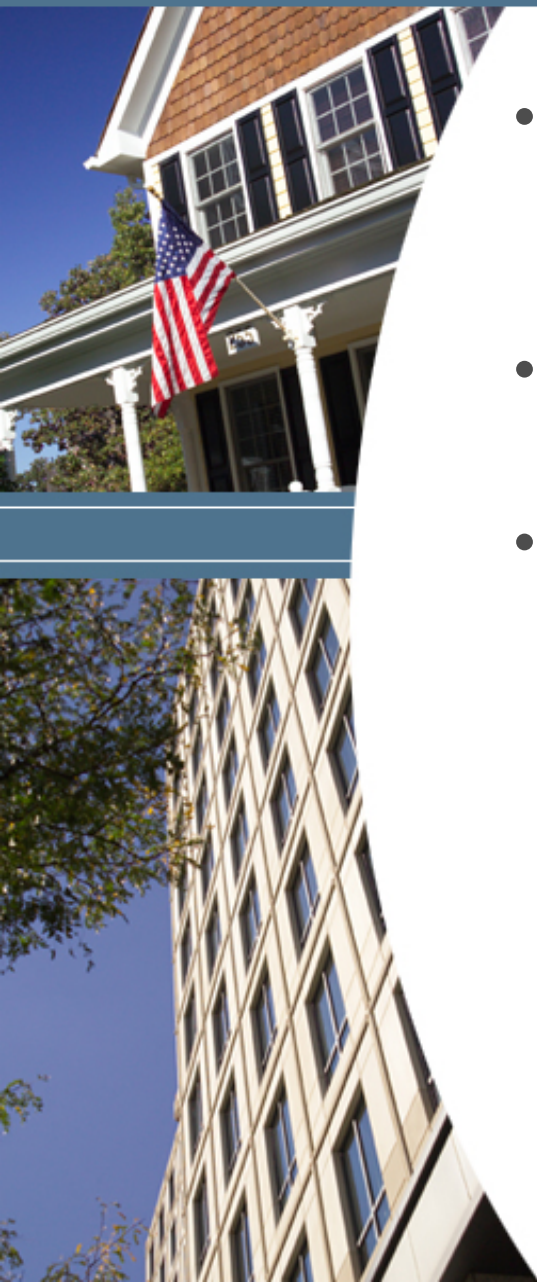
- Out-of-industry investors seek bargains.
- Industry participants seek economies of scale and improved market penetration.
- Write downs have been taken.
- But capital is scarce.
- And short-term profitability is difficult to project.



- Due diligence is critical.
- Transfer of licenses usually requires state approval, even with change of control of continuing legal entity.
- Allocation of repurchase obligations and other liabilities requires detailed analysis.
- Borrowing against servicing advances involves deal-by-deal analysis of servicing arrangements.
- Analysis of loan loss reserves is critical to pricing and projections for combined entities.

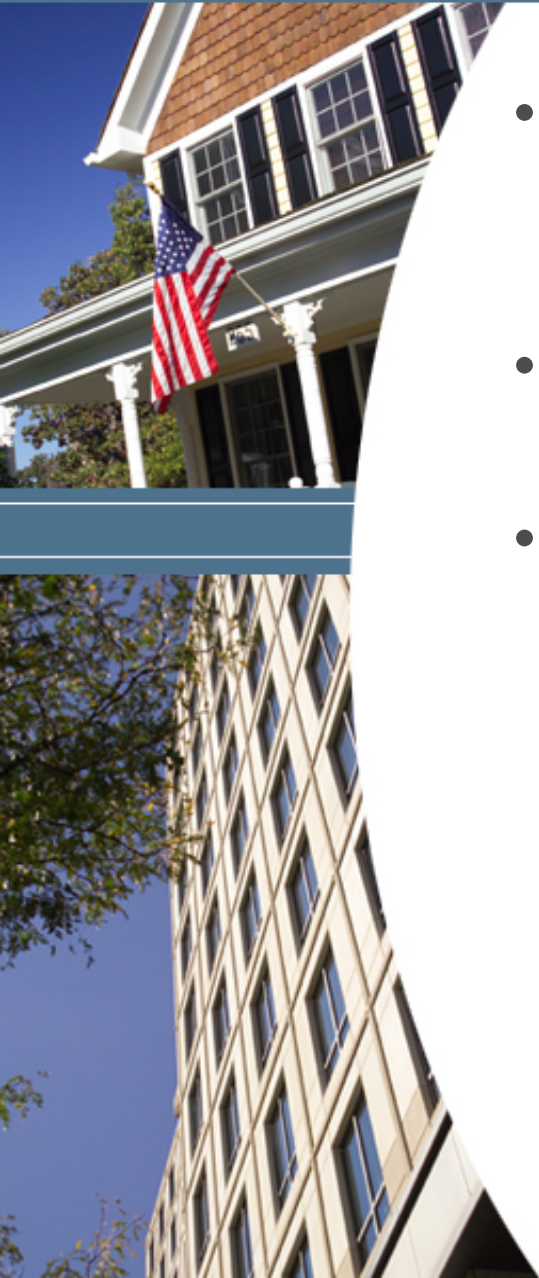
III. Financing Servicing Advances

Proposition: The right to be reimbursed for servicing advances is a bankable asset.



- Under most PSA's, as well as whole loan servicing agreements with "scheduled" pass-through payments, the servicer must advance P&I and T&I.
- The servicer's advances are reimbursed at the top of the waterfall.
- Thus, in effect, servicing reimbursement rights are AAA assets.

