

LOAN PERFORMANCE



A Subsidiary of First American Real Estate Solutions™

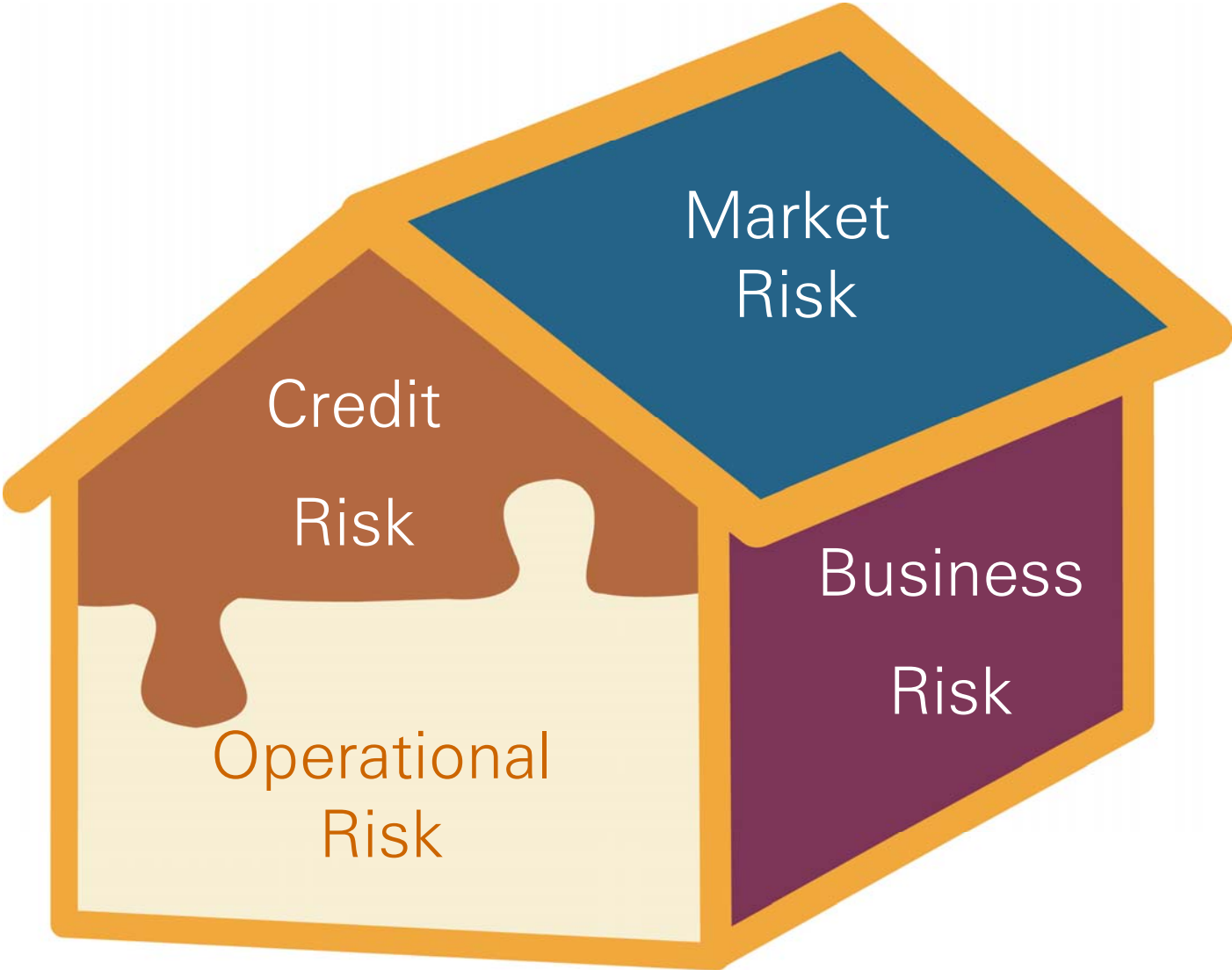
The Mortgage Industry in 2007- A Riskier Place To Be

Thomas Showalter
Vice President
Product Management
LoanPerformance

Presentation Outline

- Understanding Today's Mortgage Risk
- LoanPerformance's Role in the Market
- Underwriting and Marketing Trends and Findings
- Mortgage Performance Trends and Findings
- Selection of BI and Database Providers

