

MBA'S NATIONAL MORTGAGE SERVICING

**BUILDING
TOGETHER**
for **TOMORROW**

CONFERENCE & EXPO 2008

Rating Agency Update

How High Is the Bar?

Diane Pendley
Managing Director
Fitch Ratings

Bill Fricke
VP-Sr. Credit Officer
Moody's Investor Services

Richard Koch
Director
Standard and Poors

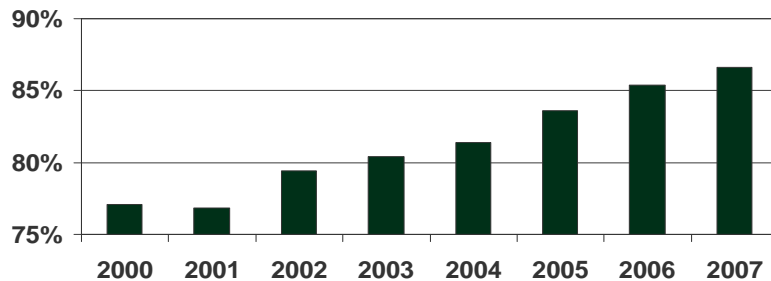
Diane Pendley

Managing Director
SF Operations Risk Group
Fitch Ratings

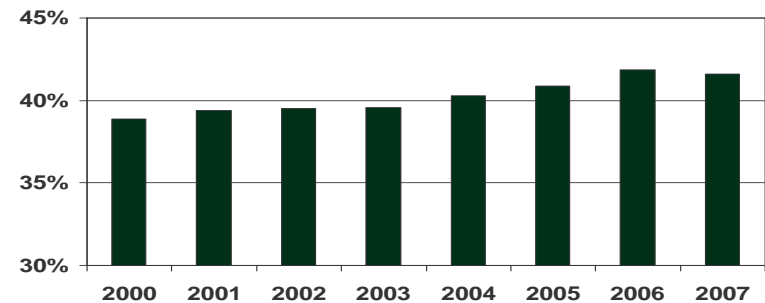
State of US Residential Servicer Market

Collateral Attributes By Vintage

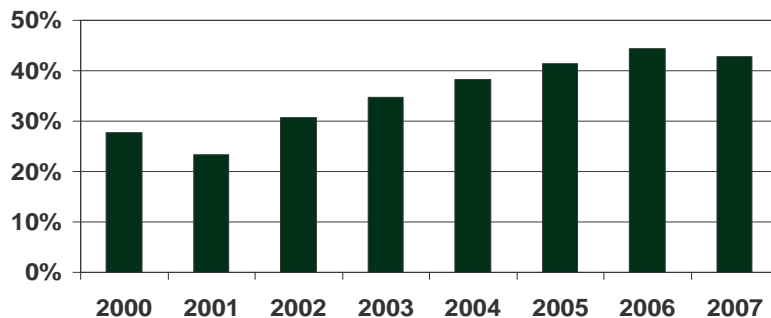
Combined-Loan-to-Value Ratio



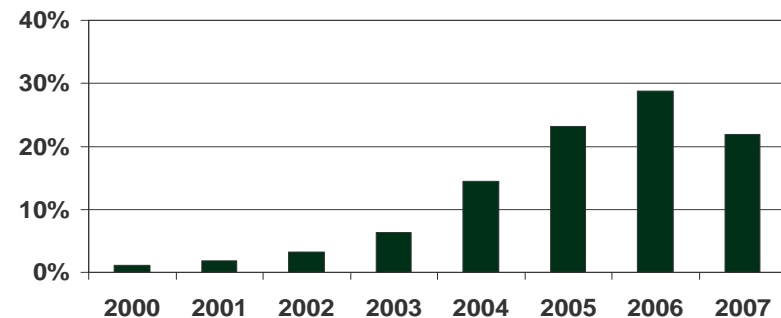
Debt-To-Income Ratio



Limited Borrower Documentation

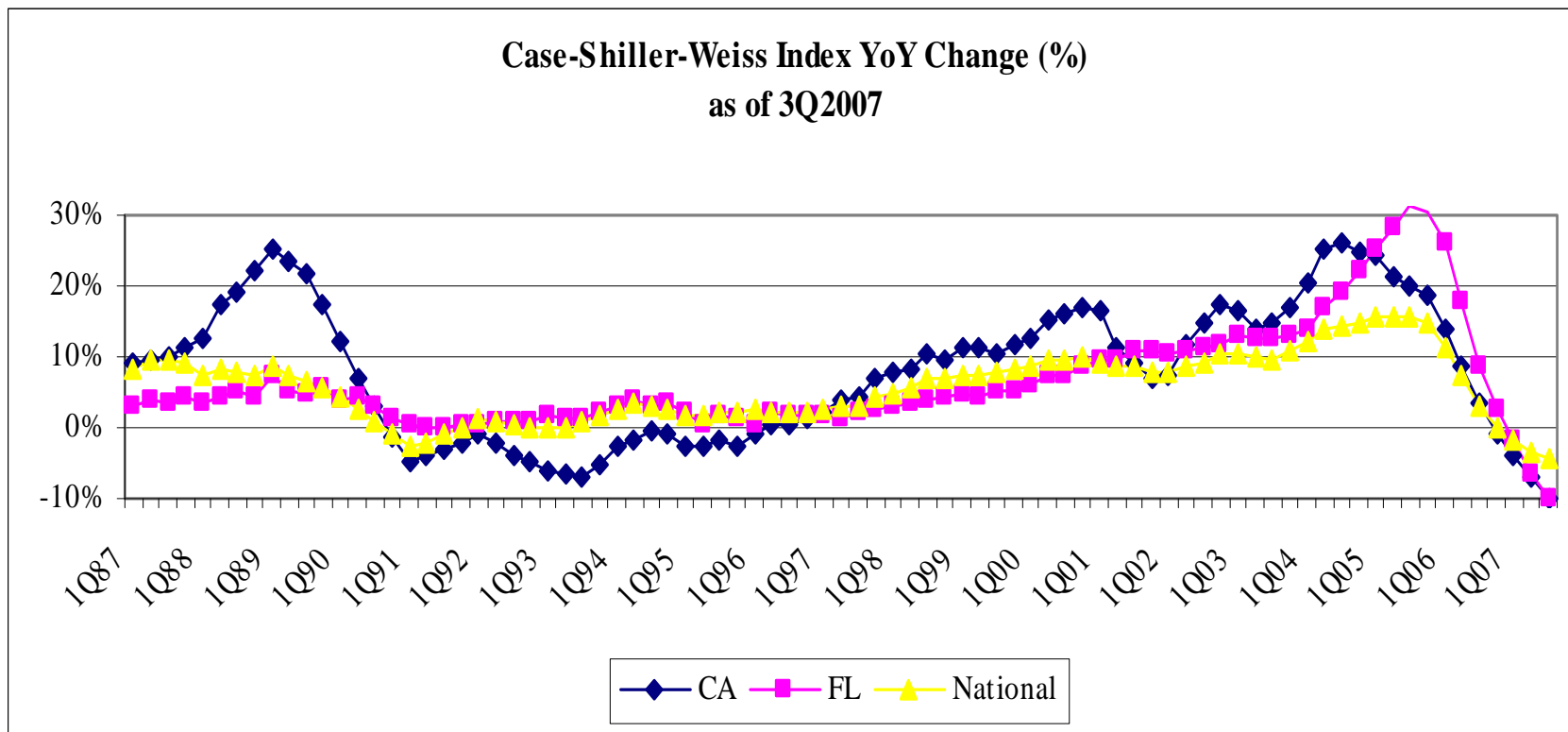


“Piggy-Back” 2nd Liens



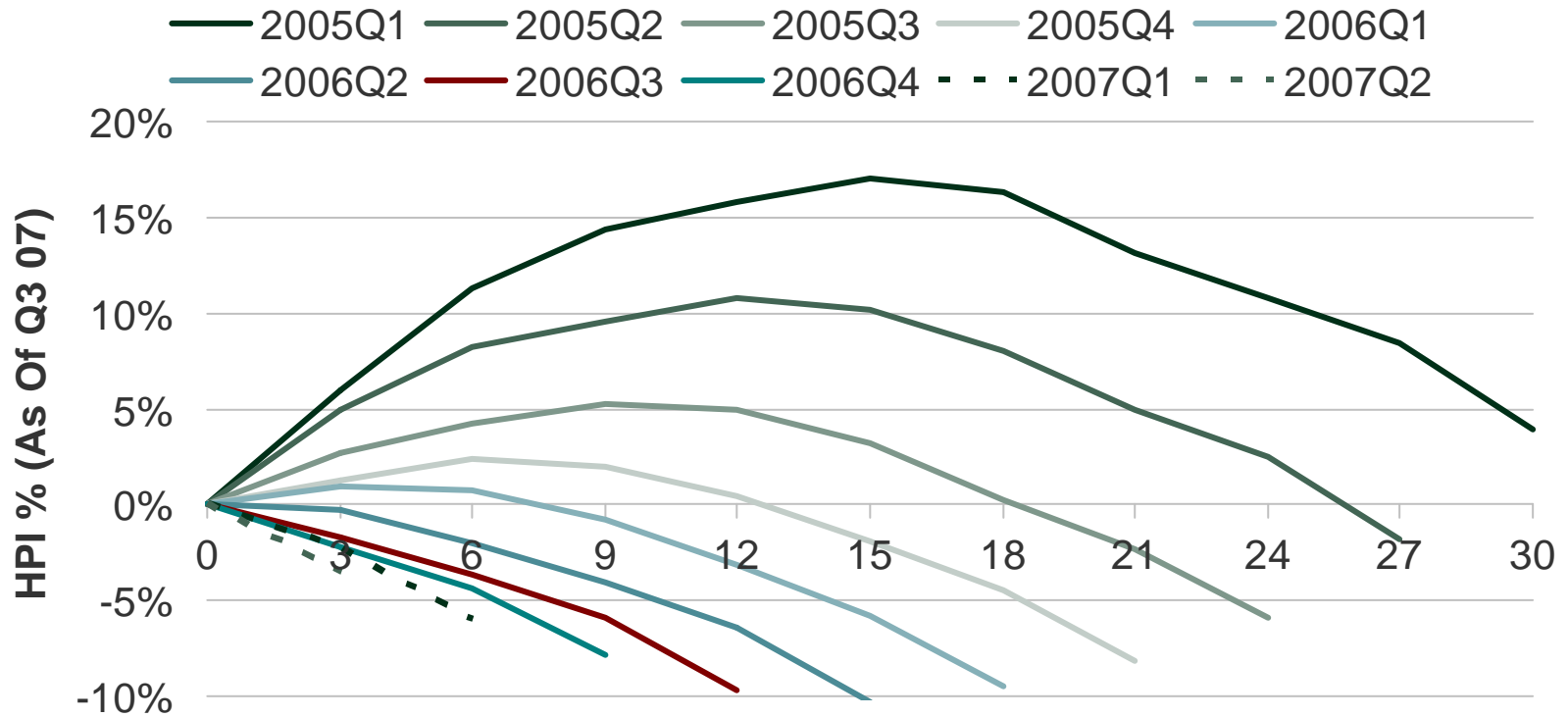
Source: LoanPerformance, Fitch Ratings

Home Values Decline Sharply – Case-Shiller-Weiss Home Price Index



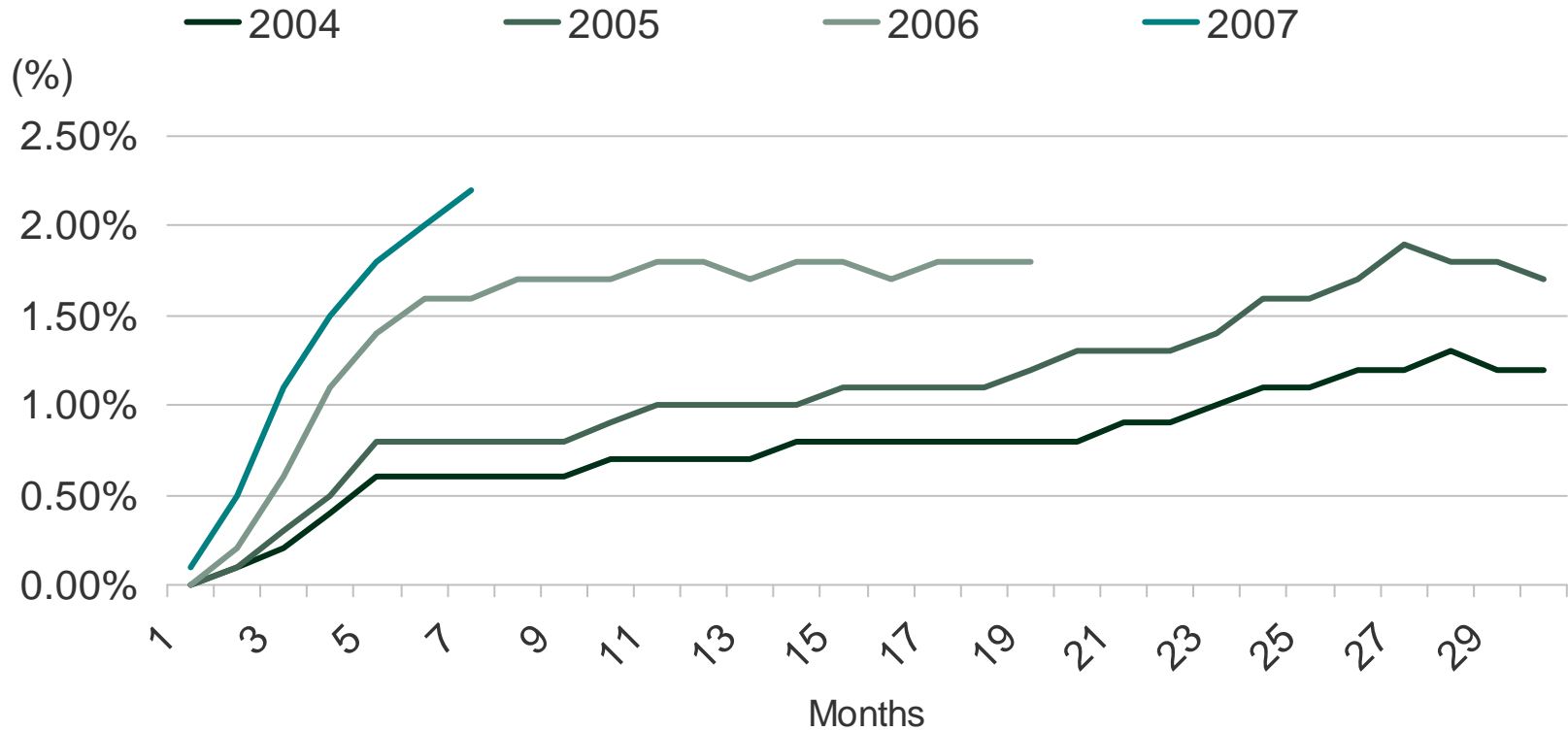
Source: Case-Shiller-Weiss

California Home Price Inflation By Origination Quarter

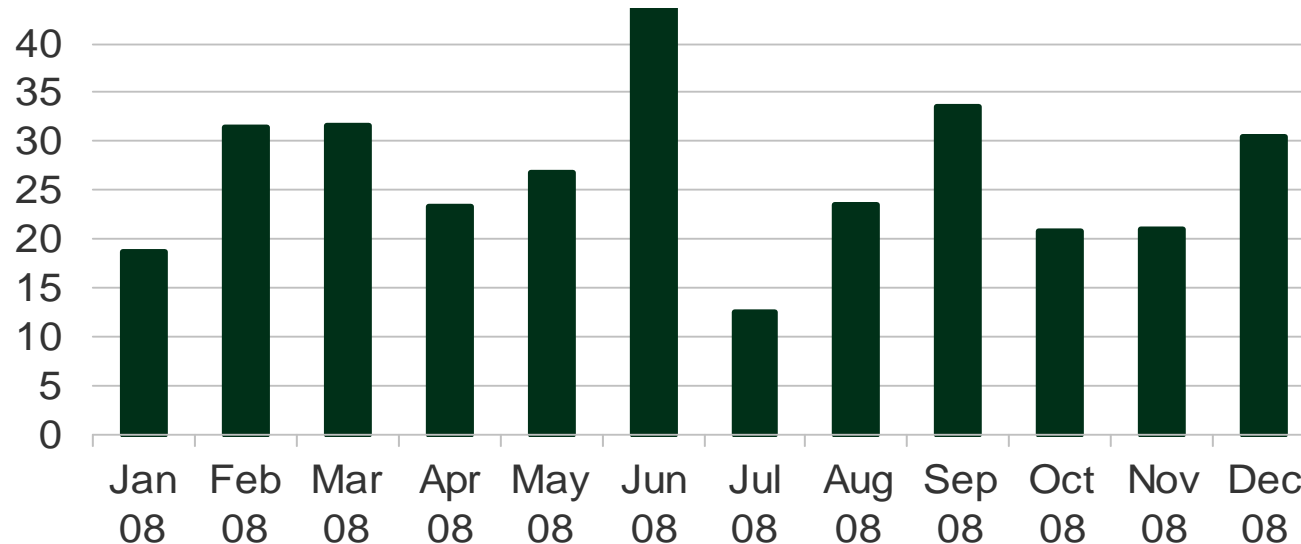


Source: Fitch, Case-Shiller-Weiss

Monthly Defaults as % of Current Balance



Extensive Subprime ARM Resets in 2008 Monthly Reset Volume by Balance (\$ billions)