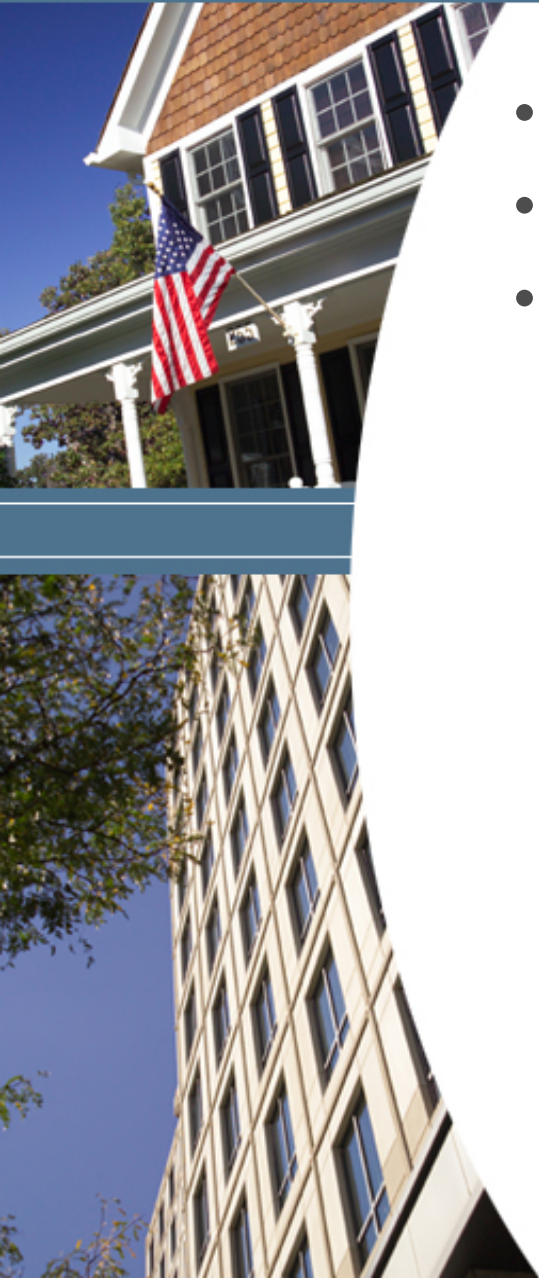
Proposition: Most servicers have not in the past financed their servicing advance reimbursement rights.



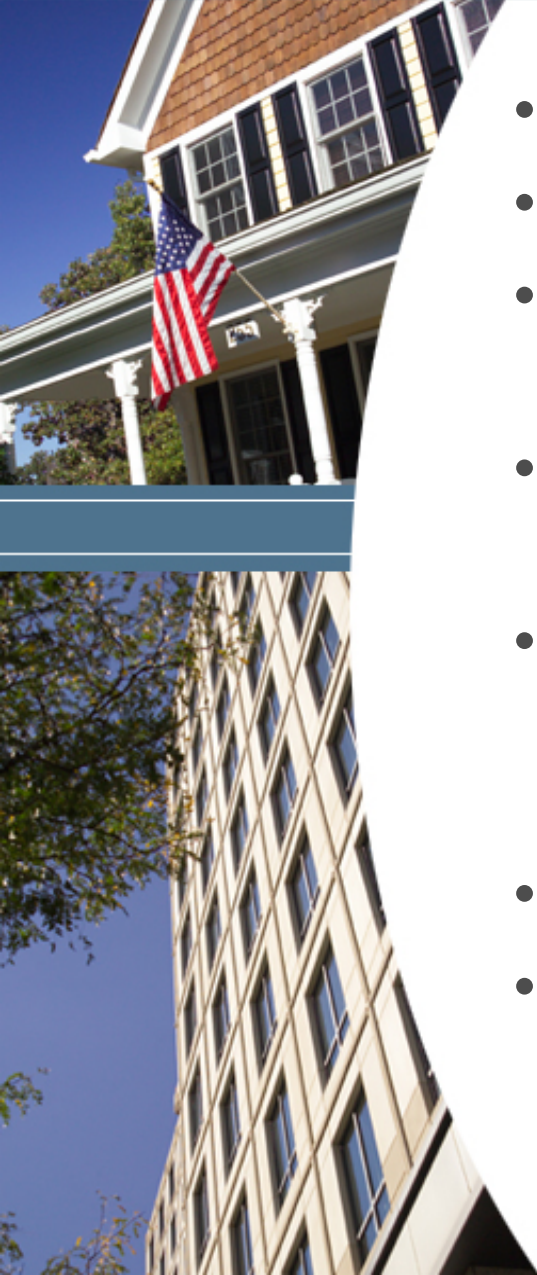
- When mortgage warehouse facilities were readily available, there was little motivation to use servicing advance facilities.
- Servicing advance facilities are challenging to put in place and operate.
- Mortgage companies did not in the past seek maximum leverage.

Proposition: Now, there are more reasons to use servicing advance facilities.

- Warehouse lines are not available.
- Private equity investors seek maximum leverage.
- Amount of servicing advances is increasing.



Solution: Use servicing advance reimbursement rights as collateral for borrowing.

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- Analyze cash flow.
 - Review individual servicing agreements.
 - Identify loan-level vs. pool level reimbursement provisions.
 - Identify approvals required (investor, trustee, insurer or guarantor, depositor).
 - Amend if necessary; if so, identify approvals required for amendment (investor, trustee, rating agencies, insurer or guarantor, depositor)
 - Negotiate with lender.
 - Implement data and cash flow systems.