Understanding Today's Mortgage Risk



Market Risk

- Prepayment speed risk
- Interest rate risk
- Liquidity risk
- Basis risk



Credit Risk

- Delinquency
- Default
- Product Type
- Property



Operational Risk

- Borrower Collateral Fraud
- Collateral
- Process failure/errors

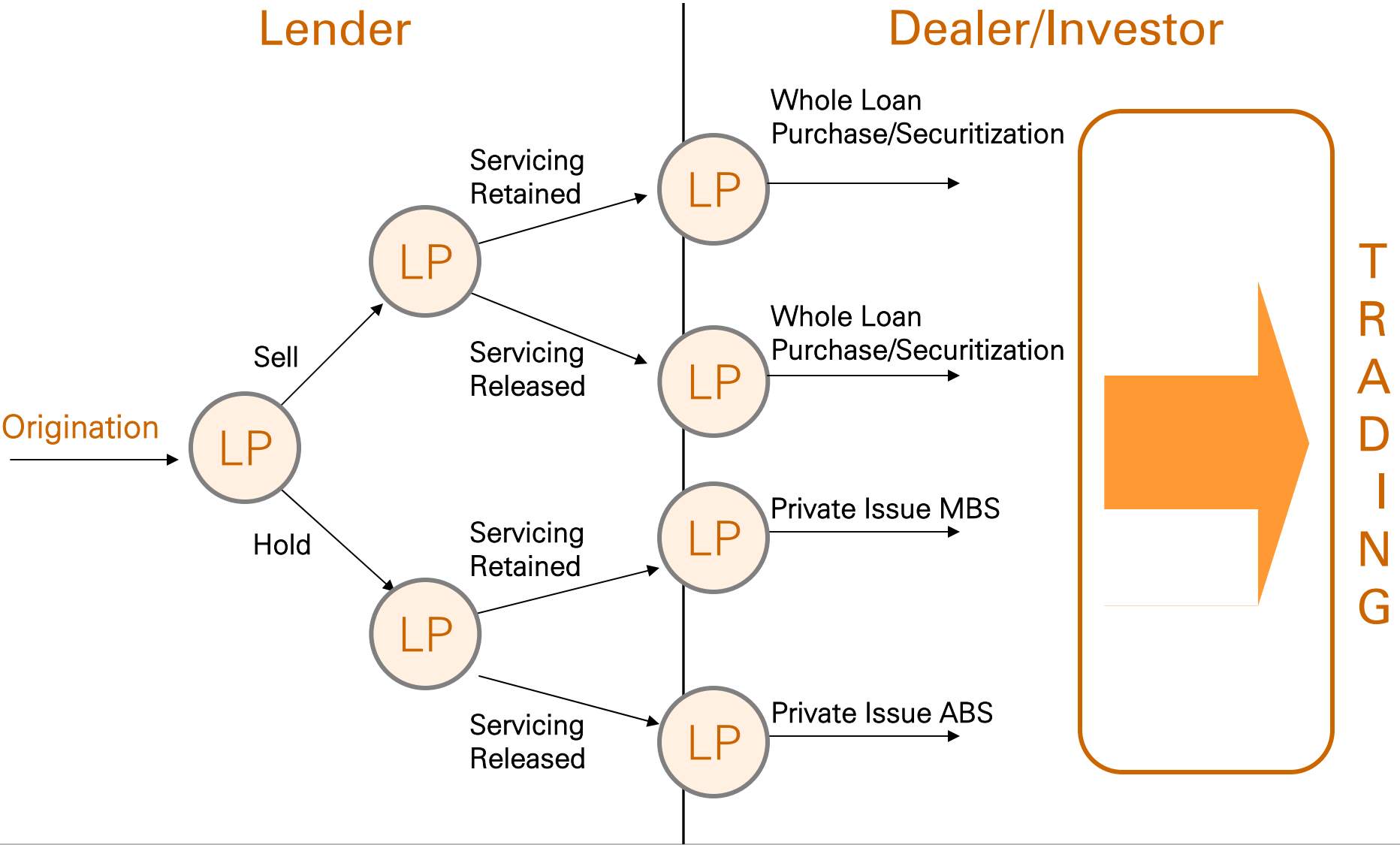


Business Risk

- Macro-economic Impacts
- Business Continuity
- New Competitor – loss of market share
- Mergers and Acquisitions
- Reputation Risk



Mortgage Decision Flow



LoanPerformance's Role in the Market

LoanPerformance is a cooperative database builder and provider of information products, analytical tools and predictive models to leading financial institutions that invest in and/or trade mortgage risk.

LoanPerformance Introduction

- Founded in 1983 and based in San Francisco, with sales and support offices in New York, Chicago, and Washington, DC
- Acquired by First American Corp. in April 2005
- Over 50 million active loans with over 10 years of historical performance information
- Over \$1.6 trillion in loan-level non-agency securities
- Over 130 major financial institutions as customers with deep relationships in portfolio risk management, capital markets, secondary marketing, Wall Street

Industry Standard Information Products

- The leader with 85% coverage of all public securities – including loss data
- The leader with 80% coverage of all active serviced loans
- Used on the trading desks of all top Wall Street and regional dealers
- Used extensively by rating agencies, regulators, portfolio managers, credit risk managers, and others

Loan Performance Coverage: % of Market \$

- Non-Agency Securities (over \$1.6 Trillion in outstandings):
 - 97% Alt-A
 - 85% MBS
 - 75% Non-Prime
- Prime Servicing: 85%
- Subprime Servicing: 55%
- HELOC/Seconds: 55% (80% of Bank-owned)

