

S E C O N D A R Y . 0 8



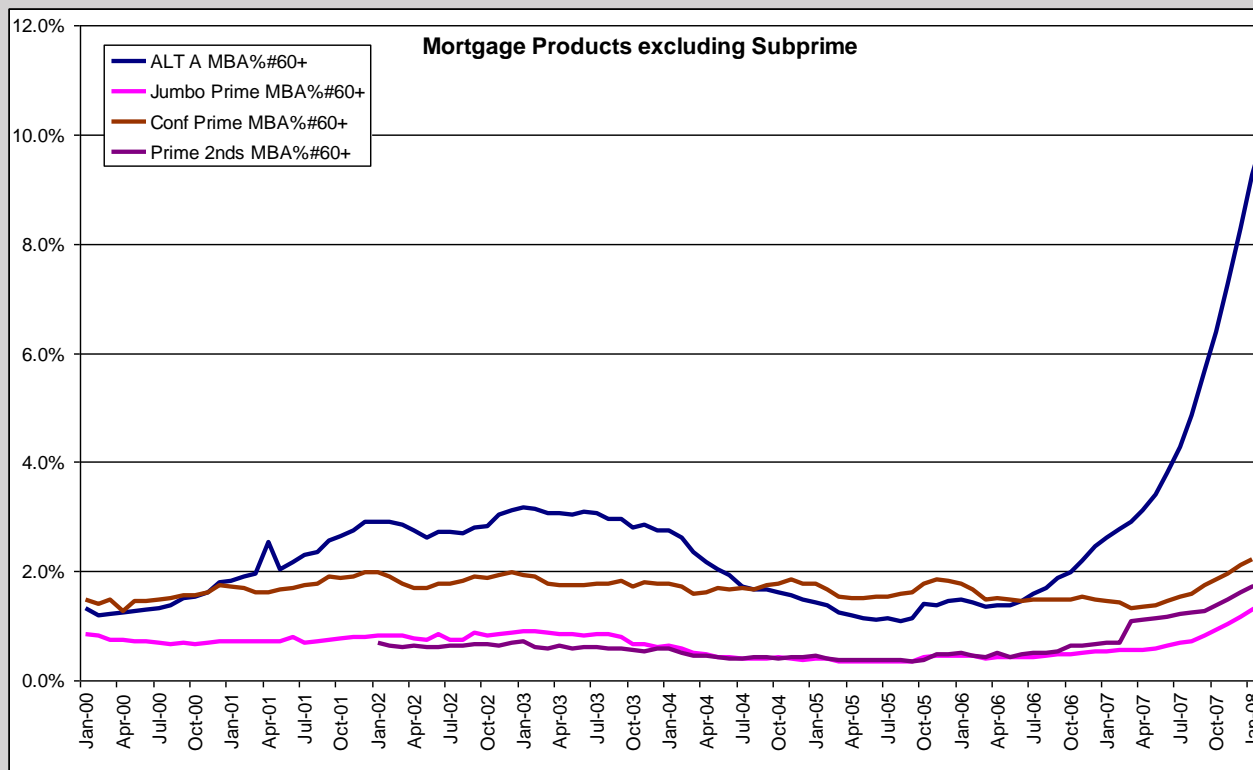
Establishing “Value” During Periods of Market Dislocation

