

PricewaterhouseCoopers'

The Mortgage Industry & Emerging Markets

2008 MBAA Servicing Conference

February 27, 2008 | New Orleans

*connectedthinking

%

)

\$

Martin Touhey
Senior Manager
PricewaterhouseCoopers
Consumer Finance Group

%

)

\$

Agenda

- Market Overview
- Growth Opportunities
- Servicer Considerations

Market Overview

Emerging Markets Defined

- U.S. “Emerging markets” in the consumer finance industry have traditionally been defined in two different ways:
 - Multicultural minorities who have been traditionally underserved by the financial services industry (Hispanics, Asian-American, African-Americans, etc.)
 - Groups that possess certain characteristics or behaviors that require a new way to define products and services

Emerging Markets Defined (Cont.)

- In our opinion, Multicultural markets are an “emerged” market and represent only one of the five emerging markets segments that offer significant growth opportunities to the consumer finance industry
- The other four main emerging markets segments are:
 - Baby boomers
 - U.S. customers interested in foreign properties
 - Households headed by women
 - “Green” banking

General Statistical Facts

50%

of new homeowners in the United States will come from emerging markets segments

70%

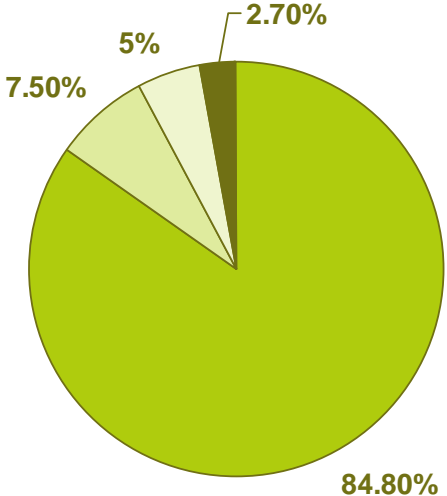
of the consumer finance industry organic growth may come from the Hispanic market alone

25%

of the population is expected to have a Hispanic descent by 2050

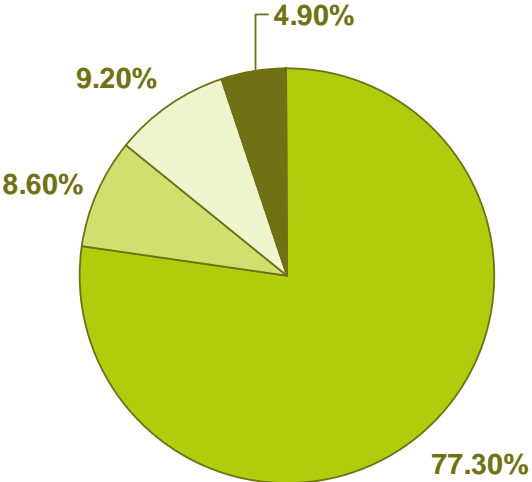
Market Opportunity

- By 2010, it is expected that the buying power of multicultural markets in the U.S. will be more than \$2.7 trillion