Loan Performance Mortgage Databases

Servicing: Aggregated & Anonymous Market Data

Individual Lender Performance not Displayed – Client vs. Market

Prime	Subprime	Home Equity
39 Million Loans	4.3 Million Loans	8.2 Million Lines/Loans
Delinquency & Prepayment	Delinquency & Prepayment	Delinquency & Utilization Rates
8 of top 10 Servicers including Fannie/Freddie	9 of top 10 Servicers	Top 8 Servicers

Securities: Individual Loan-Level & Pool-Level Data

Lender and Securities Performance Displayed

Non-Agency MBS: 5700 Pools (2913 Active) 4.0 Million Loans; 909k Active \$409B in Outstanding Balances	ABS (Nonprime & Alt A): 7327 Pools (6319 Active) 14.9 Million Loans; 6.3 Million Active Loans \$1.193T in Outstanding Balances
--	--

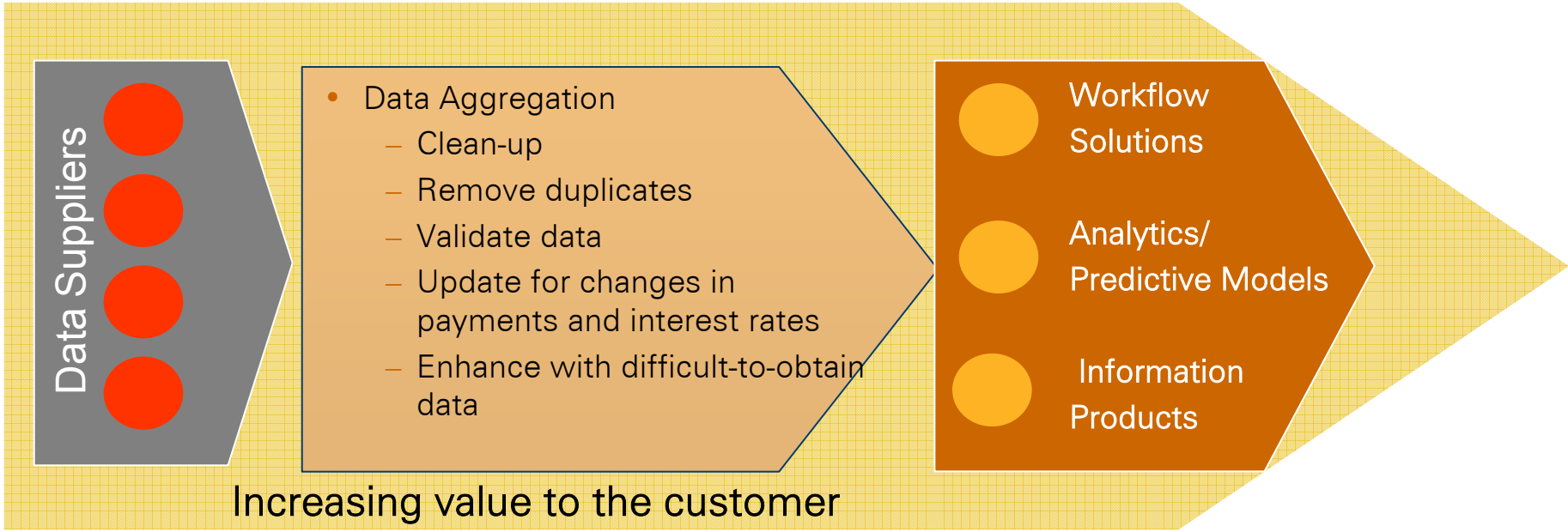
50 sources: Issuers, Servicers, Trustees
75 Loan Level Attributes including Original FICOs, Grades, Losses, etc.
Available through TrueStandings Securities UI and Text Data

LoanPerformance: Dec. '06
Distribution



Loan Performance Value Proposition

- We create products and solutions to enable customers to manage risk and increase risk adjusted returns



Uses of Loan Performance Securities Data

- Loan Portfolio Benchmarking (vs. industry/peers)
- Product Management (new loan product offerings)
- Credit Policy
- Loan Portfolio Management
- Loan Loss Reserve Setting
- Whole Loan Purchase/Sale
- Securitization
- Mortgage Backed Security Investment Analysis
- What-if Analysis: Predictive Analysis

TrueStandings™ Securities: Monitors and Analyzes over \$1.6 Trillion in RMBS.