Model Versus Market- How Do We Choose



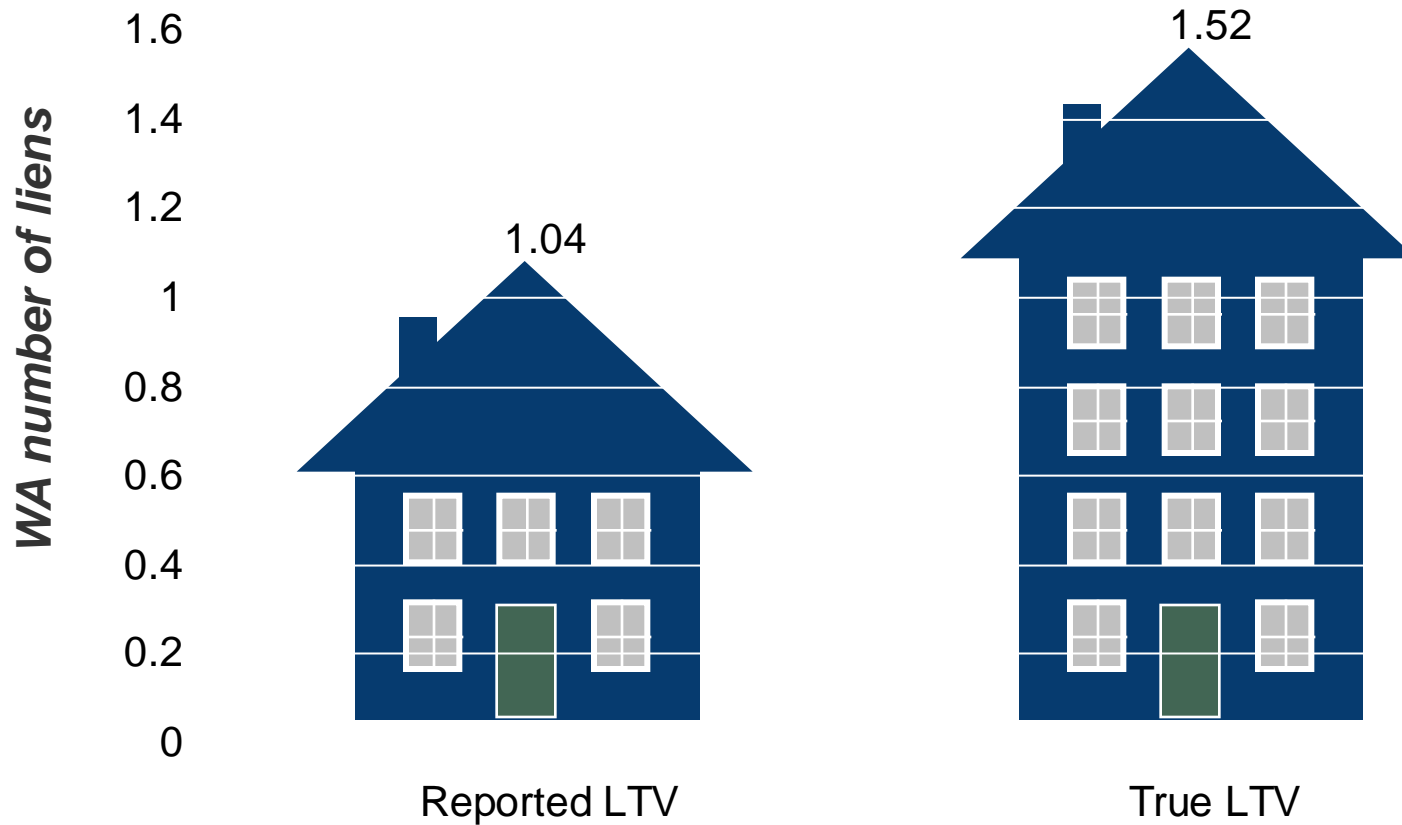
First American
CORELOGIC

- Market Dislocation- When Market Pricing Not Commensurate with True Risk
 - Large Differences between informed fundamental value and market bids
 - Thin Trading Volumes/Wide Bid-Ask Spreads
 - Jumbo performance during market turmoil