Fitch Servicer Ratings Downgraded or Placed on Negative Watch

- Most actions (to date) have been driven solely by financial condition of company or parent
 - Result of limiting or shutting down origination platforms
 - Sale and/or acquisition of servicing platforms

- Financial condition factor effects all rating types and products
 - However, effect greater on Master and Primary Subprime

- Projection for future negative actions
 - Sale and acquisition of servicing platforms and portfolios continues
 - **Operational performance** is expected to become driver of downgrades as stress on servicing platforms increases

Fitch Servicer Ratings Downgraded or Placed on Negative Watch

➤ Master	2	# Companies	2
➤ Primary			
➤ Prime	8		
➤ Alt A	8		
➤ Subprime	17		
➤ HLTV	4		
➤ HE/HELOC	8		
➤ Specialty (Sub-servicer, Reverse, MH, etc.)	2		
➤ Total Primary	47	# Companies	15
➤ Special	11	# Companies	11
➤ Total Negative Rating Actions	60	# Companies	16

Total Number of RMBS Servicer Ratings – 138
 Total Number of RMBS Servicers - 59

US Residential Servicer Challenges in the Current Markets

➤ Continued liquidity restraints –

- Difficult for borrowers to find refinancing options or purchasers to find financing
- Loans remain in portfolio and have potential to default
- Lack of new loan originations (performing) to off-set aging (sub or non-performing) effecting cost of servicing
- Parent/owners reliant on origination income may see additional downgrades or deterioration, effecting servicer's financial condition and/or funding lines

➤ Continued home value declines –

- Increases defaults as borrowers are unable to sell or refinance
- Additional defaults require additional resources in collections, loss mitigation, BK, foreclosure and REO areas
- Extended timelines in all default areas as backlog increases in courts, and property inventory
- Increased cost of servicing

- Implementation of aggressive loss mitigation strategies
 - Execution of 'Streamlined' modifications
 - Volume of regular modifications needing to be processed
 - Identification of fraud or other breaches of reps and warranties
 - MI claim denial and/or curtailment
 - New reporting requirements and requests

- Ability of servicer to obtain qualified staff in default areas
 - Quality of training programs
 - Level of technology and process integration
 - Monitoring performance of any/all outsourced functions

Bill Fricke

Vice President – Senior Credit Officer

Servicer Ratings Group

Moody's Investors Service

Loss Mitigation

- Process
 - Proactive approach – contact early and often
 - Use of innovative contact methods
 - Early identification of “reason for default”
 - Staffing Expertise
 - Technology (Front and back end)
 - Knowledge of guidelines

- Incentives
- Full suite of options

Moody's Tiers	Prime and Alt-A Loans	Subprime
<i>Strong</i>	69.20%	54.00%
<i>Above Average</i>	56.30%	43.30%
<i>Average</i>	32.20%	37.30%

Definitions

- “Total Cure”-paid off in full or current
- “Cash Flowing”
 - Less than 90 days delinquent
 - Current for 3+ months on a plan
 - Loan terms modified

Loan Modifications

Moody's Subprime Mortgage Servicer Survey on Loan Modifications

September 21, 2007

1% of total reset population modified

- **16 Servicers that represent 80% of subprime market**
 - \$950 billion in subprime servicing portfolio
- **Passive approach to contact resetting borrowers**
 - 15% of portfolio expected to reset from late 2007 to 2008
- **However, delinquency levels for loans not modified were low**
 - 5-15% of loans that were current at the time of reset and not modified were delinquent after reset