1990 U.S. Buying Power

- Whites
- African Americans
- Hispanics
- Asian Americans



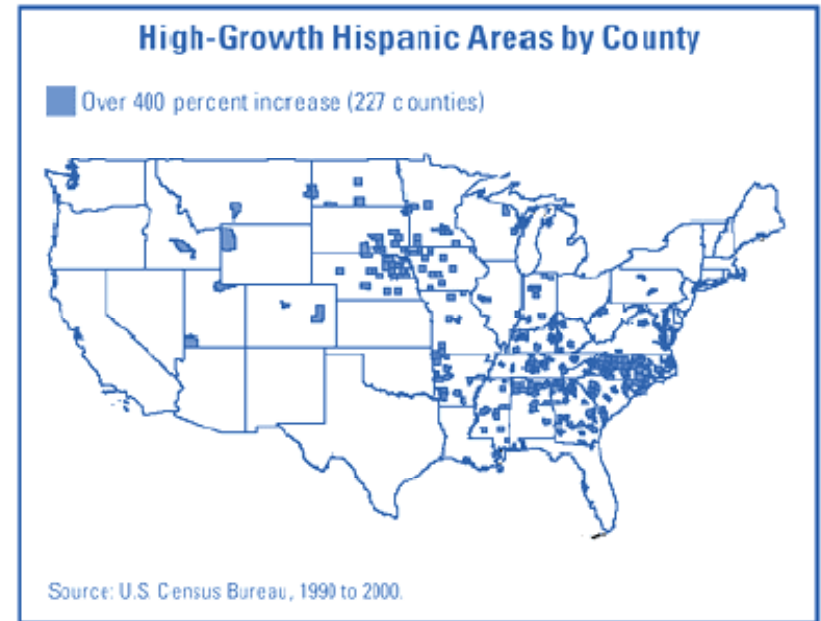
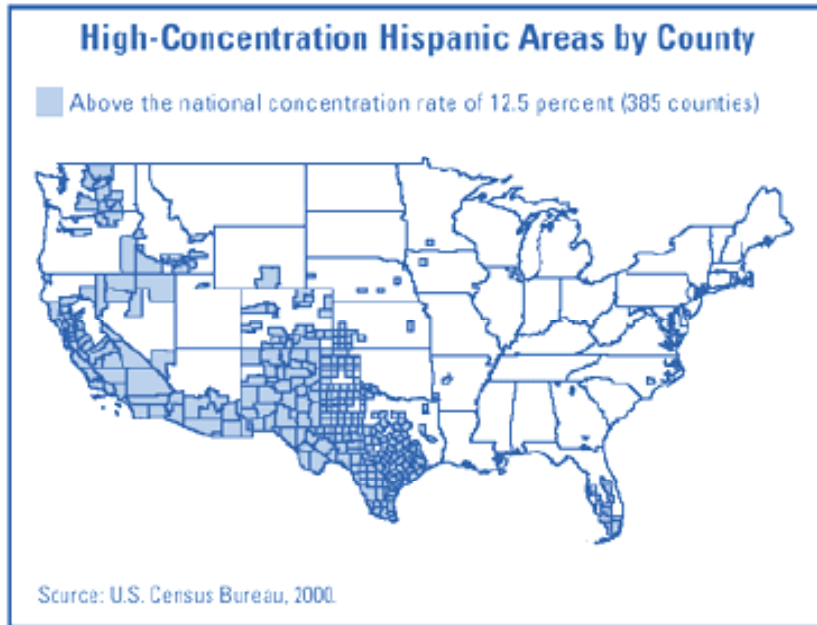
2010 U.S. Buying Power

- Whites
- African Americans
- Hispanics
- Asian Americans

Source: Seelig Center for Economic Growth

Traditional vs. expected geographic concentration

The 'traditional' Hispanic market cities/regions have started to change. California, Texas, Florida and New York are no longer the only states with an important number of emerging market customers.



Growth Opportunities

The Hispanic Market

- Hispanics Americans have become the biggest minority in the nation. There are 43 million Hispanics living in the U.S. (about 14.6% of the total population)
- By 2011, Hispanics will represent about 16.3 % of the population

U.S. Hispanic Population (in millions)

| | 1990 | 2000 | 2006 | 2011 |
|--------------|-------------|-------------|-------------|-------------|
| Total | 249,622,814 | 282,192,162 | 298,958,833 | 313,033,865 |
| Hispanic | 22,572,838 | 35,647,334 | 43,883,740 | 51,113,433 |
| Non-Hispanic | 227,049,976 | 246,544,828 | 255,075,093 | 261,920,432 |

Source: Seelig Center for Economic Growth, Terry College of Business,
The University of Georgia, June 2006.