Stored reports that only you can view

Export data to PDF and Excel

Over 70 different loan attributes

Choose Securities types of Alt-A, MBS or ABS

Multiple Delinquencies measurements using MBA and OTS Standard

Drill down to explore characteristics

Links for all attributes

Drill from issuers to pools

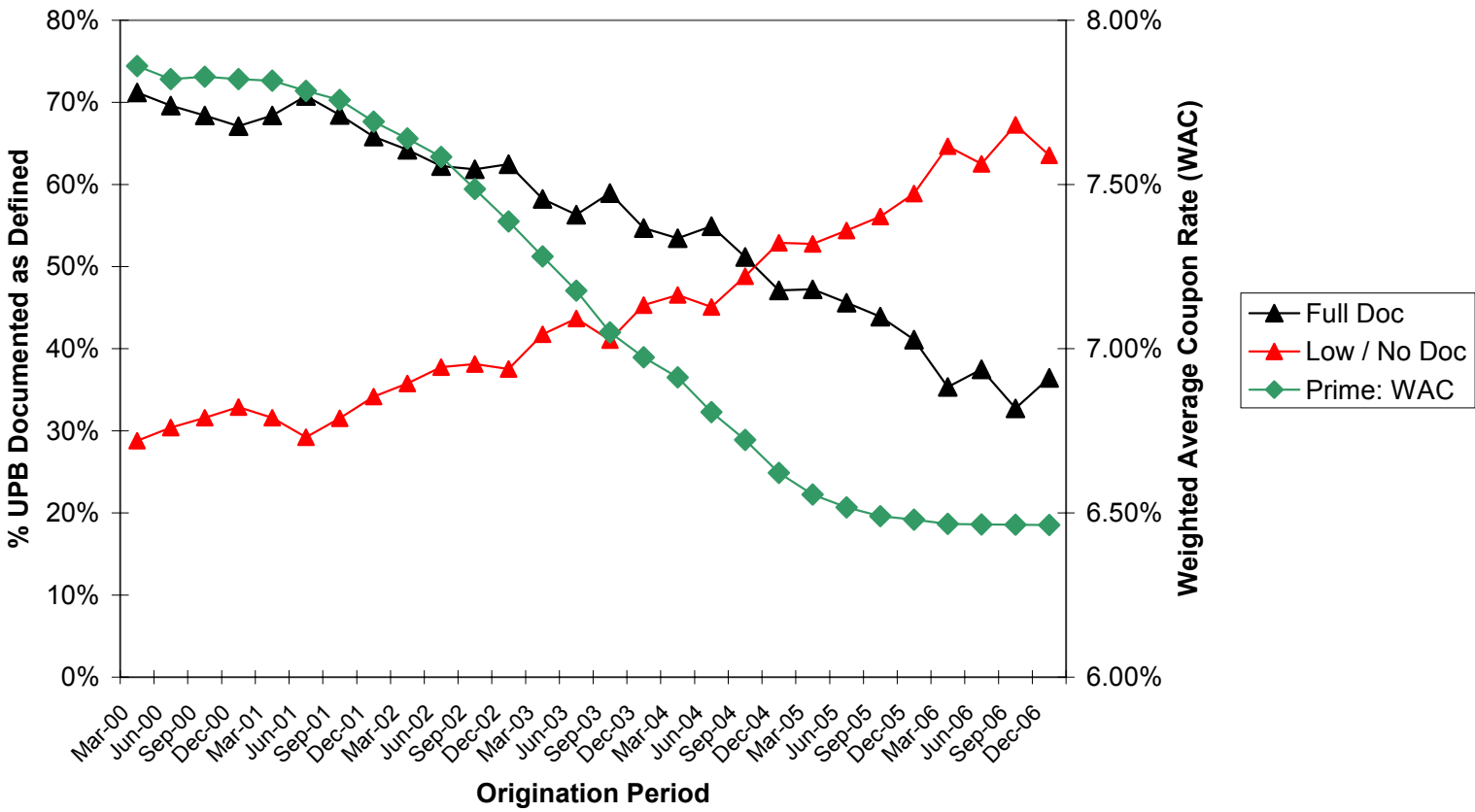
Drag and Drop" report building

Issuer	Active Number of Loans	Delq 30+ Balance % MBA	Delq 60+ Balance % MBA	Delq 90+ Balance % MBA	Delq 120+ Balance % MBA	Delq 150+ Balance % MBA	Delq 180+ Balance % MBA	BK Balance %	FCL Balance %	REO Balance %
Total	1,695,581	3.24%	1.33%	0.87%	0.66%	0.52%	0.40%	0.21%	0.31%	0.10%
Adj Rate Mtg	39,865	3.47%	1.62%	1.08%	0.76%	0.57%	0.42%	0.38%	0.44%	0.09%
Am Hm Mtg	49,420	3.45%	1.32%	0.85%	0.66%	0.48%	0.39%	0.29%	0.54%	0.05%
Ameriquest	1,878	1.25%	0.45%	0.24%	0.21%	0.14%	0.14%	0.28%	0.13%	0.03%
BA Funding	14,85									
BA Mortgage	80,88									
Bear Stearns Mtg Sec	92,25									
Capstead	3									
Chase	1,61						2.49%	1.27%	1.27%	0.47%
Citi	12,58						3.40%	2.79%	2.45%	2.21%
Countrywide	386,96						3.82%	1.25%	1.25%	1.25%
Fund/Hm	57,02				223	15.57%	13.72%	11.23%	10.01%	8.69%
ne	15,25				277	12.53%	5.52%	4.45%	3.72%	3.24%