Moody's Subprime Mortgage Servicer Updated Survey on Loan Modifications

December 17, 2007

3.5% of active reset population modified

- **Servicers used other loss mitigation options for ARM loans facing reset**
 - 10% of loans were on a workout plan
- **High level of payoff activity prior to and after reset date citing adverse selection**
 - Approximately 36% of scheduled reset population actually reset
 - 50% delinquent of the active reset population, as of September 30, 2007
- **Lack of readiness on part of some servicers to offer modifications**

Status of Loans as of Sept 30, 2007
(% of Current Loans that were not modified)

	Reset Period			
	Q1-2007	Q2-2007	Jul-07	Aug-07
Paid Off post reset	37.2%	26.4%	18.3%	11.9%
Current as of Sept 30	40.7%	54.8%	64.9%	74.3%
Delinquent as of Sept 30	22.1%	18.9%	16.7%	13.8%

19% of current loans that were not modified became delinquent

Loans modified or currently on a workout plan as of September 30, 2007

	Reset Period			
	Q1-2007	Q2-2007	Jul-07	Aug-07
% of 30+ delinquent loans	22.1%	21.9%	19.3%	20.1%
% of 60+ delinquent loans	24.3%	23.9%	21.0%	23.8%

23.6% of 60+ delinquent loans were either modified or were on a workout plan

- ASF modification framework
 - Streamlined modification process for eligible borrowers facing reset
 - Endorsed by US Treasury secretary as well as IRS
 - Expected to help modify X.X million borrowers facing ARM resets
- Servicers initiatives
 - Proactive communication with resetting borrowers prior to the reset date
 - Community outreach programs in conjunction with credit counseling agencies to enhance communication with delinquent borrowers
 - Local loss mitigation sponsorship events to increase awareness in high risk geographical areas

