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Subprime Lending Crisis

Matthew Long, Program Co-Chair

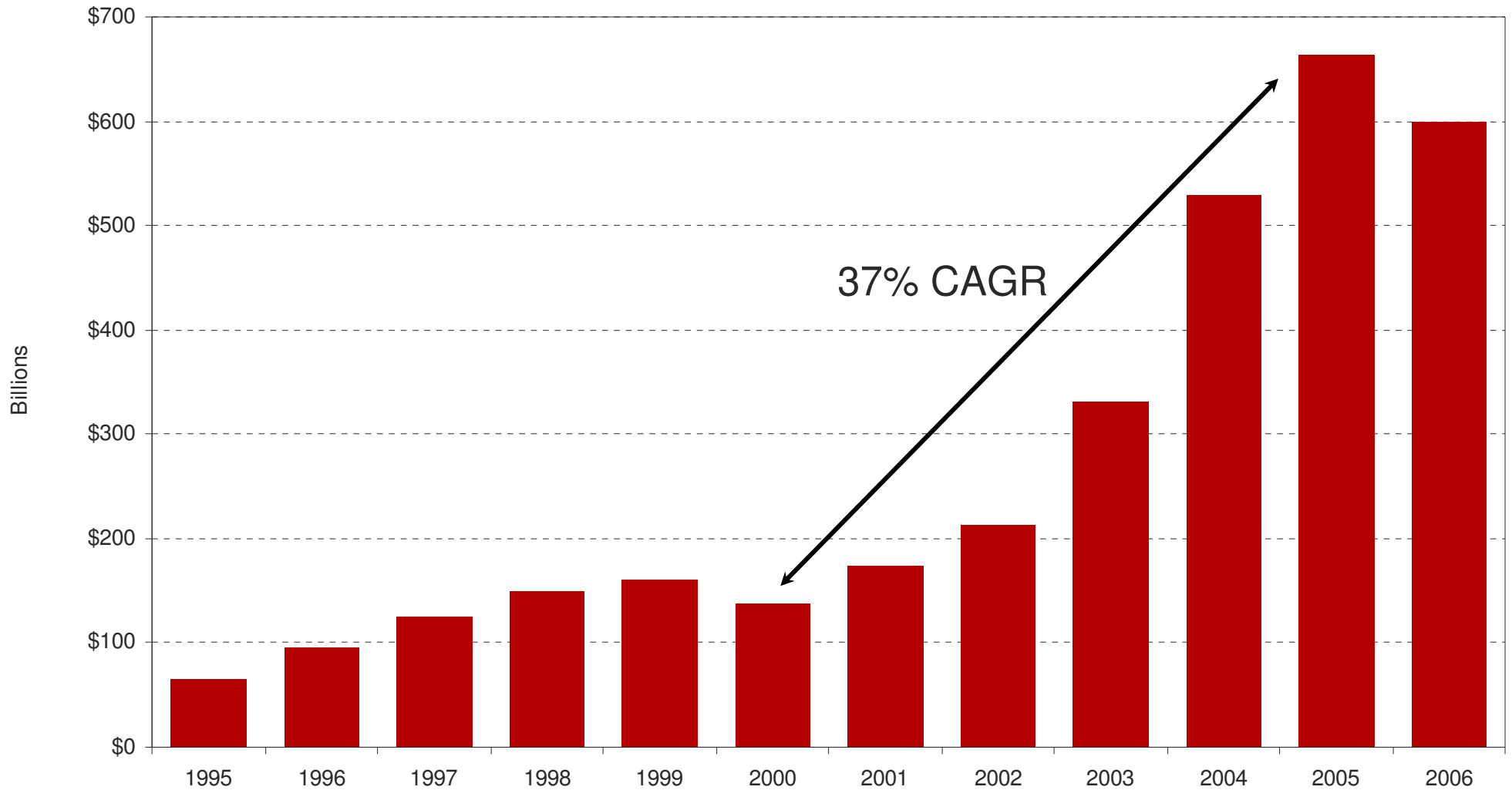
Bates White, LLC

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Rapid growth of sub-prime mortgage originations



Source: Inside Mortgage Finance: The 2007 Mortgage Market Statistical Annual – Volume I

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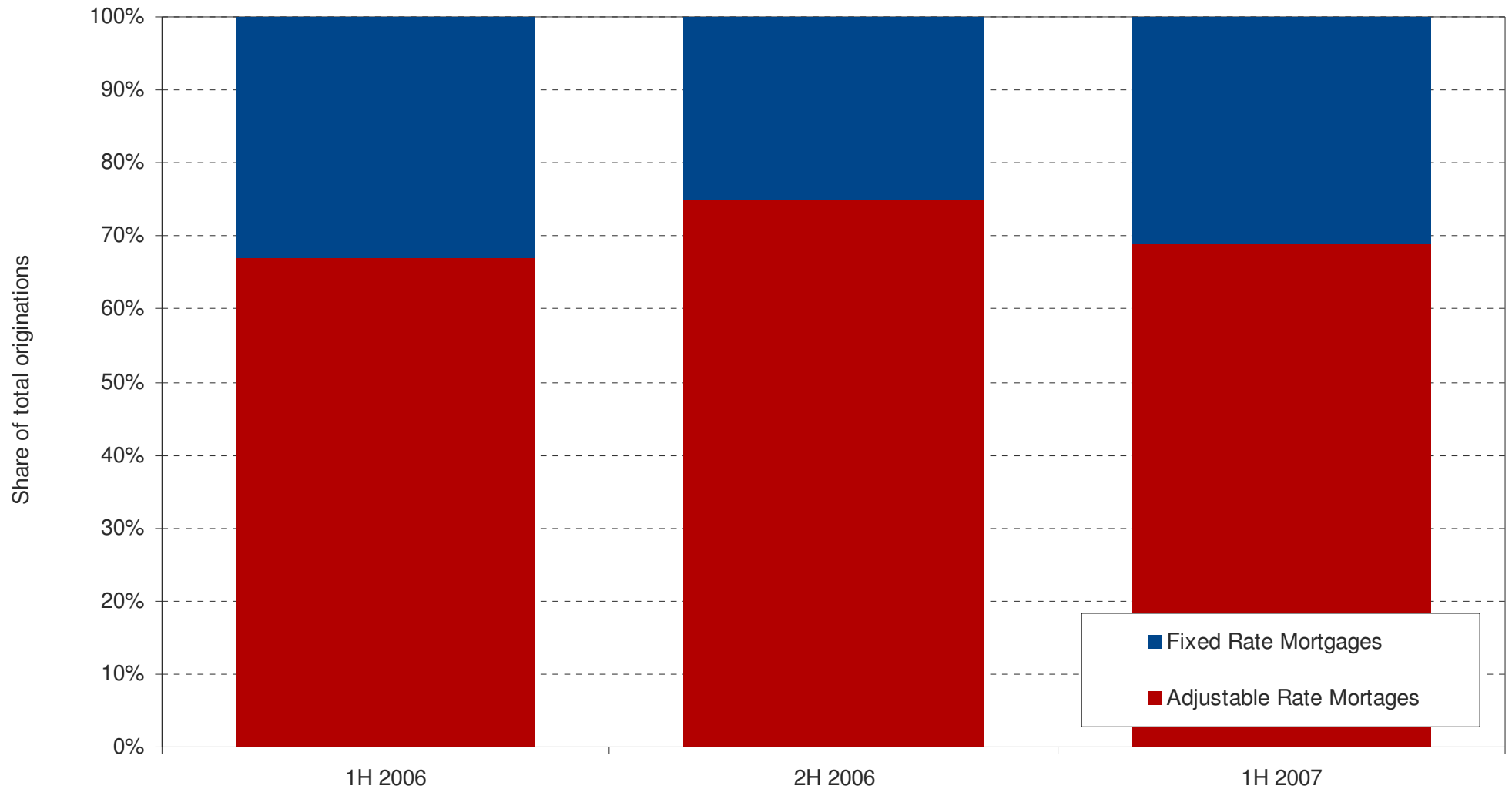
Top ten subprime B&C mortgage originators in 2006

Originator	Volume (millions)	Market share
<i>HSBC Finance, IL</i>	\$52,800	8.8%
<i>New Century Financial, CA</i>	\$51,600	8.6%
<i>Countrywide Financial, CA</i>	\$40,596	6.8%
<i>CitiMortgage, NY</i>	\$38,040	6.3%
<i>WMC Mortgage, CA</i>	\$33,157	5.5%
<i>Fremont Investment & Loan, CA</i>	\$32,300	5.4%
<i>Ameriquest Mortgage, CA</i>	\$29,500	4.9%
<i>Option One Mortgage, CA</i>	\$28,792	4.8%
<i>Wells Fargo Home Mortgage, IA</i>	\$27,869	4.6%
<i>First Franklin Financial Corp, CA</i>	\$27,666	4.6%

Examples of alternative subprime mortgage loan products

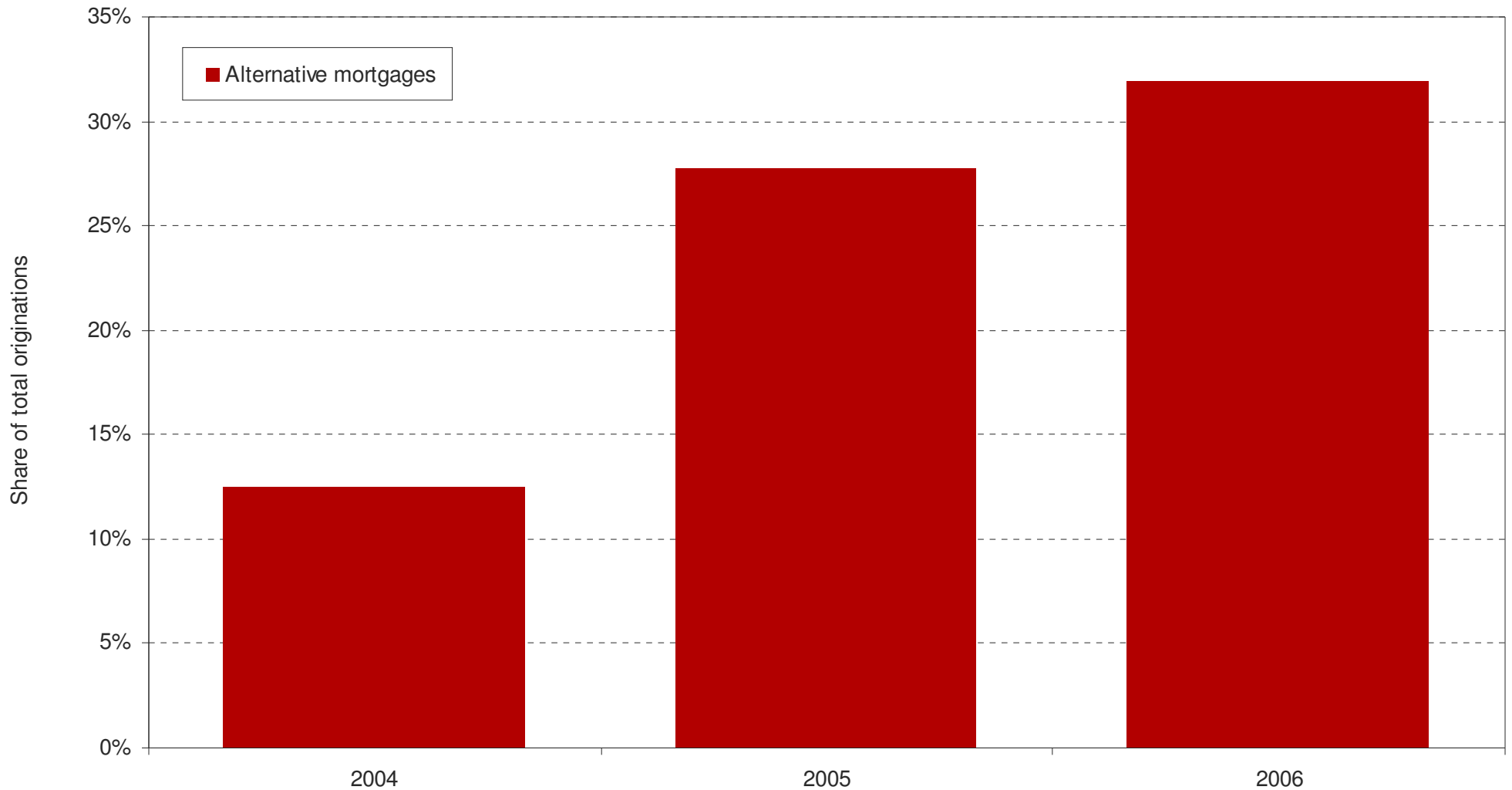
- Adjustable rate mortgages (ARMs) – 2/28's and 3/27's
 - Initial “teaser” interest rate resets after 24 or 36 months
- Interest-only (IO) ARMs
 - No initial principal payments
 - Payment rises to much higher level once principle amortization begins
- Option ARMs
 - Buyer selects payment amount
 - Lowest payment option often results in negative amortization
- Stated income mortgages
 - Borrower represents income / no documentation necessary
- Low doc mortgages

Share of subprime adjustable rate mortgages (ARMs)

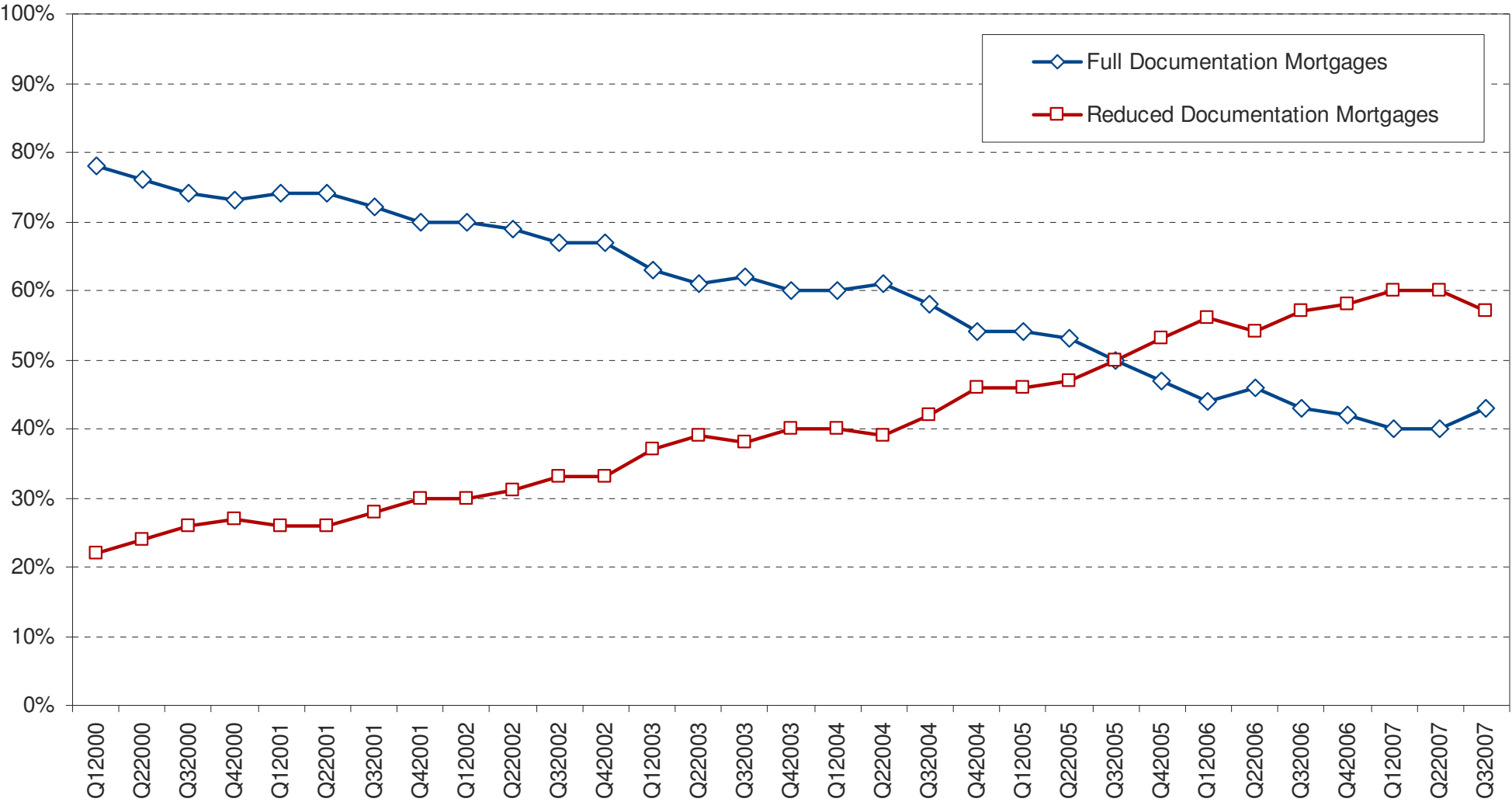


Source: Mortgage Bankers Association

Growth of non-traditional mortgage products – interest only; option ARM; & other alternative mortgage products

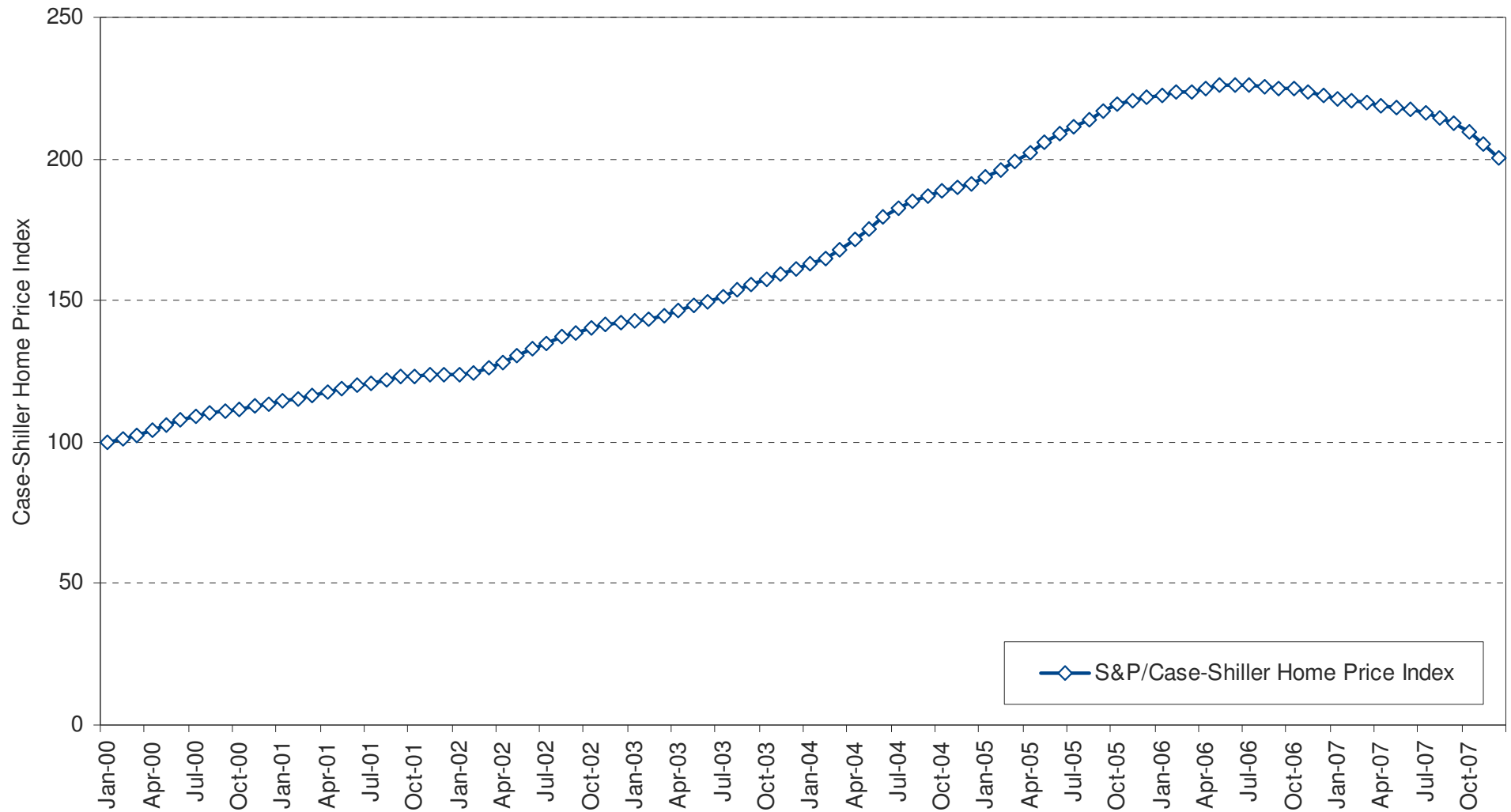


Growth of reduced documentation mortgages

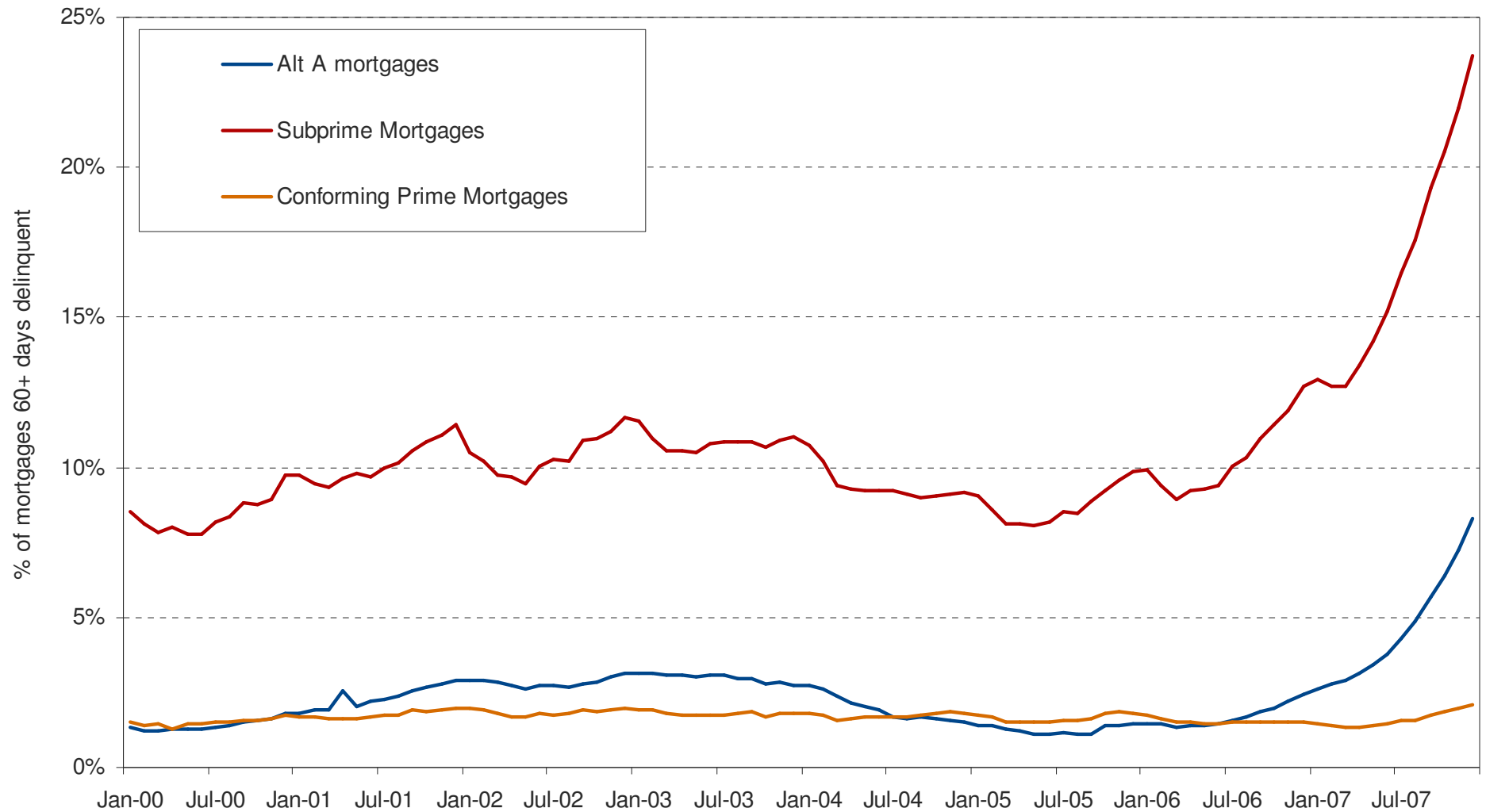


Source: First American CoreLogic

Index of national home prices

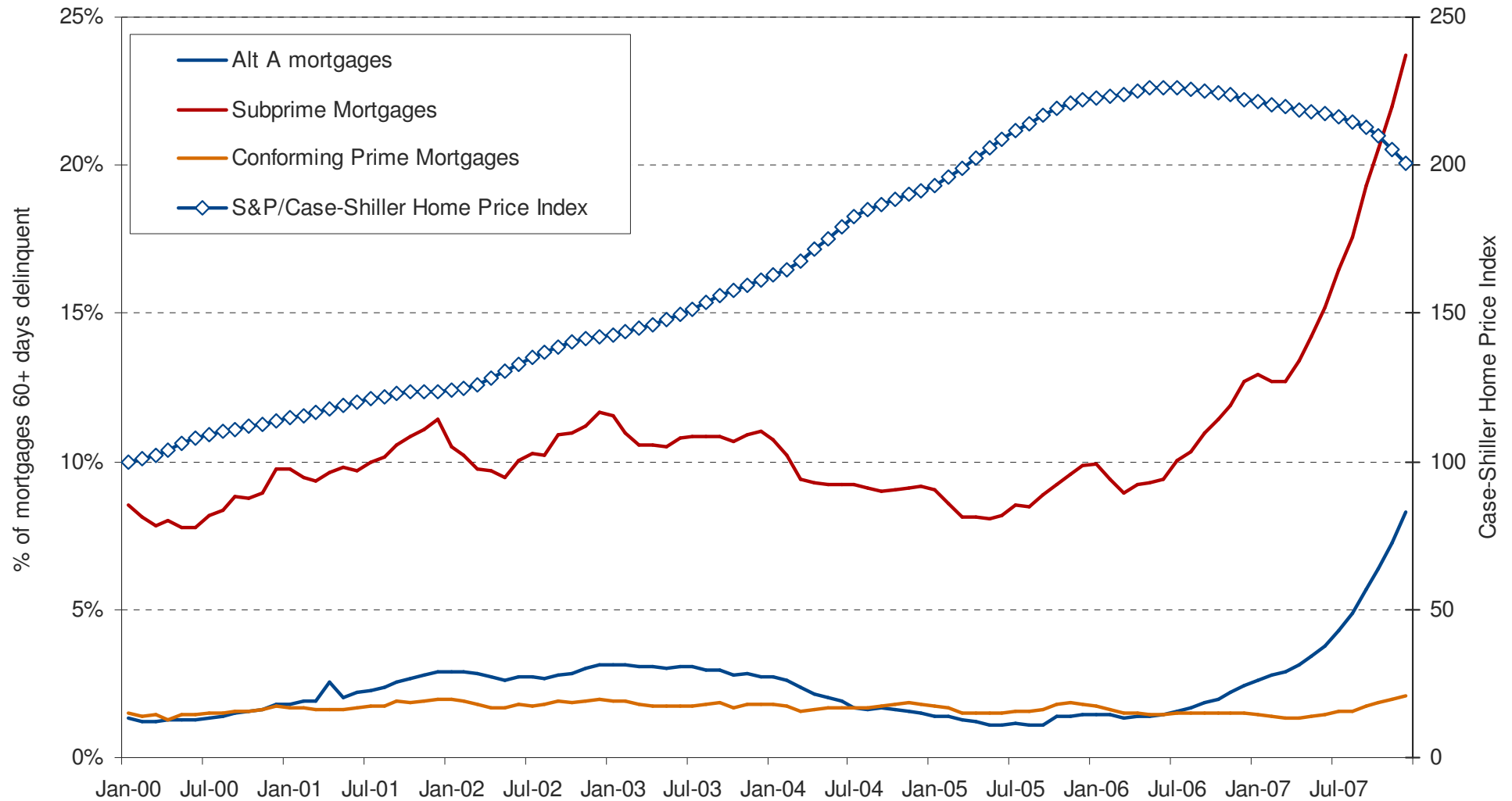


Mortgage delinquencies by industry segments

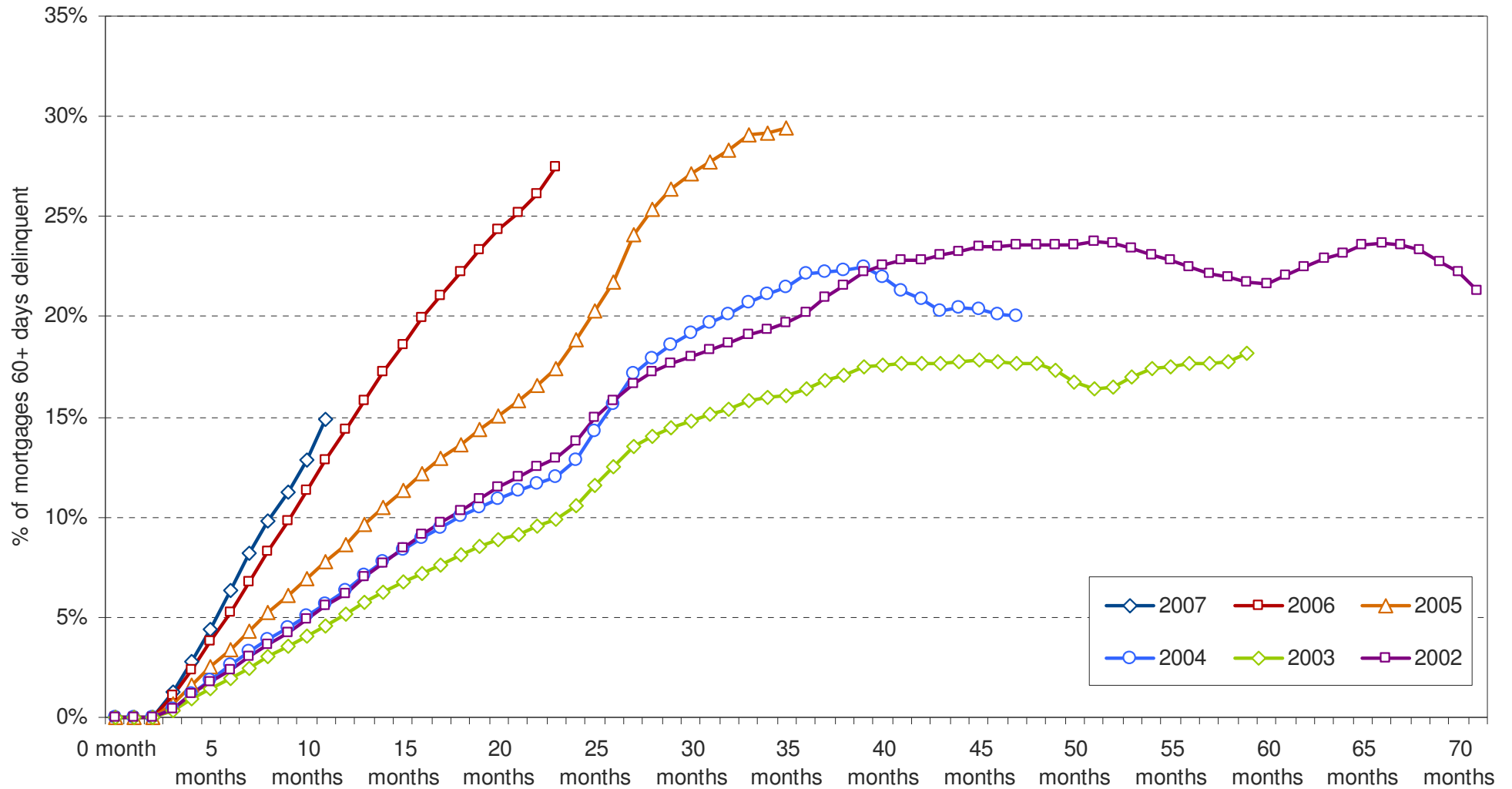


Source: First American CoreLogic

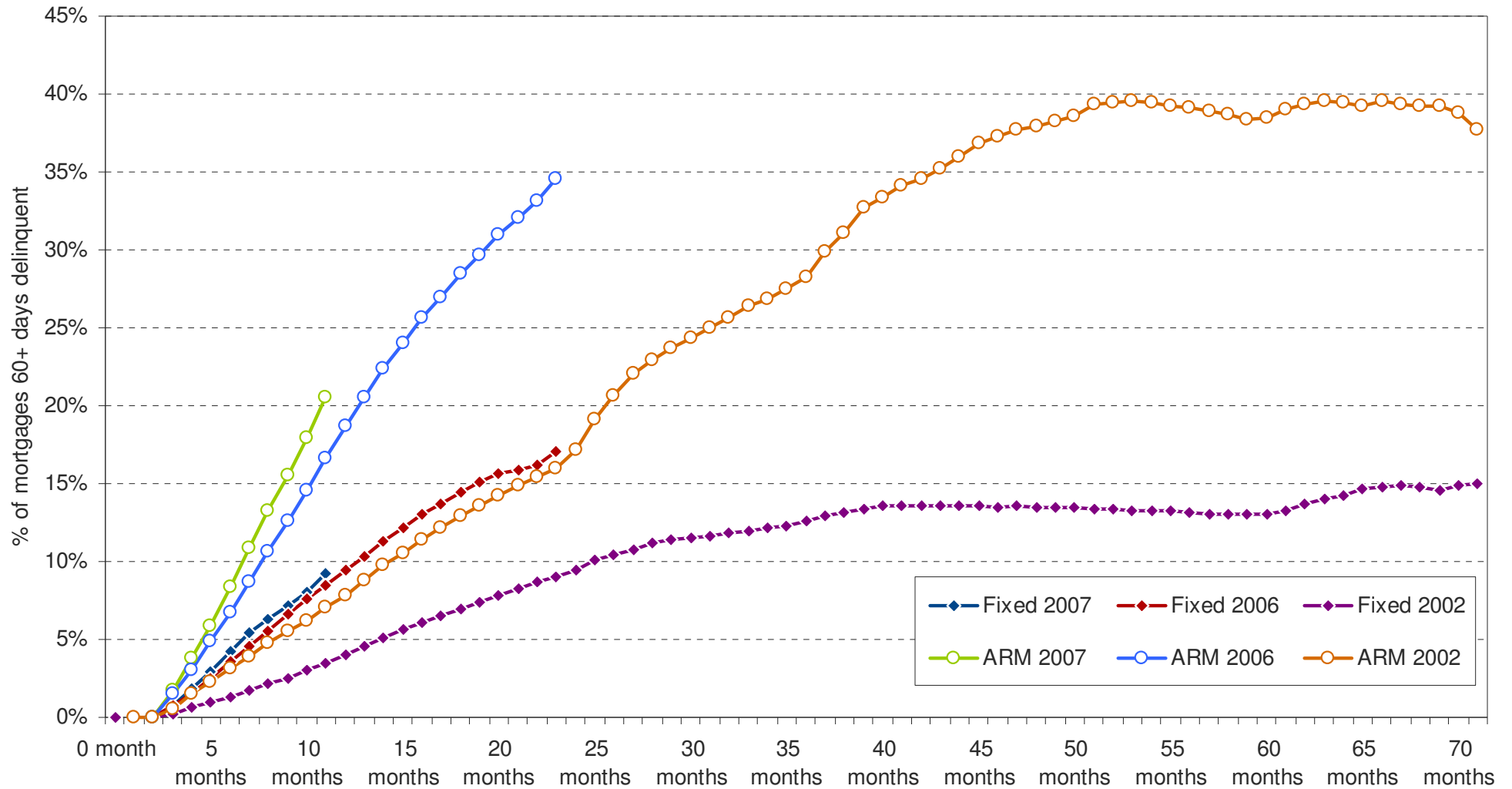
Mortgage delinquencies compared to home prices



Vintage analysis – Subprime mortgage delinquencies by year of origination



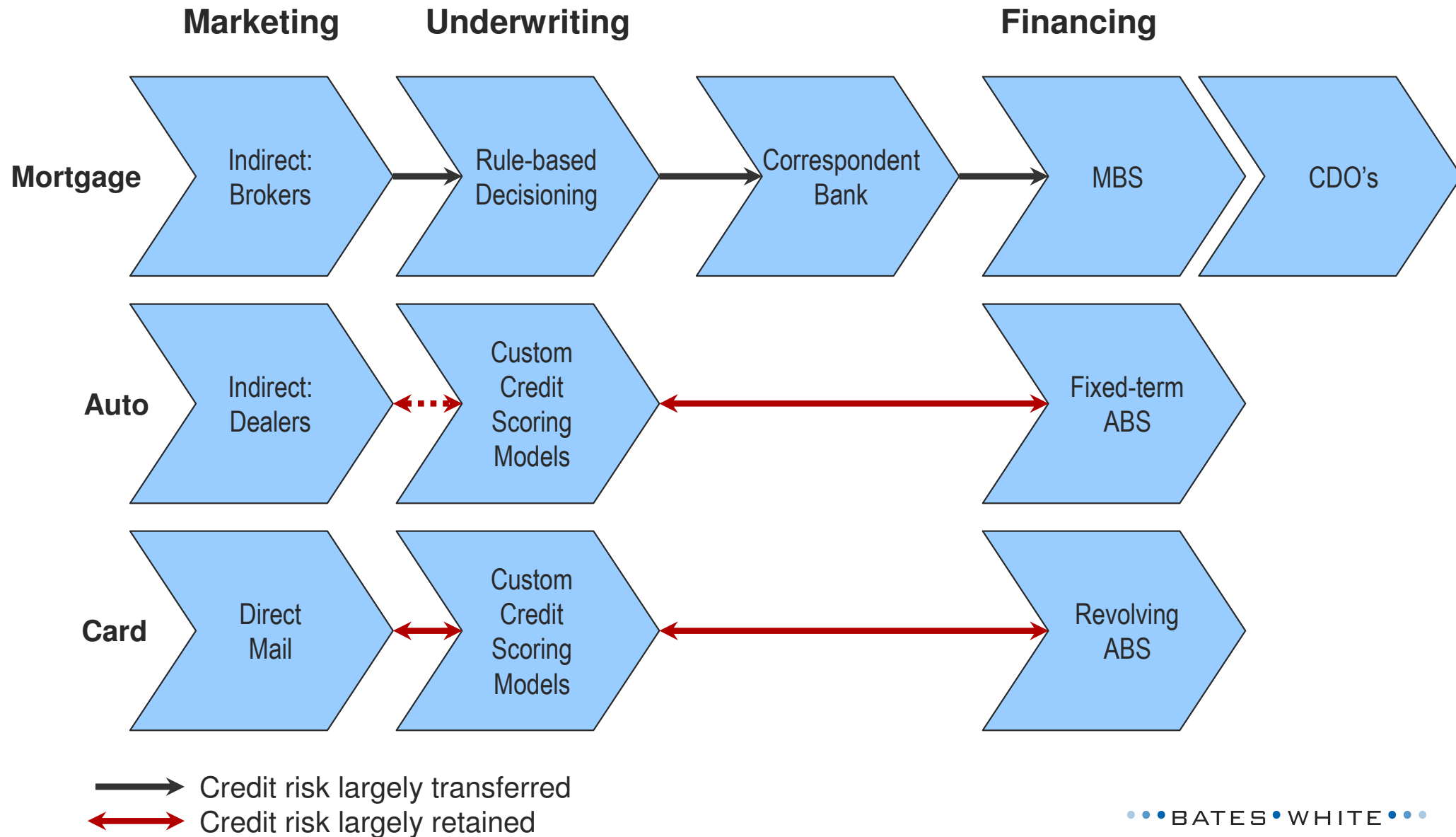
Vintage Analysis – Fixed and ARM subprime mortgage delinquencies by year of origination



Examples of common lax underwriting / fraud

- Occupancy misrepresentation
- Suspicious credit bureau items / FICO inflation
- Incorrectly calculated debt-income ratios
- "Stated" income not reasonable
- First time buyers with questionable credit/income
- Inflated appraisals

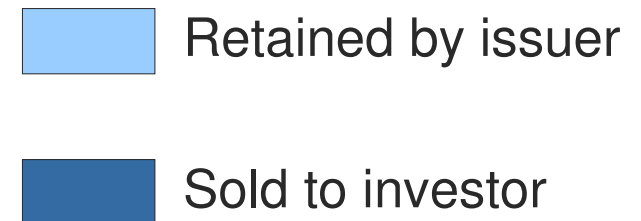
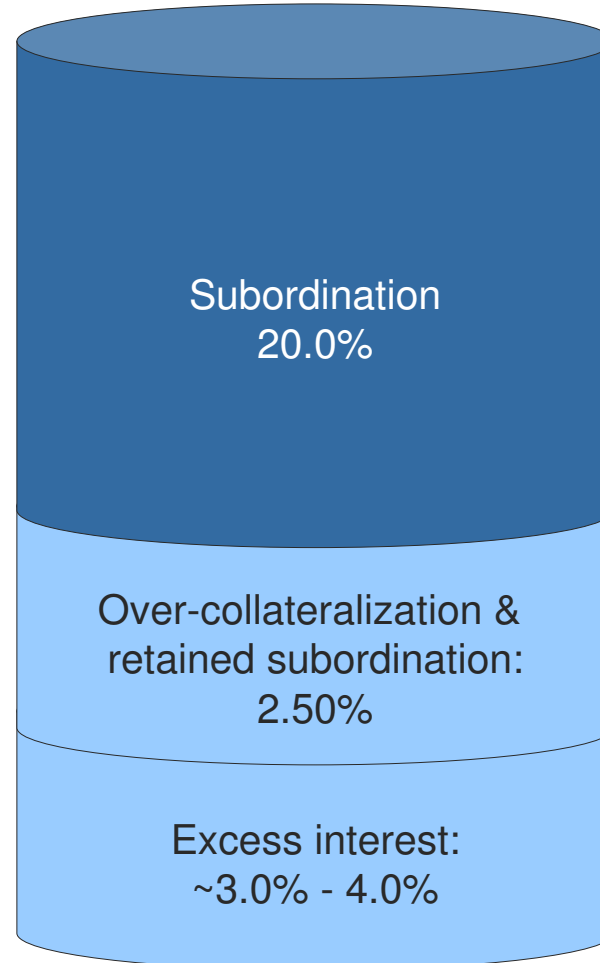
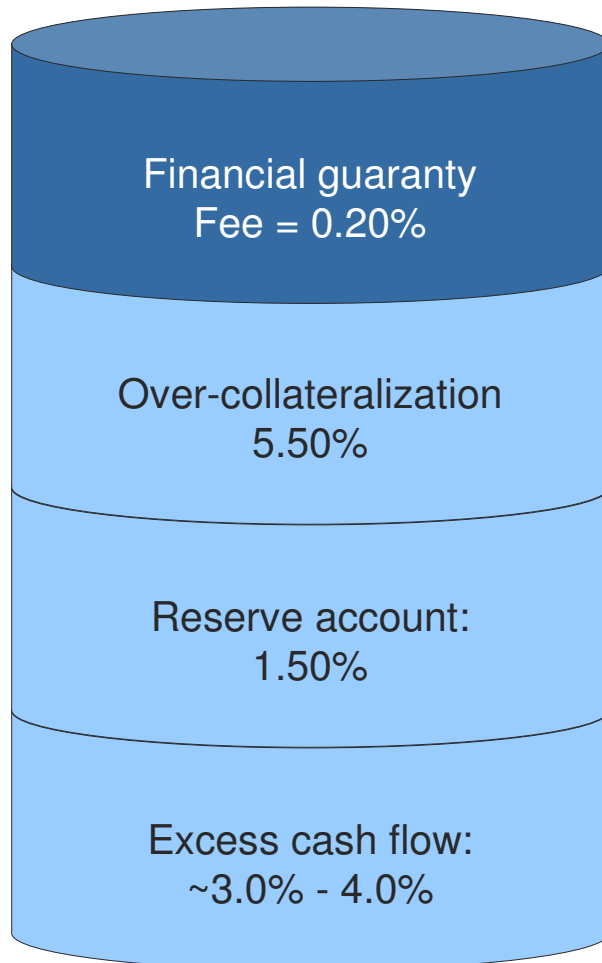
Subprime mortgage compared to other subprime lending



Comparison of subprime ABS credit enhancements

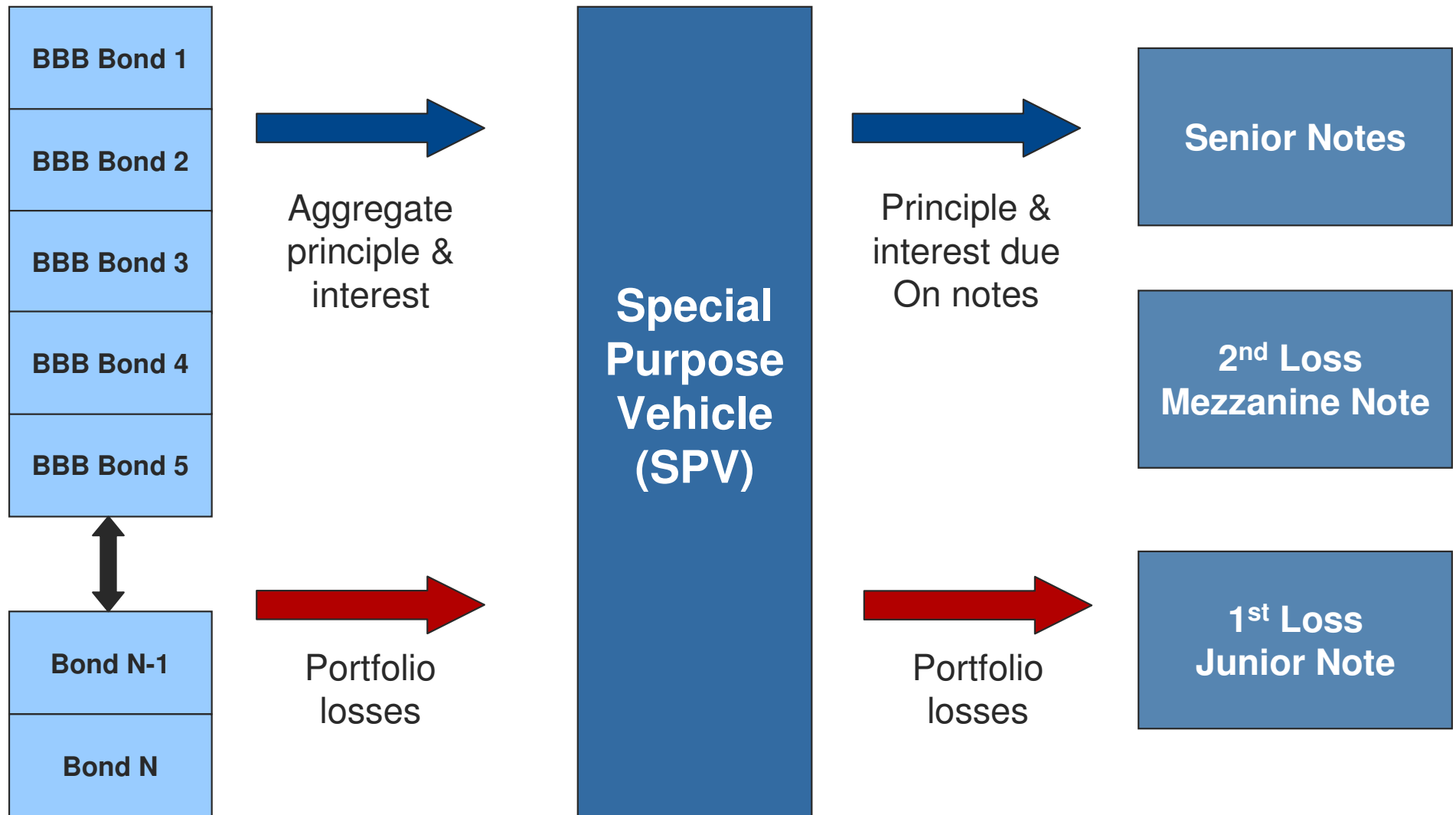
Illustrative subprime auto finance securitization¹

Illustrative subprime mortgage finance securitization²



1 – Americredit 2006-R-M ABS securitization; Bates White estimate of excess cash flow
 2 – Ameriquest Mortgage Securities 2006-R1; Freddie Mac estimate of excess interest

Overview of mortgage collateralized debt obligation (CDO) structure



Subprime mortgage related write-downs of loans, MBS & CDOs

Company	Write-off
Citigroup	\$ 24.1B
Merrill Lynch	22.5
UBS AG	18.7
Morgan Stanley	17.2
Crédit Agricole	11.1
HSBC	10.3
Bank of America	9.4
CIBC	4.8
Deutsche Bank	3.7
Barclays Capital	3.6
Bear Stearns	3.5

Company	Write-off
RBS	3.5
Washington Mutual	3.3
Swiss Re	3.2
Lehman Brothers	3.1
LBBW	3.1
JP Morgan Chase	3.0
Goldman Sachs	3.0
Freddie Mac	2.9
Credit Suisse	2.8
Sixteen Others	22.2
Total	\$179.0B

Source: http://en.wikipedia.org/wiki/Subprime_mortgage_crisis



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About Bates White

A history of growth and diversification

- Founded in July 1999 by Drs. Charles Bates, Hal White, Eric Gaier, David DeRamus, and Matthew Raiff
- Grown to more than 150 professionals with backgrounds in economics, statistics, finance, strategy, and accounting
- Specializes in complex, data-intensive matters that require innovative problem solving
- Practice areas include
 - Antitrust
 - Consumer finance
 - Labor and employment
 - Corporate finance
 - Energy
 - Environmental and product liability
 - International arbitration

Our approach

- Develop long-term partnerships with clients
- Work with clients to assess case strengths and weaknesses early in the case
- Emphasize a culture focused on collaboration
- Involve senior partners in all aspects of engagements
- Provide deep empirical analysis using advanced economic, financial, and econometric theory to produce clear, precise, and thorough results
- Distill and communicate information clearly and precisely
- Invest in solutions

Bates White has a track record of consistently exceeding our clients' expectations

- “Bates White consistently demonstrates a unique ability to distill and communicate information [and] consistently provides clear, precise, and thorough results that enable DuPont to resolve matters quickly and effectively.”

-Thomas Sager, V.P. and Assistant General Counsel, DuPont

- “The depth of talent, knowledge, and expertise at all levels of Bates White is extremely impressive. When the stakes are high and the matters complex, we can count on everyone at Bates White to deliver the answers we need.”

-Kent Gardiner, Partner, Crowell & Moring LLP

- “We have worked with Bates White on many different antitrust matters over the past five years. The firm always brings the A team. The direct involvement of senior partners means we can always count on getting more advanced economic analysis than our adversaries.”

-Kenneth L. Adams, Partner, Dickstein Shapiro

Bates White has extensive mortgage and subprime finance experience

- Fair lending
 - Consulting analysis to prominent prime and subprime mortgage lender
 - Pricing disparities, business justification, alternative analysis, channel issues
 - Analyzed yield spread premium, points and fees on a broker-by-broker basis
 - Pricing disparity analysis to \$5B prime mortgage lender
- Public policy
 - Retained by deep-pocketed lobbying group to evaluate subprime mortgage borrower bailout legislation proposals
- Market structure
 - Retained in by Cerberus to evaluate market concentration and related anti-trust issues for potential acquisitions:
 - GMAC / Option One / New Century

Bates White has extensive mortgage and subprime finance experience (cont.)

- Subprime credit scoring & risk-based pricing
 - Engaged as consulting experts in litigation by leading credit scoring provider
 - Multiple engagements structuring risk-based pricing systems for subprime consumer finance companies
 - Constructed underwriting and risk-base pricing structure for major subprime auto finance company
 - Developed risk-base pricing structure and yield model for deep subprime auto finance company
 - In *NFHA v. Prudential* provided expert report for plaintiffs on disparate impact of insurance scoring and alternative analysis
- Secondary mortgage market
 - Bates White experts have consulted with and worked for Freddie Mac in analyzing characteristics of purchased mortgages



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