Underwriting and Marketing Trends & Findings

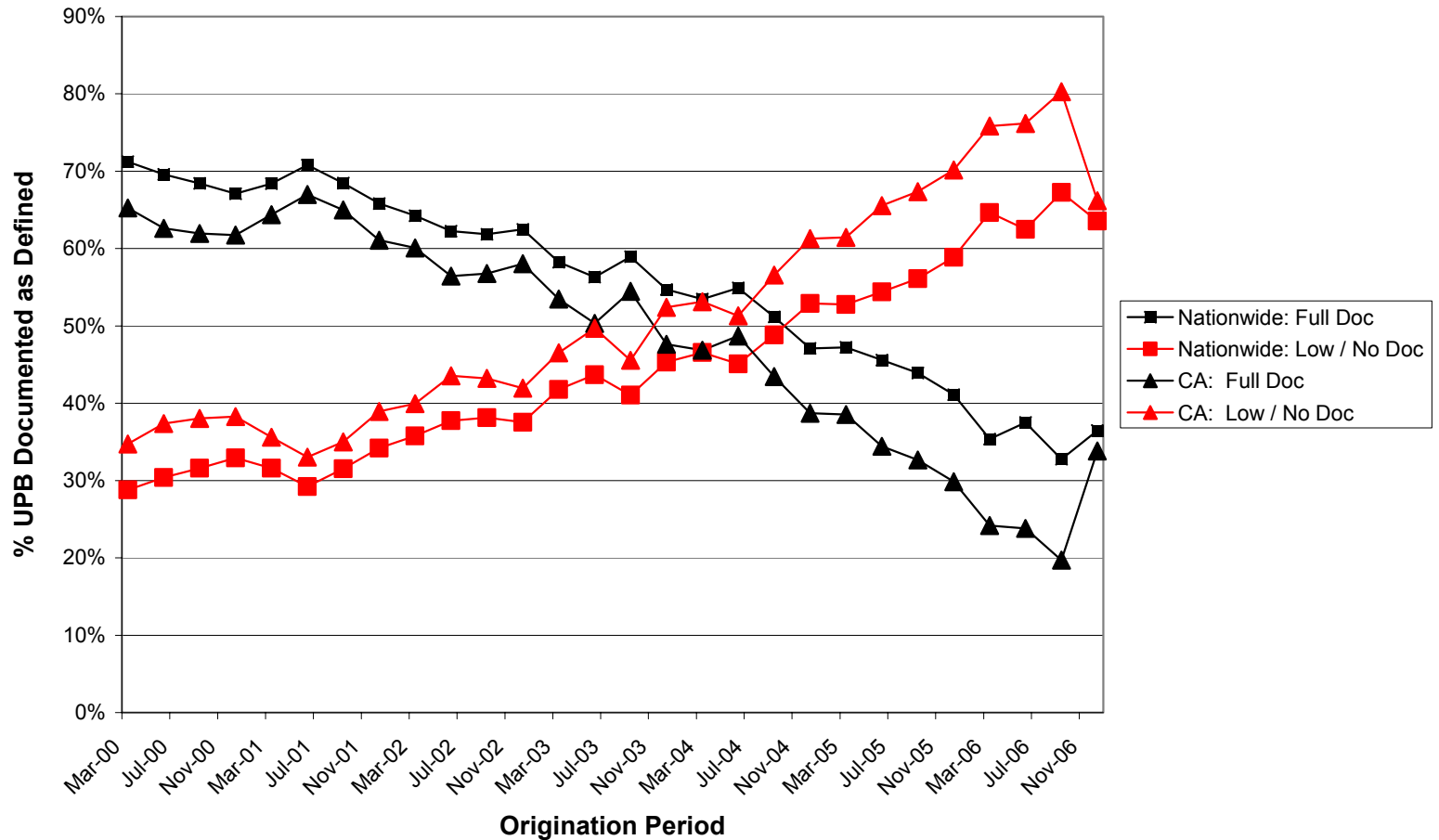
Low/No doc trends increase as interest rate (WAC) decreases

Analysis of Doc Trends (Full Doc v Low/No Doc) v. Interest Rates (WAC)