Richard Koch

Director

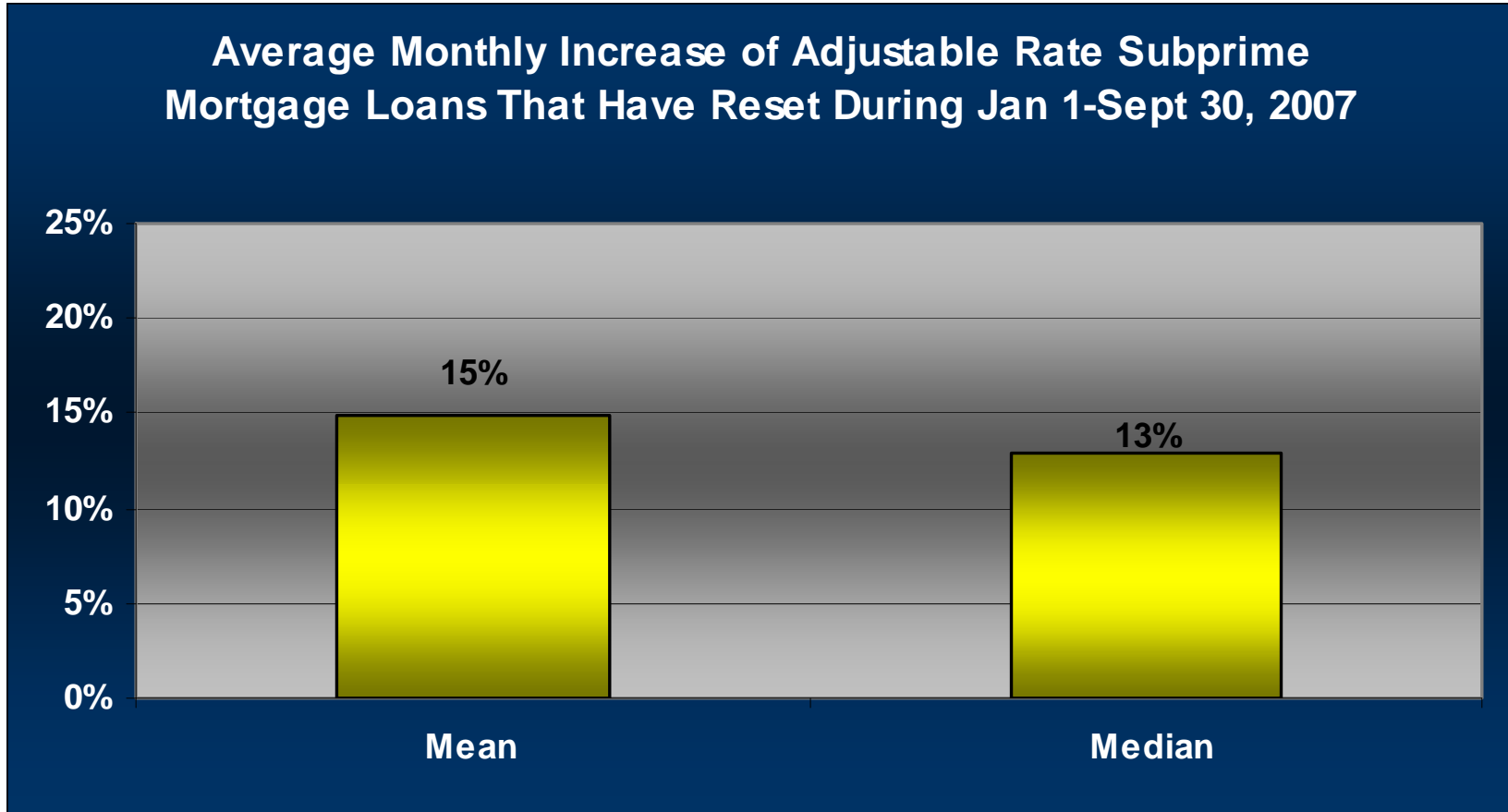
Structured Finance Ratings

Standard and Poor's

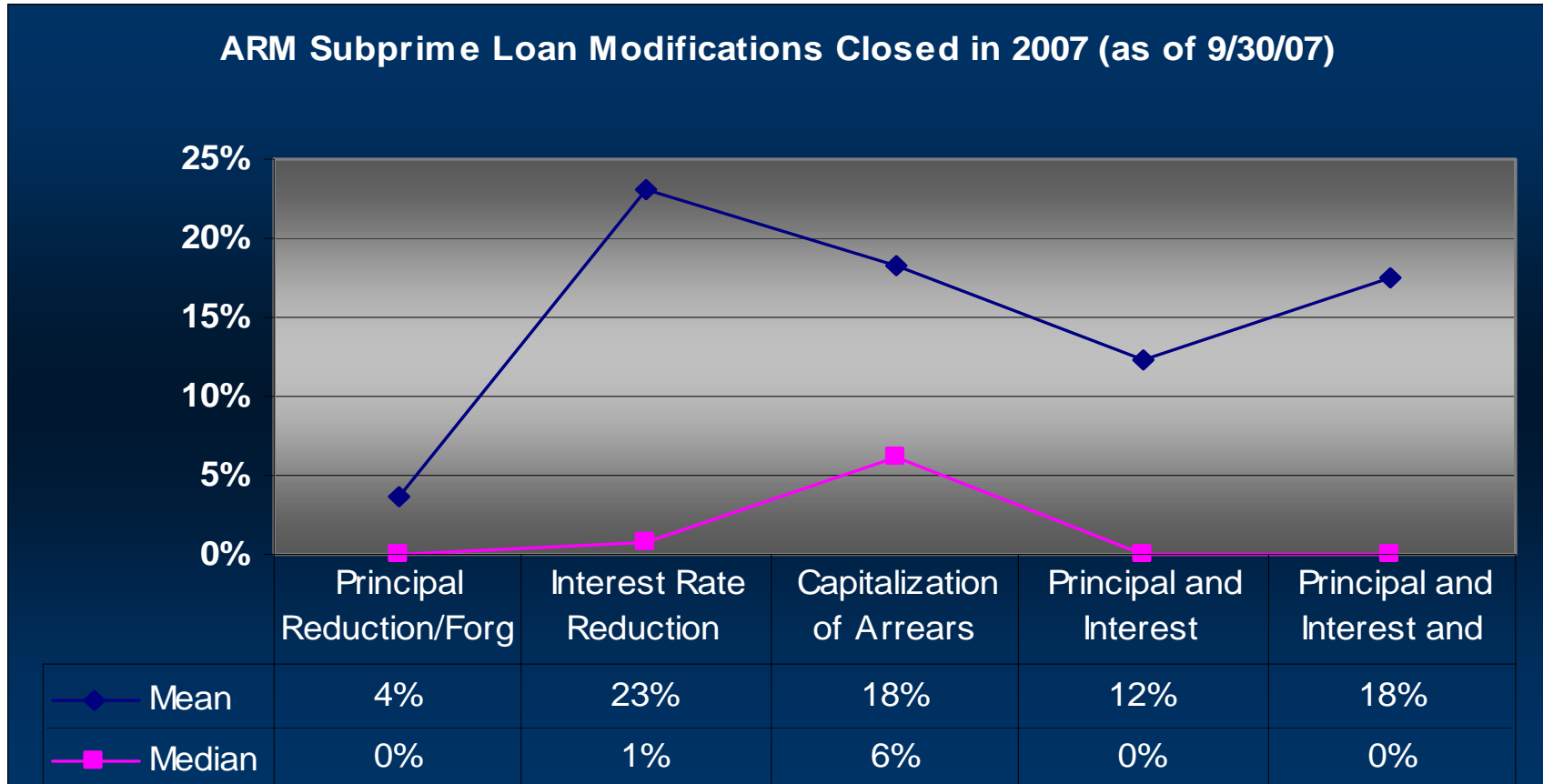
- **Key Issues For U.S. Servicers:**
- *Adjustable Rate Mortgage Resets Scheduled To Peak In The Next 24-36 Months*
- *Housing Market Downturn, Declining Home Values And Limited Access To Credit Make It Difficult For Borrowers To Refinance From Adjustable Rate To Fixed Rate Products*
- *Rising Delinquencies And Limited Loss Mitigation Options Posing Unprecedented Challenges For Servicers*
- *How Will Servicers Balance Labor And Cost Intensive Loss Mitigation Work With Present Servicing Fee Income Structure*
- *Drain On Industry Resources And Talent Pool Will make It Challenging For Servicers To Appropriately Meet Staffing Needs*

- Regulatory Scrutiny Into Servicing Practices Continues
- ***2003 - \$40 Million Settlement between Fairbanks Capital Corp. and the Federal Trade Commission (FTC) and Office of the Inspector General of HUD.***
- ***2007 – 2008 Ongoing FTC and state attorney general investigations into mortgage lending and servicing.***
- ***Various predatory lending and servicing laws passed by individual state legislatures and enacted into law.***
- ***Emergence of consumer advocacy groups and homeownership preservation initiatives.***
- ***Prominence of mortgage loan products with higher risk profiles such as interest only (negative amortization) loans and option adjustable rate loans coupled with rising interest rate environment = rising delinquency rates.***