Targeting the Hispanic Market

- When targeting the Hispanic market, it is important to understand the differences among generations
 - Unacculturated: Recent immigrants that integrate their home country traditions to their lives in the U.S. → Illegal immigrants, guest workers
 - Partially acculturated: Raised by 1st generation parents but attended school in the U.S. or young professionals / retirees that moved to the U.S.
 - Fully acculturated: Raised by 2nd generation parents. Fully assimilated to U.S. culture. May not even speak Spanish

Targeting the Hispanic Market

- The percentage of Hispanics that want to conduct business in English keeps growing. However, the majority prefers to speak Spanish at home

Language Preference

At Home

| | |
|---------|-----|
| Spanish | 56% |
| English | 18 |
| Both | 26 |

Source: Hispanic Fact Pack, 2008

Out of Home

| | |
|----------------|-----|
| Spanish Only | 16% |
| Mostly Spanish | 24 |
| English Only | 16 |
| Mostly English | 33 |
| Both Equally | 6 |
| No Answer | 5 |

Source: Hispanic Fact Pack, 2008

The Asian American Market

- Asians are the second fastest-growing minority population in the US, and in the next two decades Asians will represent 3.5 million households
 - Approximately 2.5 million of these households will become homeowners
- The Chinese-American community is the largest ethnic group of Asian Americans, making up 1.2 percent of the US population

The Asian American Market

- The Asian home ownership rose from 52% in 2000 to 59% in 2005
- Asian Americans tend to buy higher priced homes. The median value of an Asian-owned home is \$199,300 compared to \$118,800 for the U.S. overall
- Asian Americans are significantly more rate and fee sensitive when it comes to choosing a lender
- There is a strong desire to avoid mortgage insurance premium in the Asian market and this market tends to put higher down-payment

Islamic Americans

- U.S. Islamic immigration patterns continue to diversify beyond the Middle East to include parts of Africa (e.g., Sudan and Somalia), Asia (e.g., Indonesia) and Europe (e.g., former Yugoslavia)
- The US Census Bureau's Current Population Survey counts 2.1 million Muslims in America, while industry experts, academics and Muslim leaders place the figure closer to the 5-7 million range
- The Islamic Mortgage market is presently estimated to be \$600 million
- A secondary market does exist as both FNMA and FHLMC have purchased Shar'iah compliant loans

Baby Boomers Acquiring Property South of the Border

- Baby boomers are starting to retire and are looking beyond FL and AZ as a place to retire. Americans are becoming more interested in acquiring a second property abroad – over one million Americans own property in Mexico
- All international markets are different and a buyer should become well informed of these nuances before plunging into the market. For example:
 - Down payment requirements, title issues, closing costs, brokers fees
 - Legal rights to land use as a foreigner
 - Hot markets for Americans include Mexico, the Dominican Republic and other areas that are a 4-5 hour flight from a buyer's principal residence

Reverse Mortgage Considerations

- A reverse mortgage is a loan against a home that is not payable until the homeowner dies, sells the home or permanently moves out
- Reverse mortgages allow homeowners age 62 and older to turn the equity in their home into cash without having to move or make a monthly mortgage payment
- FHA insured 76,351 Home Equity Conversion Mortgages in 2006, compared with 43,131 in 2005 (77% increase). It is expected to grow to 120,000 in 2007
- The HECM accounts for approximately 85% of the reverse mortgage market

International Lending Opportunities

- There are two international lending opportunities opening up for U.S. consumer finance companies
 - Mortgages originated in the U.S. for people interested in acquiring vacation properties in other countries (e.g. vacation homes in Mexico)
 - Mortgages for U.S. residents interested in acquiring properties for themselves or their families in their home countries (Latin America, India, China)

Service Considerations

Multicultural Markets

- Customer Service
 - Increased requirement of multi-lingual representatives and services (internet, documents, etc.)
 - Reliance on full service vs. self-service channels will vary by market
 - Traditional off-shoring models may not serve some of these markets well
 - Regulatory requirements related to disclosures, language of offering, etc.

Multicultural Markets (cont'd)

- Customer Retention Efforts
 - Use of alternate credit scores for new residents
 - Tailored vs. generic marketing campaigns
- Transaction processing
 - Shar'iah compliant products
 - Less reliance on electronic payments and greater use of cash for some markets segments

Foreign Mortgages

- Foreign remittances and transaction processing
- Foreign regulatory considerations related to property ownership, collections and other default related practices
- Disclosures

Reverse Mortgage

- Controls around disbursement of funds and accuracy of balance reporting
- Customer service model may be higher touch
- Property maintenance and inspections
- Disclosures and regulatory requirements
- Investor reporting for securitized pools

