

VERTICAL CAPITAL SOLUTIONS



Historical Performance of Qualified vs Non-Qualified Mortgage Loans

February 2010

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Scope of Project

- ◆ Vertical Capital Solutions (“VCS”) working in conjunction with First American Core Logic (“FACL”), performed an unbiased comparison of performance statistics between two populations of conventional loans (Qualified and Non-Qualified).
- ◆ The comparison segregated the loans by origination year, Loan-To-Value (“LTV”), and presence of Mortgage Insurance (“MI”) as a way to further examine the findings.
- ◆ In addition, the data was segregated by the 25 Metropolitan Statistical Areas (MSA's) with the largest number of originations between 2002 and 2008.
- ◆ The criteria used for the determination of the Qualified pool is outlined below (the “Qualified Criteria”):
 - Debt-To-Income \leq 41%;
 - 7/1 ARM's & Greater or Fixed Rate;
 - Term \leq 360 months;
 - No Balloon;
 - No Interest Only;
 - No Negative Amortization;
 - Full Documentation; and
 - If the Loans had a LTV $>$ 80% it must carry MI

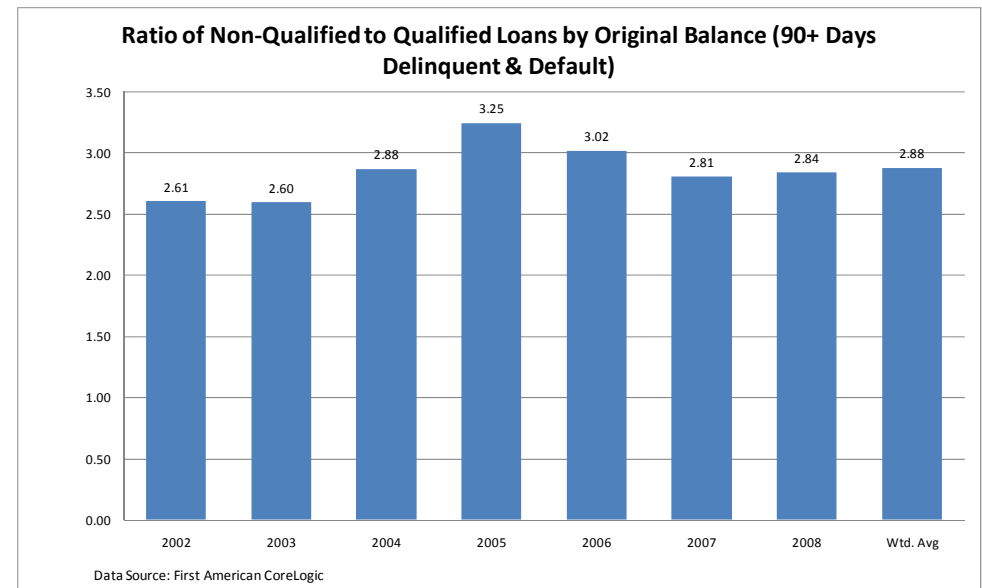
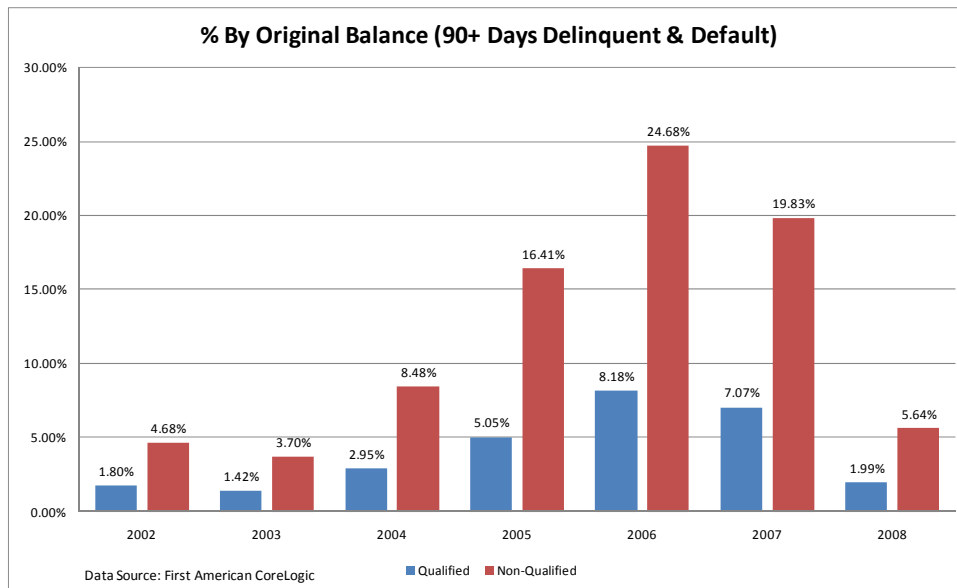
Methodology

- ◆ Developed performance statistics by vintage, LTV, MI and the Top 25 MSA's by utilizing FACL's Servicing Database (the "Servicing Database").
- ◆ The performance statistics were compiled as of 11/30/2009.
- ◆ The overall population consists of 37 million conventional loans originated between 2002 and 2008 (the "Loan Population")
- ◆ The Loan Population was then defined into two categories Qualified and Non-Qualified
- ◆ The Qualified Criteria was chosen to most closely match the criteria provided with the data available in the Servicing Database (**the "Qualified Pool"**).
- ◆ The non-qualified population consists of loans where all necessary data points are present, but one or more of the Qualified Criteria were not met (**the "Non-Qualified Pool"**).
- ◆ The remaining population (**the "Qualification Unknown Pool"**), not reported, consists of loans where the necessary data points were not all present and therefore qualification could not be determined.
- ◆ The Servicing Database does not report the liquidation type. However, the loan status at the time of liquidation is tracked. Liquidation type was determined using the following:

| Status at Time of Liquidation | Liquidation Type |
|-------------------------------|------------------|
| Current | Voluntary |
| 30 Days DQ | Voluntary |
| 60 Days DQ | Voluntary |
| 90+ Days DQ | Default |

Summary of Results

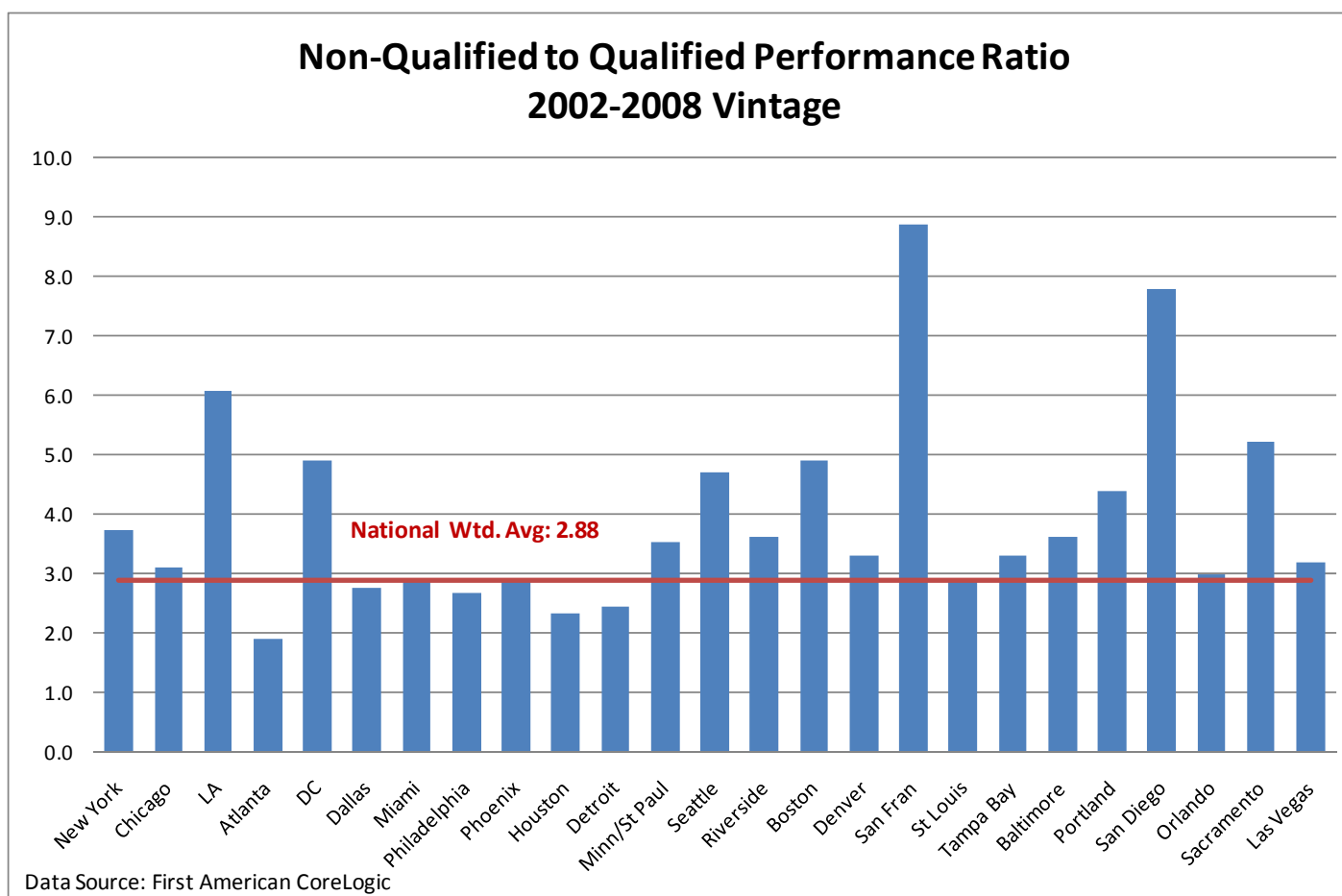
- ◆ 4.7 million of the Loan Population made up the Qualified Pool.
- ◆ 15.4 million of the Loan Population made up the Non-Qualified Loan Pool.
- ◆ The Qualified Pool has performed considerably better than the Non-Qualified population measured by loans that were 90+days delinquent or defaulted. This holds true across the range of vintages examined.



Non-Qualified Loans Performed 2.9 Times Worse

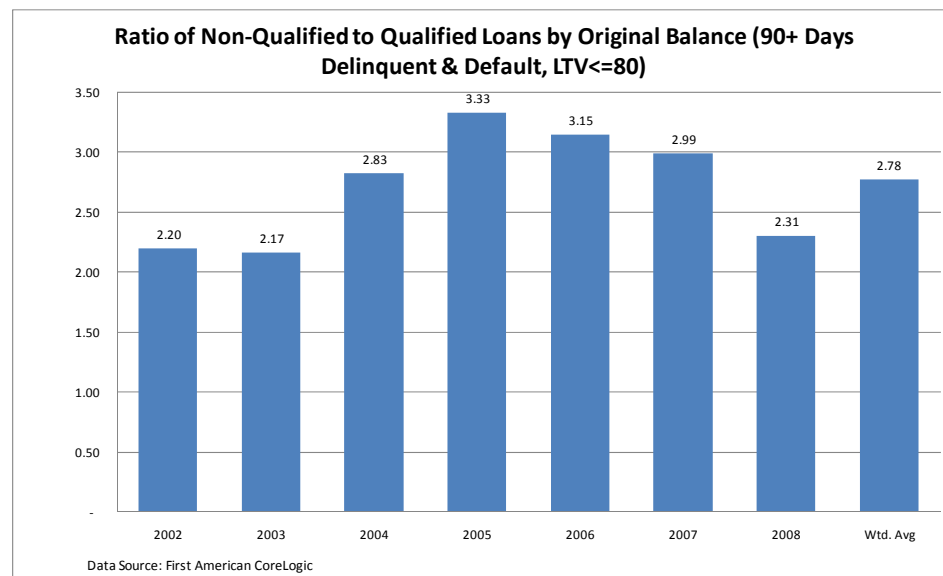
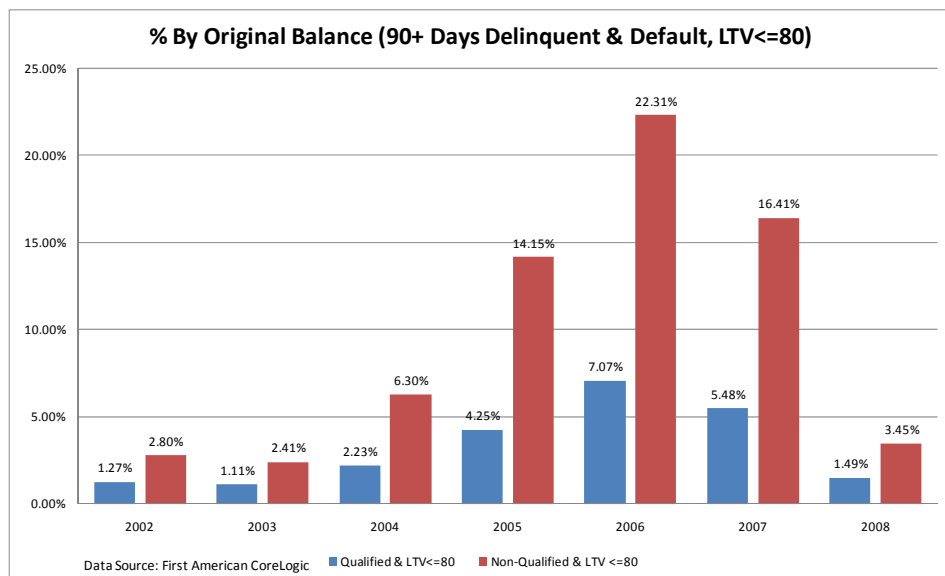
Summary of Results

- ◆ We examined Non-Qualified to Qualified Performance Ratios by the Top 25 MSA's.
- ◆ Non-Qualified Loans performed at least 2x worse in 24 of the 25 largest MSAs.



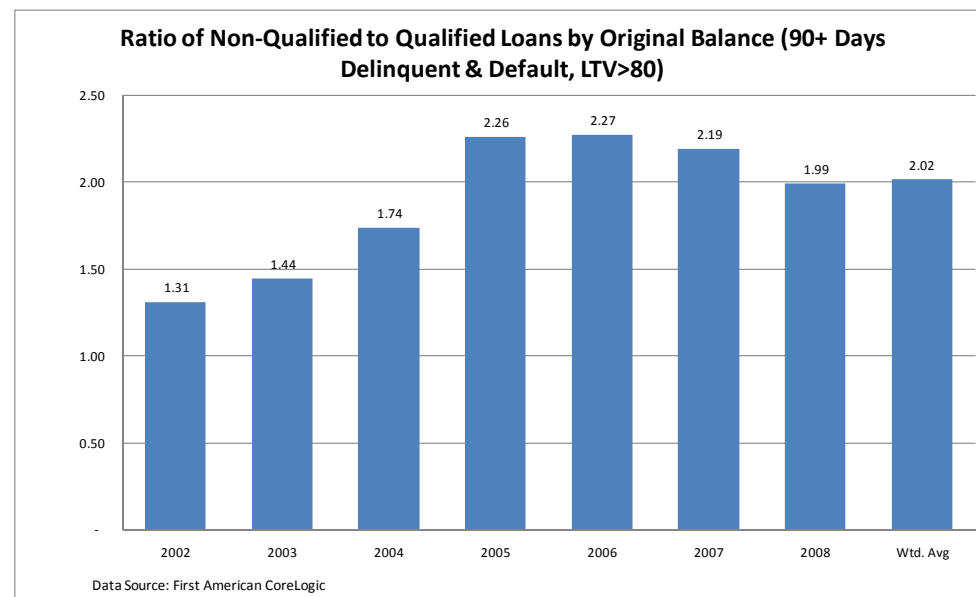
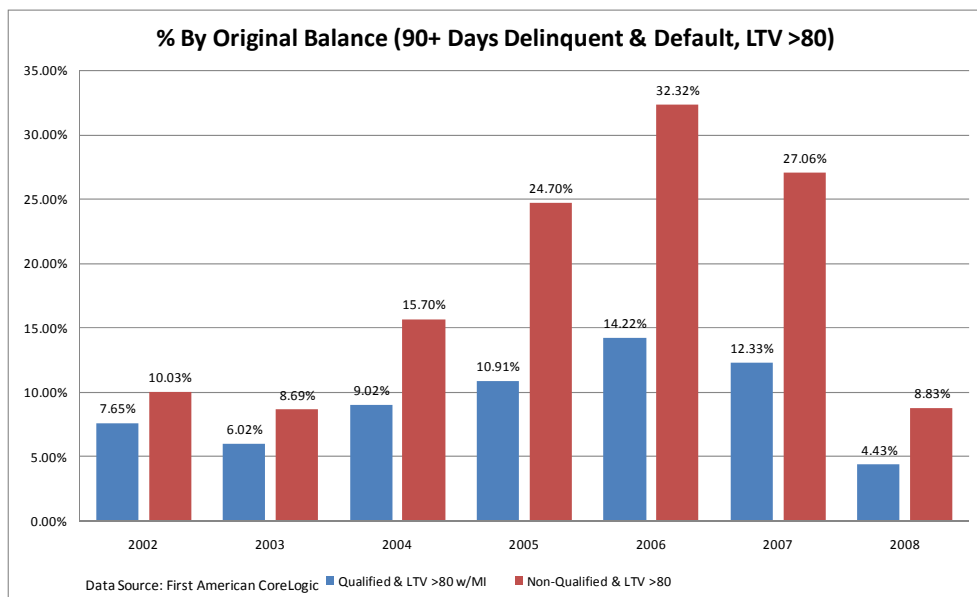
Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV ≤ 80 .
- ◆ Qualified Loans outperformed Non-Qualified Loans by a ratio of almost 3:1.



Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV >80.
- ◆ Despite substantially higher Delinquencies and Defaults on Qualified Loans with a LTV >80, Non-Qualified Loans with a LTV >80 performed on average more than 2x worse.



About Vertical Capital Solutions

Vertical Capital Solutions

- ◆ Vertical Capital Solutions (“VCS”) provides independent valuation and advisory services across a wide array of fixed income assets; with specific focus on complex products in the loan, bond, derivative, and structured products markets.
- ◆ The Company was established from an existing advisory platform in partnership with Vertical Capital, LLC, an SEC registered investment advisor and over \$4 billion in assets under management.
- ◆ The platform combines Vertical Capital’s market leading technology and analytics platform with a seasoned advisory team with significant experience in the valuation, risk management, and trading of complex loans and securities as well as their derivatives.
- ◆ VCAP Solutions management team has held leadership roles at global banks, insurance companies, and asset management firms, with first hand experience in the risk management of loans and structured product portfolios.
- ◆ Our value proposition is to bring granularity, transparency, and scalability in the pricing and risk analysis of complex products coupled with the market and risk management experience of our team.

Overview of VCS Services

Valuation

- ◆ Securities/derivatives pricing
- ◆ Independent price verification and reconciliation
- ◆ Impairment calculations and scenario analysis

Risk Assessment

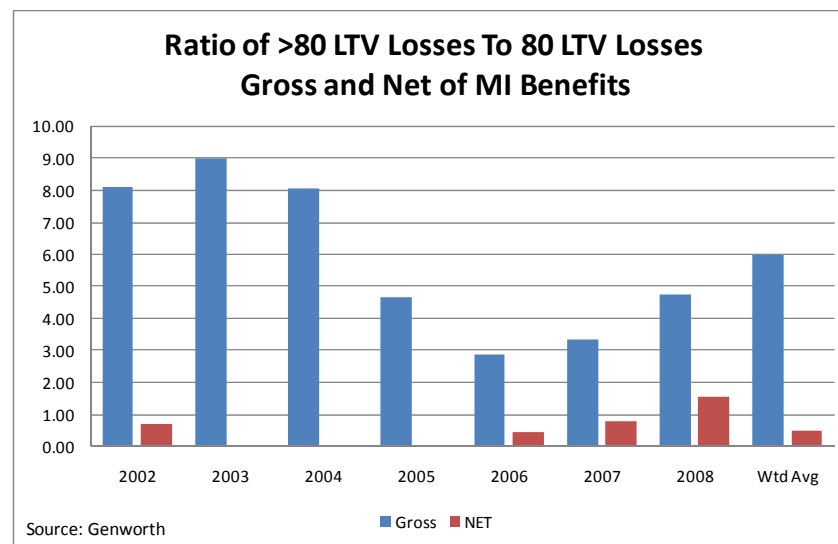
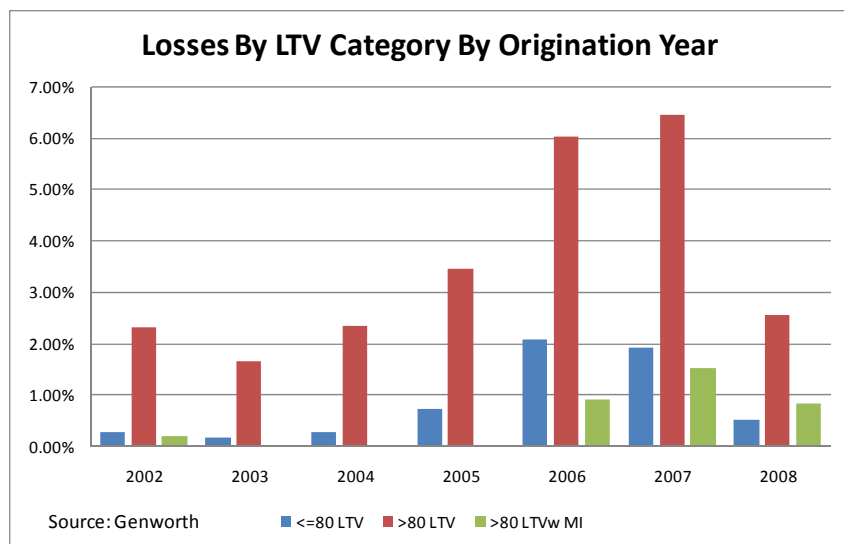
- ◆ Portfolio and asset level risk analysis
- ◆ Deal structure and documentation
- ◆ Stress and sensitivity analysis

Strategic Advisory

- ◆ Asset disposition/acquisition/workout
- ◆ Portfolio structuring or restructuring alternatives
- ◆ Market strategy/product education

Appendix – Estimated Losses & MI Benefits

- ◆ We examined and estimated losses by LTV:
 - LTV = 80%;
 - LTV > 80% with MI; and
 - LTV > 80% with no MI
- ◆ Losses for each vintage were calculated by taking the % of 90+Delinquent and Defaults multiplied by the Estimated Loss Severity (see next page)
- ◆ Loans with a LTV >80% and no MI had losses 6X higher than loans with a LTV >80% and MI
- ◆ When you factor in the benefits of MI, losses are reduced by weighted average of ~88%.



Appendix - Loss Severity Calculations

Loss Severity Calculations

| Recovery Ratios By Origination Book | Average MTG Rate | 80 LTV Claim | 80 LTV Loss Severity | WTD >80 LTV | Wtd >80 Claim | >80 LTV Loss Severity | WTD MI Cov % | WTD MI Cov Benefit | >80 W MI Net Loss Severity | |
|--|---------------------|-----------------|-------------------------|----------------|------------------|--------------------------|-----------------|-----------------------|-------------------------------|-------|
| 2002 | 74.00% | 6.70% | 92.04 | 22.55% | 94.92 | 109.20 | 37.1% | 31.0% | 33.8% | 3.3% |
| 2003 | 77.85% | 5.90% | 91.08 | 16.54% | 95.38 | 108.59 | 32.2% | 31.9% | 34.6% | 0.0% |
| 2004 | 80.69% | 6.00% | 91.20 | 13.14% | 95.78 | 109.19 | 29.8% | 32.7% | 35.7% | 0.0% |
| 2005 | 77.36% | 6.10% | 91.32 | 17.45% | 95.77 | 109.32 | 33.4% | 32.7% | 35.8% | 0.0% |
| 2006 | 68.36% | 6.60% | 91.92 | 29.45% | 96.17 | 110.49 | 43.8% | 33.5% | 37.0% | 6.8% |
| 2007 | 63.52% | 6.50% | 91.80 | 35.35% | 96.32 | 110.53 | 48.8% | 33.7% | 37.3% | 11.5% |
| 2008 | 62.67% | 6.20% | 91.44 | 35.96% | 95.00 | 108.59 | 48.3% | 30.0% | 32.6% | 15.8% |

Data Sources:

- 1) Recovery Ratios defined as value of property at foreclosure divided by value at origination. Data Provided By Genworth Financial
- 2) Average Mortgage Coupon Rates taken from Freddie Mac .
- 3) Estimation Of Wtd >80 LTV taken from MICA claims paid by LTV.