- Monitoring the servicing portfolio for potential payment shock risk:

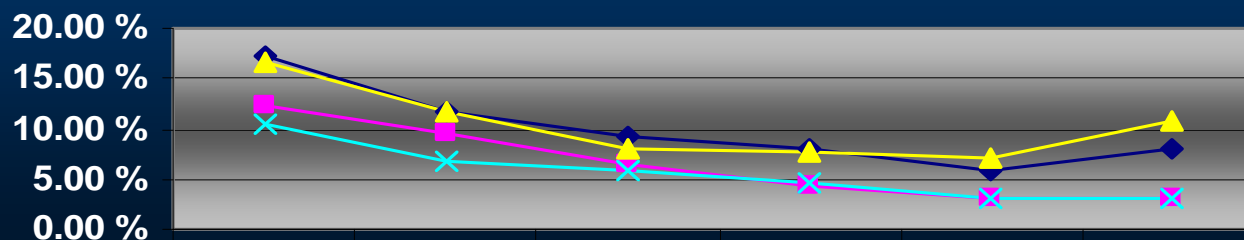


- Loan Modifications Closed in 2007 (By Type):



- In what ways are servicers using short and long term forbearance plans to mitigate losses and prequalify borrowers for loan modifications?

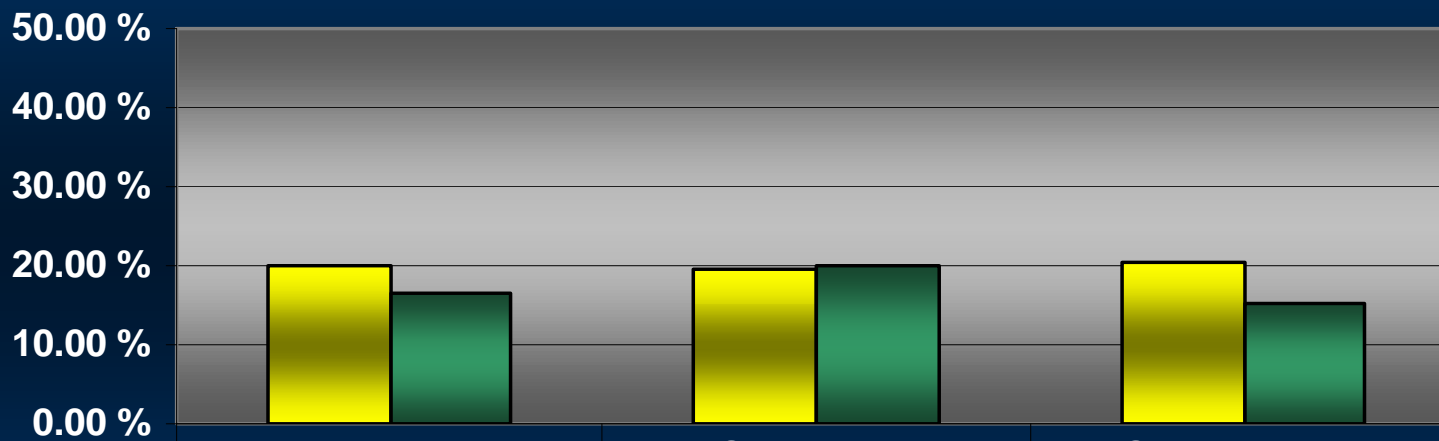
Subprime Forebearance Break Rates (as of 6/30/07)



	30+ days	60+ days	90+ days	120+	150+	180+
◆ 1H06 Peer Average	17.20 %	11.69 %	9.22 %	8.08 %	5.71 %	8.01 %
■ 1H06 Peer Median	12.31 %	9.50 %	6.51 %	4.40 %	3.00 %	3.17 %
▲ 1H07 Peer Average	16.64 %	11.64 %	8.00 %	7.64 %	7.05 %	10.76 %

- Early Loss Mitigation Outreach Is Often Precluded By A Lack Of Direct Contact With The Delinquent Borrower:

Right Party Contact Rate For 30+ Day Bucket (% Annualized) (as of 6/30/07)