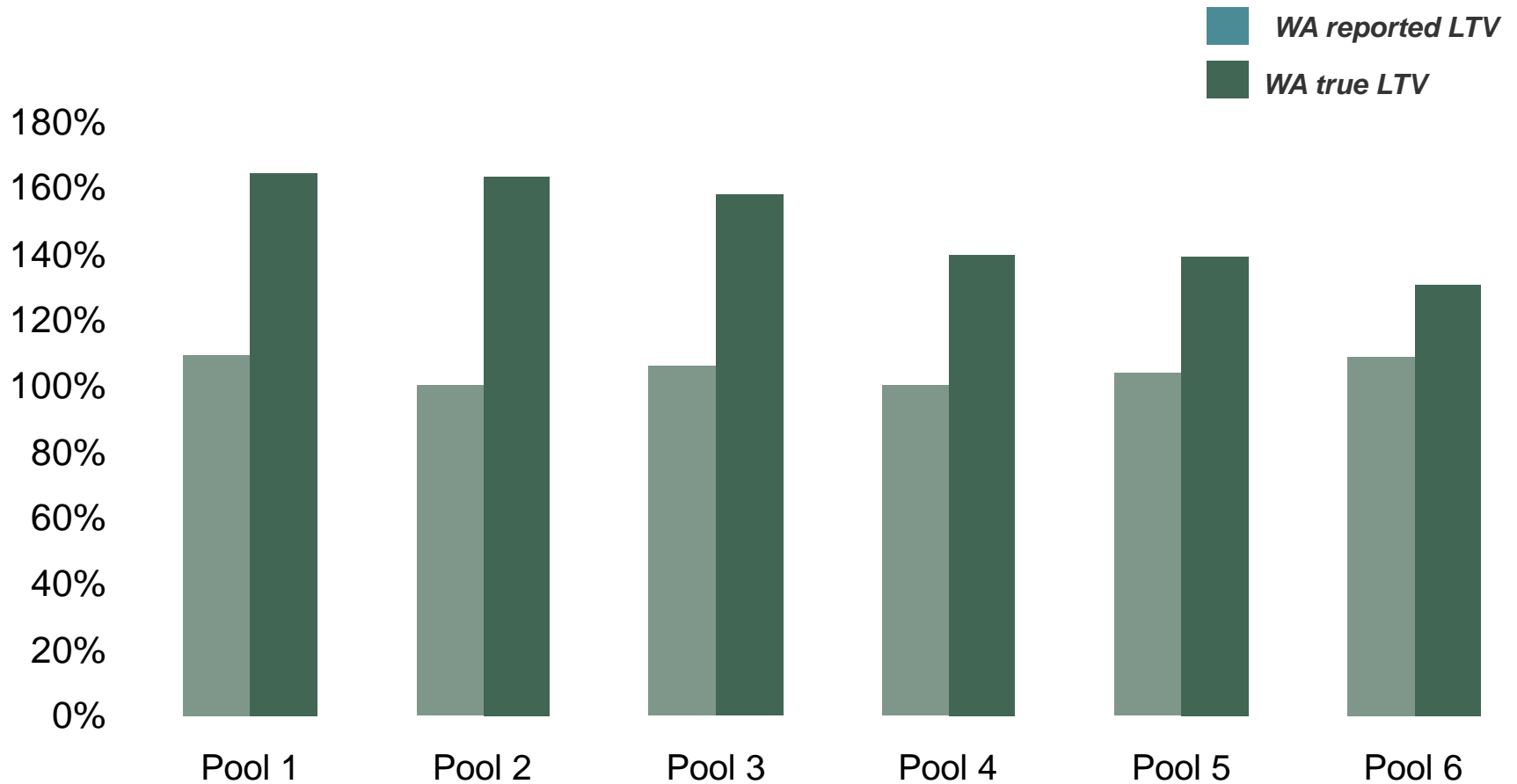


- Federal Accounting Standards Board (FASB) 157/133 Rulings
 - Value of assets can be updated based upon market conditions
- Mark to Market
 - Trader opinions-limited information upon which to assess price
 - A participant in a “rational” market
- Mark to Model
 - Based on similar tenets to BASEL II
 - Organizations can use their own models under reasonable market assumptions to “price” assets
 - Models include cost of fund and return goals of clients so every model is different.
 - Models require accurate and detailed (ideally loan level) inputs

ABX 2006-2 – weighted average number of liens per property



Sample of 6 pools



- An Independent Mark to Model
 - Model Provision not tied to entity revenue/outcome of transaction
 - Agreed upon set of reasonable and standard assumptions
 - Ranges of scenarios for a variety of assumptions
 - Mark to Model used in good times and in bad
 - Method likely to undervalue market when irrationally exuberant
 - But less likely to be as severe in times of dislocation.
- The More the Better
 - Multiple independent models is better than one- prevents against model risk.
- More and Better data is required
 - Verification and Validation of critical model elements (LTV, FICO, DTI, Occupancy, etc.)