California exceeds nationwide Low/No doc trends

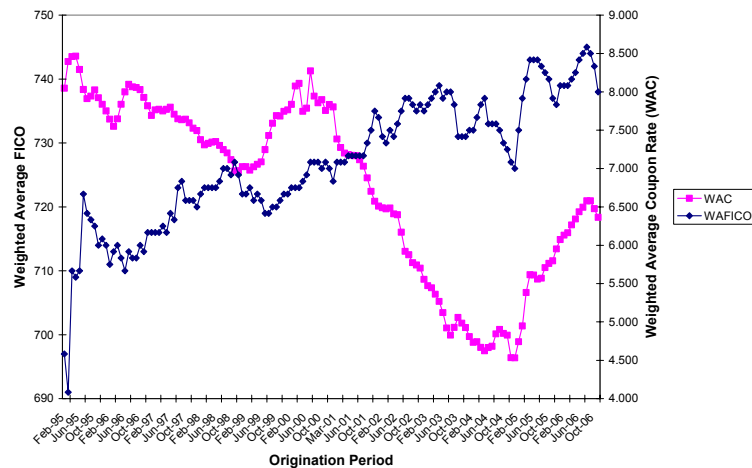
Analysis of Nationwide v. California Documentation Trends



Lower interest rates attract more qualified (higher FICO) Prime (MBS) borrowers

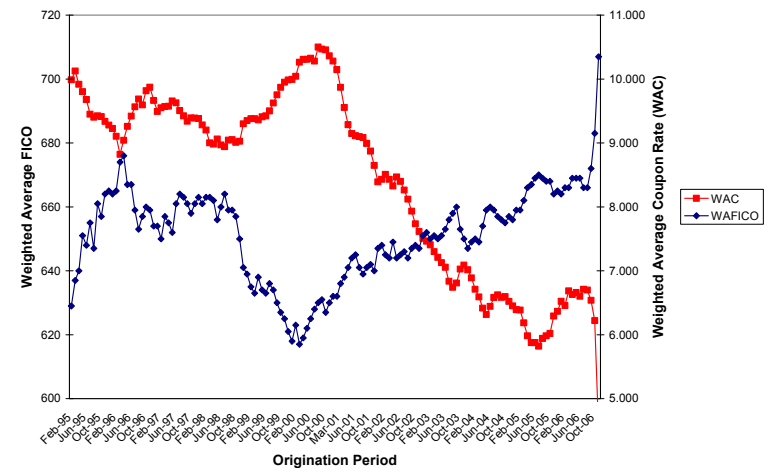
Prime FICO trends are much more negatively correlated with WAC trends than Subprime FICO trends

Prime: Analysis of Interest Rates (WAC) and WAFICO



Prime (MBS)

Subprime: Analysis of Interest Rates (WAC) and WAFICO

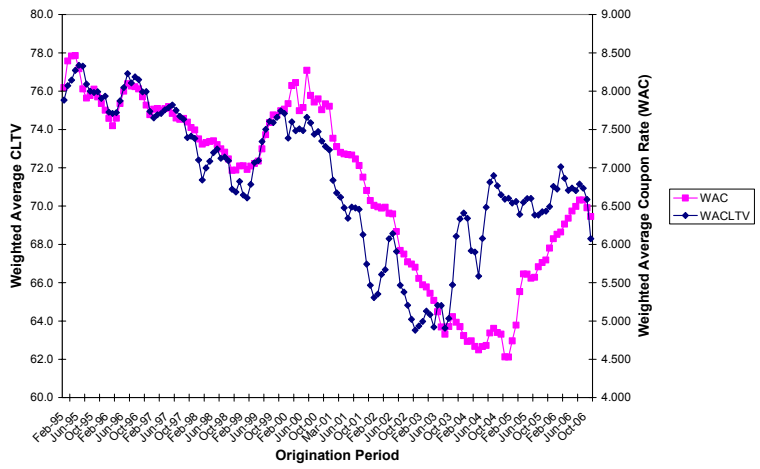


Subprime (ABS)

CLTV values track WAC trends more closely for Prime borrowers than Subprime: different policies

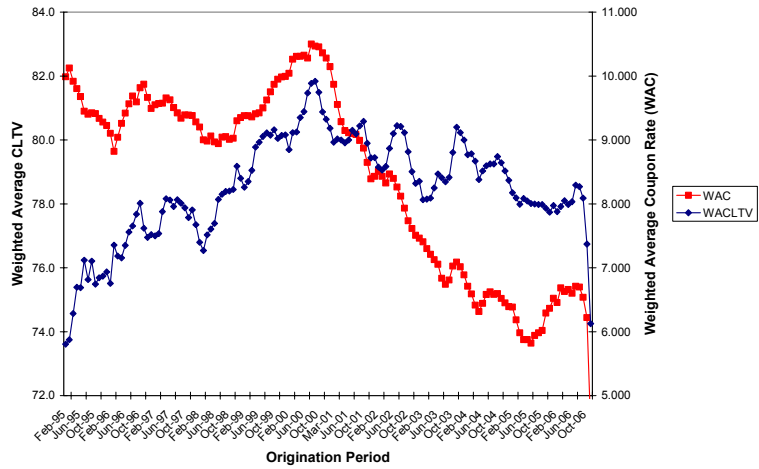
Prime CLTV trends are more positively correlated with WAC trends than Subprime CLTV trends

Prime: Analysis of Interest Rates (WAC) and WACLTV



Prime (MBS)