■ Peer Average

19.98 %

19.54 %

20.51 %

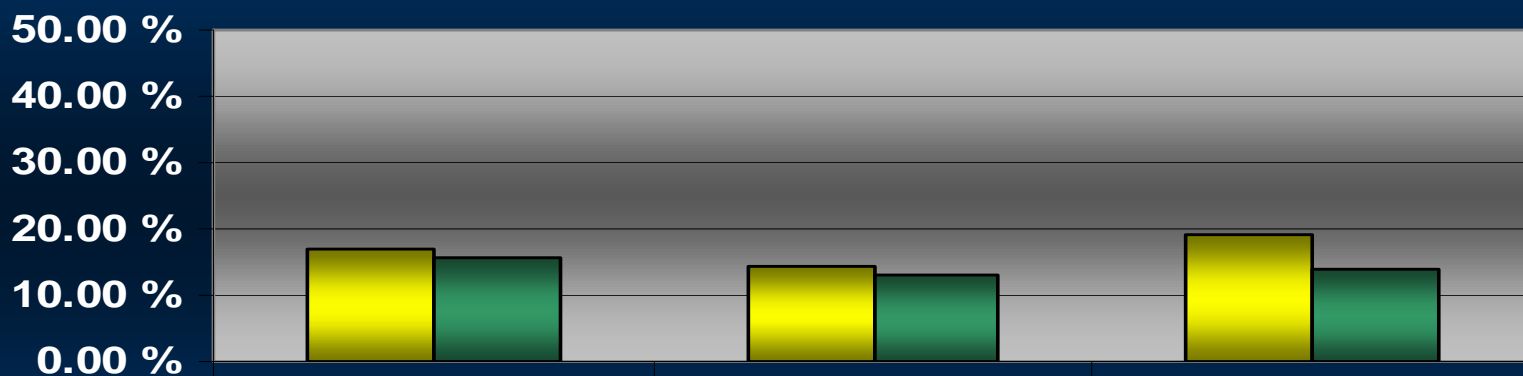
■ Peer Median

16.74 %

20.00 %

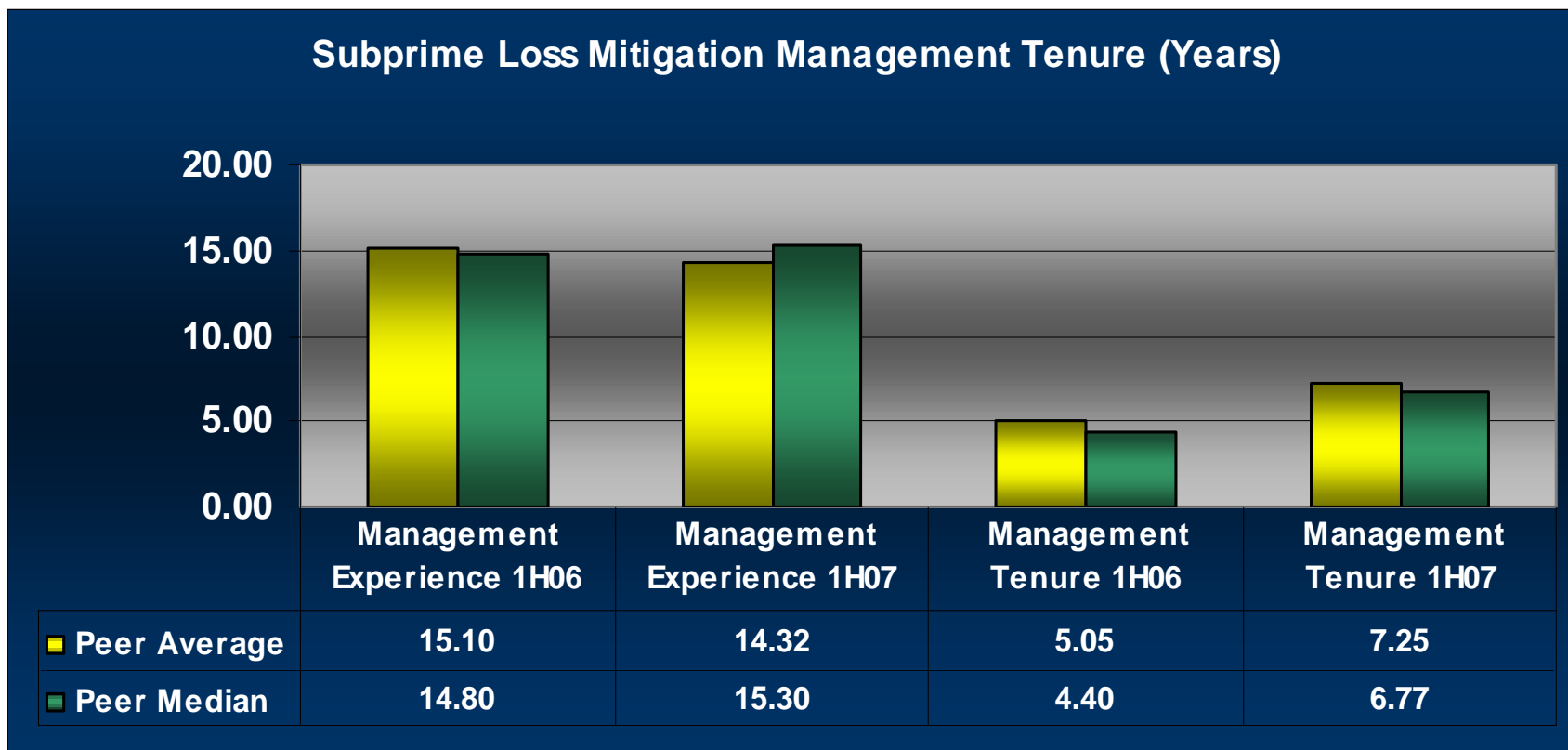
15.19 %

Right Party Contact Rate For 60+ Day Bucket (% Annualized) (as of 6/30/07)



	Prime	Subprime	Subordinate
Peer Average	16.97 %	14.39 %	18.94 %
Peer Median	15.67 %	13.05 %	13.80 %

- Loss Mitigation Talent Pool Will Be In Heavy Demand During The Next 24-36 Months And Servicers Will Need To Do Adequate Planning Capacity To Attract And Retain Management:



- Loss Mitigation Talent Pool Will Be In Heavy Demand During The Next 24-36 Months And Servicers Will Need To Do Adequate Planning Capacity To Attract And Retain Counselors:

