Central Themes for Modifying Loans

We believe that Loan Modification Programs with our "bottom up" loan-by-loan simulation approach will be the most effective way to ultimately support housing prices.

Focus on Preventable Foreclosures and Affordable Payments, our "bottom up" approach suggests:

- ***"One size does not fit all"*** – although rapidly and easily implemented and communicated, any one program or even multiple programs may not apply for any individual loan or circumstance.
- ***"Prevention is more cost effective than Fire Fighting"*** – review all loans regardless of delinquency status, to proactively address imminent foreclosures that may not have entered delinquent status.
- ***"Real Estate 101: Location, Location, Location"*** – may need to identify loans by Neighborhood or Community rather than by Servicer or Institution.
- ***"It's all about the Monthly Payment"*** – Borrower's are concerned with affordability of monthly payments, not interest rate and/or loan maturity.

Executive Summary

In an effort to better gain an understanding of Loan Modifications and Preventable Foreclosures, we undertook an initial analysis of loan performance period from 2005 to 2008 period, the recent housing bubble. We reviewed nationwide 60 days+ delinquency trends and compared them at the Nation, State, and Congressional District levels. In addition, we focused comparisons on two Congressional Districts: California's 35th (CA-35) and Michigan's 14th (MI-14) within the framework of our central themes.

California was the epicenter of the most recent housing bubble. While it merely forms 10% for national population demographically, it constitutes 20% of mortgage loans nationwide in the last three years. CA-35 covers part of Los Angeles County and is Representative Maxine Waters' home district. California experienced delinquency rates below the national average, until July of 2007. CA-35 was also below the nationwide trend until November of 2007. From July of 2007 onward California was consistently higher and appears to show signs of slowing, consistent with national; however CA-35 continues to show increasing delinquencies which requires further investigation, especially given the population's demographics. It would appear that CA-35 could benefit from aggressive implementation of loan modifications to mitigate the continued upward trend in delinquencies.

Michigan was the epicenter of a bursting prosperity bubble. MI-14 encompasses Wayne County and is Representative John Conyers, Jr.'s home district. As early as July of 2005, seven months after origination, Michigan and MI-14, exceeded nationwide averages and has remained above trend, with MI-14 significantly higher than the rest of the State. The delinquencies in both Michigan and MI-14 appear to have saturated in late 2007 suggests that a simple loan modification to prevent foreclosures might be already too late and requires more aggressive program.

Methodology

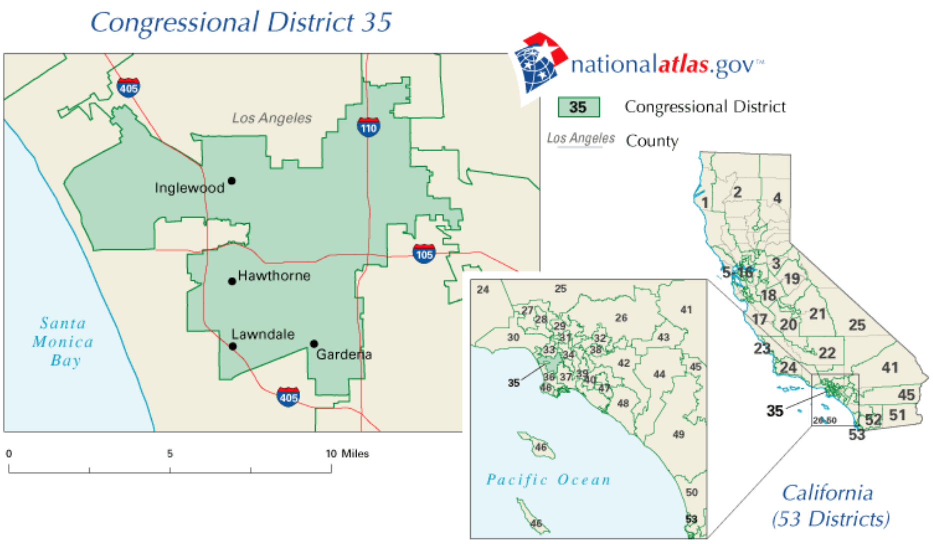
Approximately 19 millions 1st lien mortgage loans originated in 2001-2008 were extracted from the Loan Performance Database, which encompasses all securitized loan data available for that period. The loan performance period from 2005 to 2008 was selected for the analysis as they have illustrated the beginning of the housing bubble as well as relaxed underwriting standards. 60 days+ delinquencies were computed for the

Nation, State and by the underlying Zip Code Tabulation Areas (ZCTAs) for California Congressional District 35 and Michigan Congressional District 14.

California Congressional District 35

California's 35th congressional district covers part of Los Angeles County. It is one of 53 California Congressional Districts.

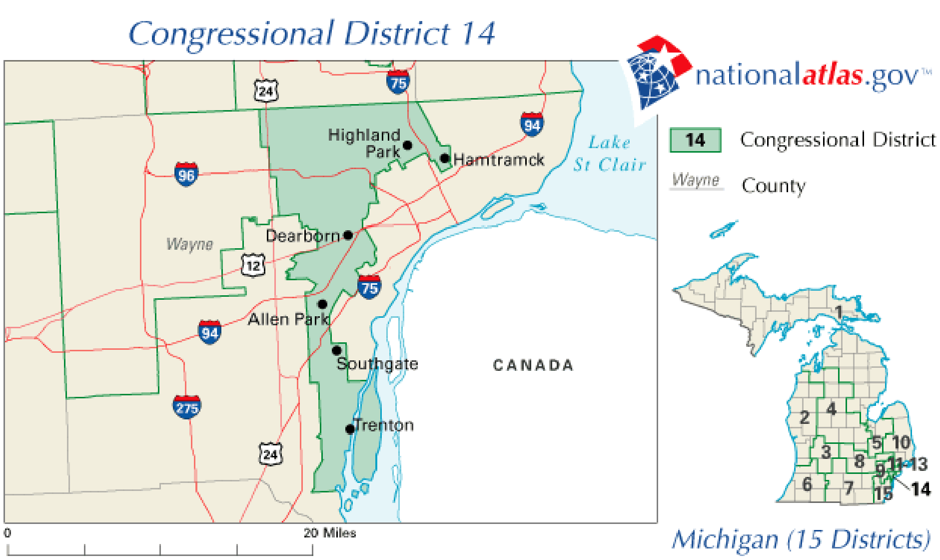
The congressional district is composed of parts of the Westchester district of the City of Los Angeles, and parts (or all) of the cities of Inglewood, Hawthorne, Gardena and Florence-Graham, as well as some adjacent areas. It is among the safest districts for the Democratic Party in the country. Its current Representative is Democrat Maxine Waters.



Area 55 mi²
Distribution 100% urban, 0% rural
Population (2000) 639,088
Median income $32,156
Ethnicity 10.4% White, 34.1% Black, 5.6% Asian, 47.4% Hispanic, 0.2% Native American, 0.2% other

Michigan Congressional District 14

United States House of Representatives, Michigan District 14 is a congressional district in Wayne County, Michigan, encompassing the northwest side of Detroit, the suburbs located immediately west of the city, the downriver suburbs adjacent to the Detroit River and the enclaves of Highland Park and Hamtramck. It has been represented by John Conyers since 1965. Prior to 1993, it was known as Michigan's 1st district.

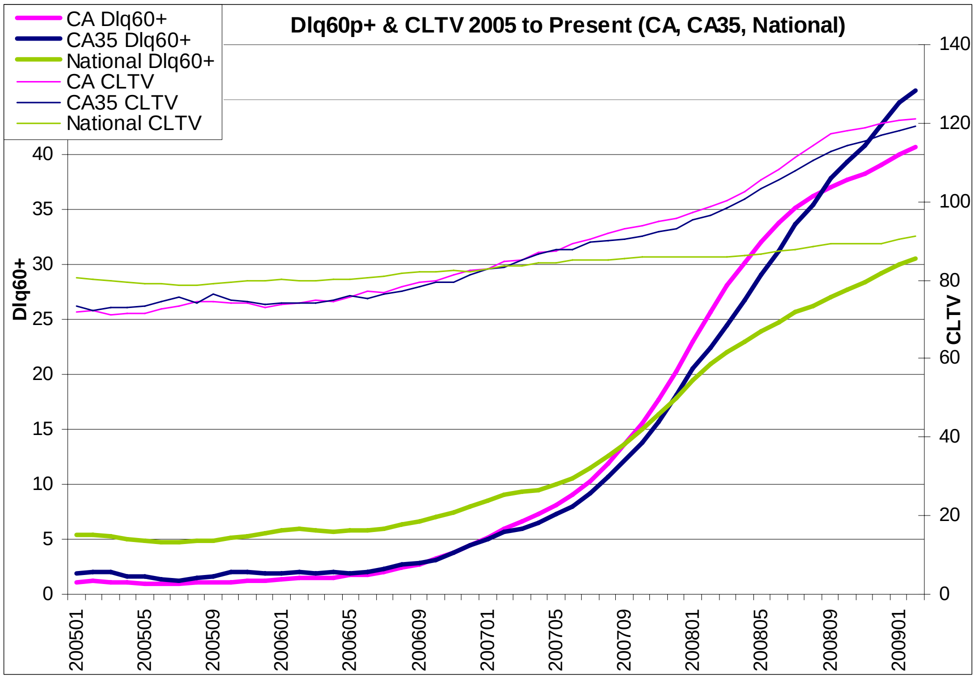


Population (2000) 662,563
Median income $52,510
Ethnicity 33.0% White, 61.4% Black, 1.2% Asian, 1.8% Hispanic, 0.3% Native American, 1.5% other

Conclusions

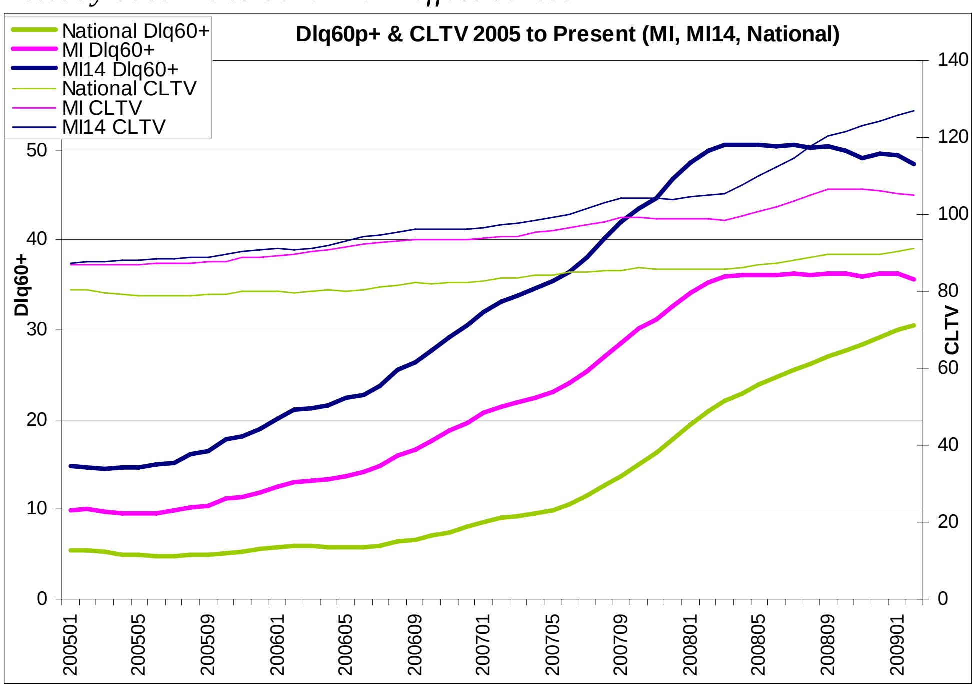
"One size does not fit all"

Arresting a persistent upward trend



California has had above average 60+ days delinquencies since mid-2007, but has appears to have leveled off in line with the Nation. CA-35, however, has an increasing delinquency rate. CA-35 clearly warrants additional analysis, especially given the large Black and Hispanic populations, which may have been subjected to predatory lending practices. CA-35 could benefit from aggressive implementation of loan modification programs to mitigate the continued upward trend in delinquencies.

A steady baseline to benchmark effectiveness



Michigan has consistently had 60+ days delinquencies at above national rates, but appears to leveling off or declining. MI-14 has had delinquencies significantly higher that the State, but also shows signs of leveling off or declining. Michigan and MI-14 would appear to be good candidates for Foreclosure Mitigation efforts.

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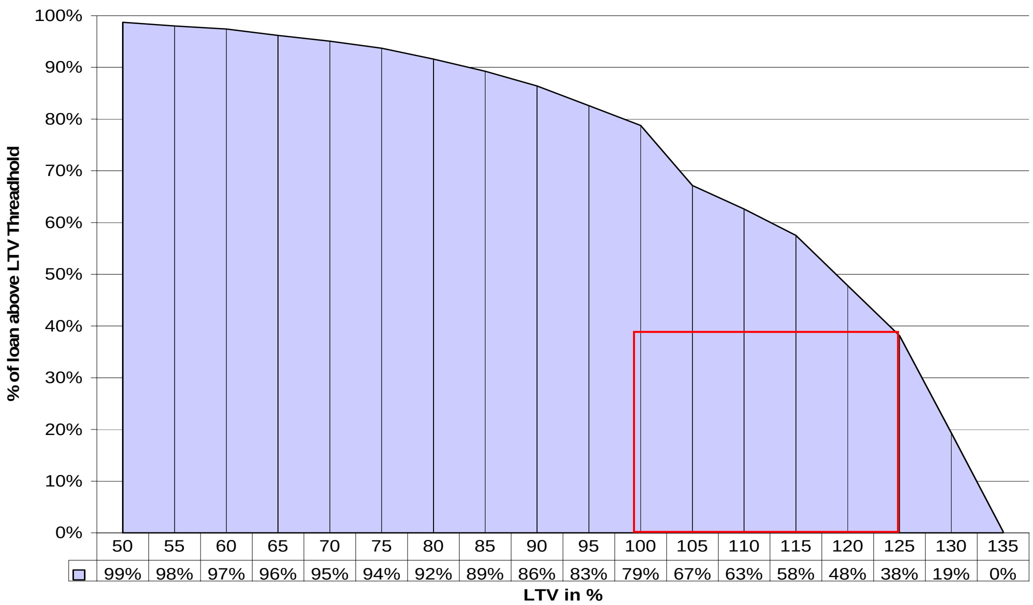
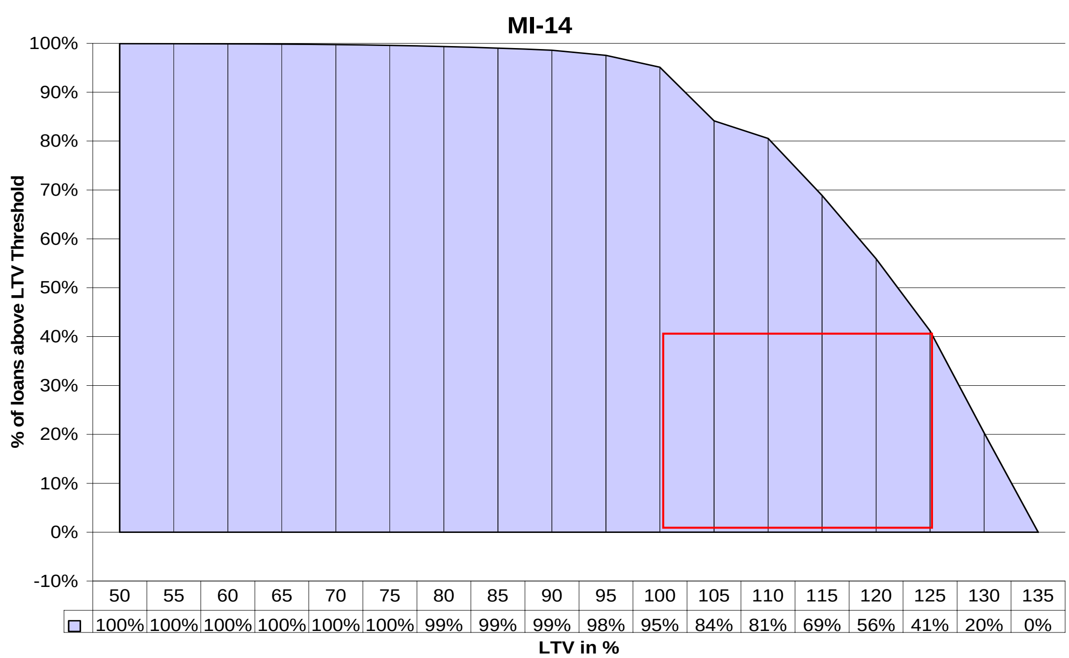
"Prevention is more cost effective than Fire Fighting"

The chart below is a snapshot of the current Loan-to-Value (CLTV) as of December, 2008, for all loans in our database in CA-35. 90+ days delinquent stand at 39% and 60+ days delinquent is 43%. 79% of the Loans have an LTV in excess of 100% and are upside down and 38% of loans have negative equity of 25%, which are already included in the 90+ day delinquent category.



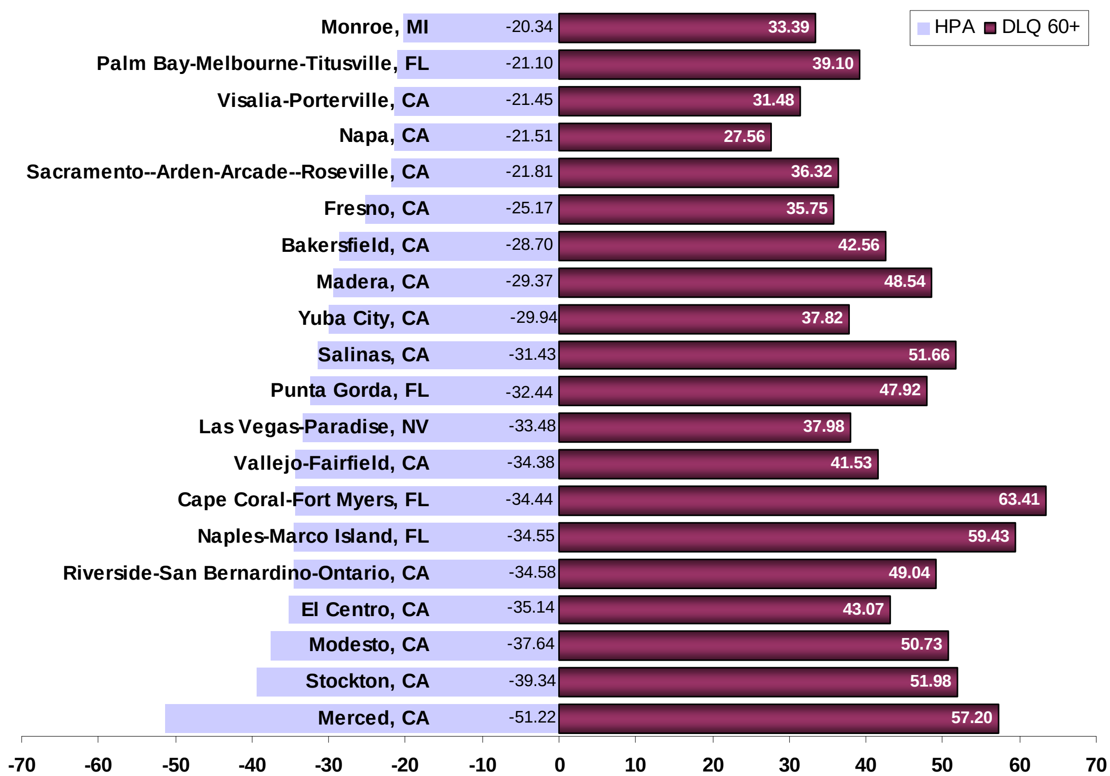
The shaded area in the histogram above shows all of the loans that should be targeted for foreclosure mitigation and loan modifications, as they are upside down, but continue to make their payments and are "in limbo". As housing values continue to drop and unemployment raises the underwater portion (38%) is heading to higher and higher delinquencies.

The histogram left for MI-14, shows that virtually every loan in our sample set is under water, with 41% of loans are in limbo. The in limbo box for MI-14 is more elongated that CA-35, due to the fact that 95% of all loans are under water.

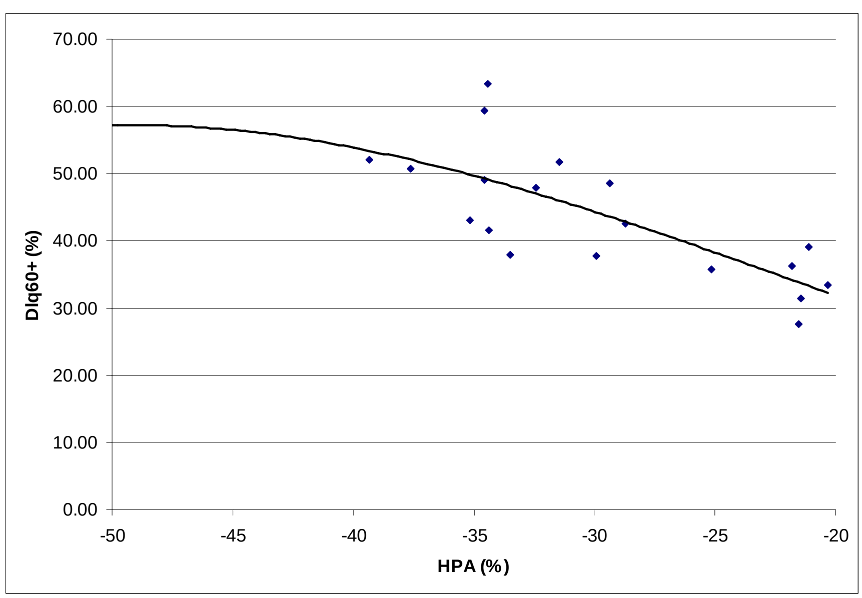


"Real Estate 101: Location, Location, Location"

When we identified the twenty-five worst performing MSAs in our data sample, we were not surprised to find that California dominated the list.



The trend line show below clearly shows that declines in housing prices result in increasing delinquencies.



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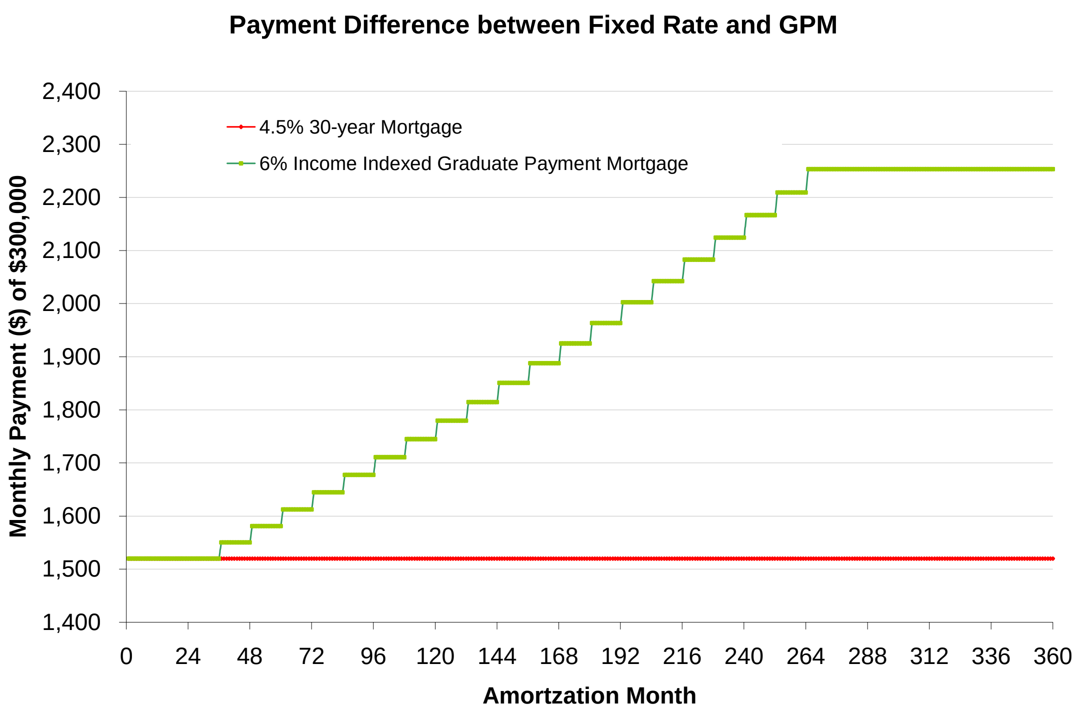
"It's all about the Monthly Payment"

The Obama Administration's "Making Home Affordable" Program finally focused on the reduction of monthly payments, but still requires reducing interest rates as a first step. We think that an 6% Income-Indexed Graduated Payment based on Borrower affordability is superior because it would fully utilize borrowers' future affordable capacity while their initial payments are reduced to same amount as the reduced fixed rate mortgage at 4.5% level. It automatically boost yield to attract investors without additional government subsidy or taxpayers' burden for the interest shortfall.



Putting it all together

Returning to our Central Themes to justify proactively Modifying Loans

Focus on Preventable Foreclosures and Affordable Payments:

- ***"One size does not fit all"*** – Congressional Districts CA-35 and MI-14 evinced two very different delinquency scenarios, a persistent uptrend and a steady state.
- ***"Prevention is more cost effective than Fire Fighting"*** – loans that are over 100% LTV, irrationally continue to pay, despite being upside down.
- ***"Real Estate 101: Location, Location, Location"*** – it's simple enough to identify the location, the farther prices have fallen, the higher delinquencies have been.
- ***"It's all about the Monthly Payment"*** – payments based on borrower affordability can reduce the need for Incentive Payments and Shared Payments with Lenders and Investors.

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Further Study

Not only Location, but Neighborhood
The next important step will be to breakdown each State, MSA or Congressional Districts further to the Neighborhood Level, as Zip Codes were created to facilitate mail deliveries, not common demographic characteristics, per se. We can therefore examine the projected costs and determine the likelihood of a neighborhoods survival as a result of identifying Preventable Foreclosures and Loan Modifications.

What about the other Mortgage?
There hasn't been much focus on the other Mortgage. Data on second-liens isn't as robust as we'd like. 50-70% of all Sub-Prime Mortgage Loans have an additional 10-30% in LTV proceeds in the form of second mortgage. We need to develop and objective policy for dealing with them, rather than simply extinguishing the lien. Participation of the second lien holder is not required under the Make Home Affordable Program.

It's not just the Mortgage that's not being paid
We may have solved the mortgage problem, but it may not be enough, we need to examine all household debt, "back end" debt, including car loans and credit cards. We will have to work with FICO or Experian to build predictive models with regard to total indebtedness, including car, credit card, utility and other monthly payments. There is a Special Provision for Families with High Total Debt Levels in the Make Home Affordable Program, but the requirement is only for counseling and does not specifically address dealing with "back end" debt.

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