Subprime: Analysis of Interest Rates (WAC) and WACLTV

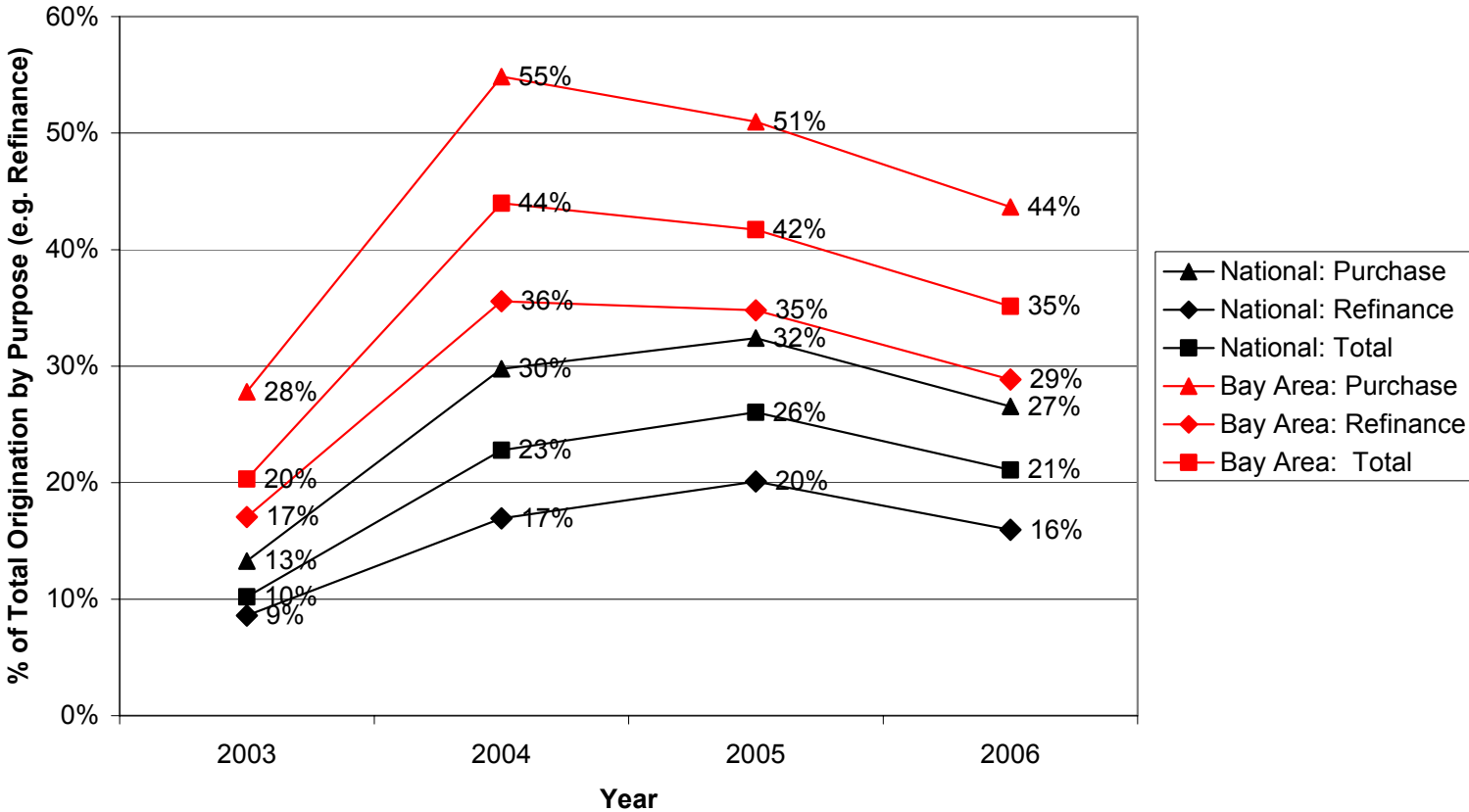


Subprime (ABS)



Interest Only products decline. High cost areas show high demand. I/O- "purchase" money mortgages

Analysis of Interest-Only Purchase Trends National v. San Francisco Bay Area

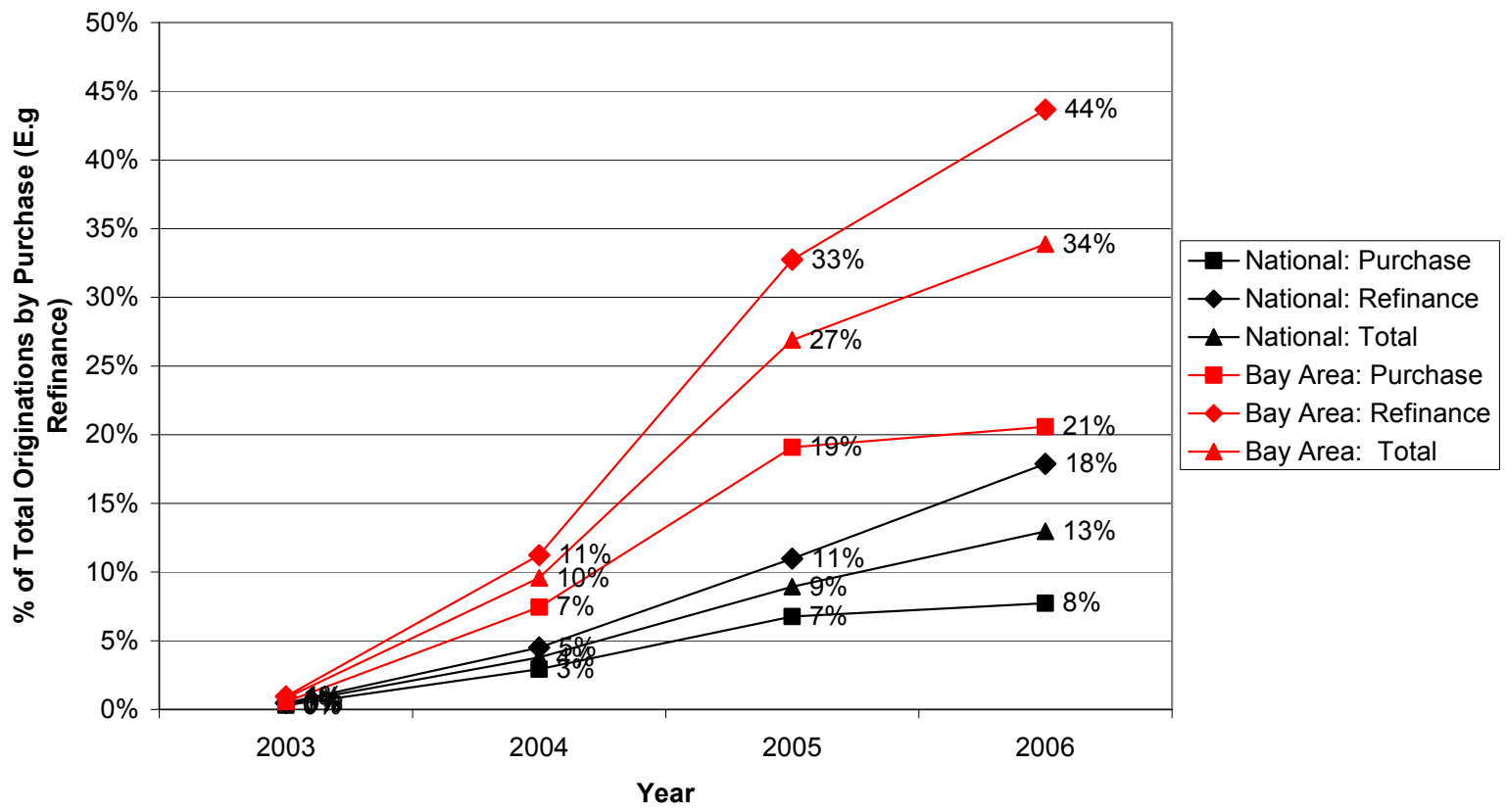


Top I/O MSA's (purchase money mortgages) are in areas with recent high home appreciation rates

Top MSA's for I/O Mortgages in 2006. % Purchases > 40% of Originations	Orig Year	Purchase, Orig Cnt	Refinance, Orig Cnt	Total Orig, Orig Cnt
San Luis Obispo-Atascadero-Paso Robles, CA	2006	50.8%	32.5%	39.9%
Santa Cruz-Watsonville, CA	2006	49.7%	34.4%	40.1%
Ventura, CA	2006	49.3%	27.2%	35.7%
San Francisco, CA	2006	48.8%	34.6%	40.7%
San Diego, CA	2006	47.5%	27.0%	35.2%
Santa Barbara-Santa Maria-Lompoc, CA	2006	47.4%	31.3%	36.9%
Washington, DC-MD-VA-WV	2006	46.0%	23.4%	34.0%
San Jose, CA	2006	45.3%	31.0%	37.3%
Orange County, CA	2006	44.1%	29.8%	35.6%
Santa Rosa, CA	2006	43.7%	29.2%	34.7%
Los Angeles-Long Beach, CA	2006	42.7%	23.5%	31.0%
Boulder-Longmont, CO	2006	42.6%	31.7%	37.4%
Oakland, CA	2006	42.0%	26.7%	33.2%
Seattle-Bellevue-Everett, WA	2006	42.0%	23.9%	33.5%
Reno, NV	2006	41.0%	21.7%	30.8%
Hagerstown, MD	2006	40.8%	15.8%	24.5%
Charlottesville, VA	2006	40.1%	14.2%	27.4%
Charleston-North Charleston, SC	2006	40.1%	17.6%	30.6%

NegAm becoming the more preferred "affordable" mortgage product. The choice for "refinance"

NegAm (Option ARM) Purchase Trends National v. San Francisco Bay Area

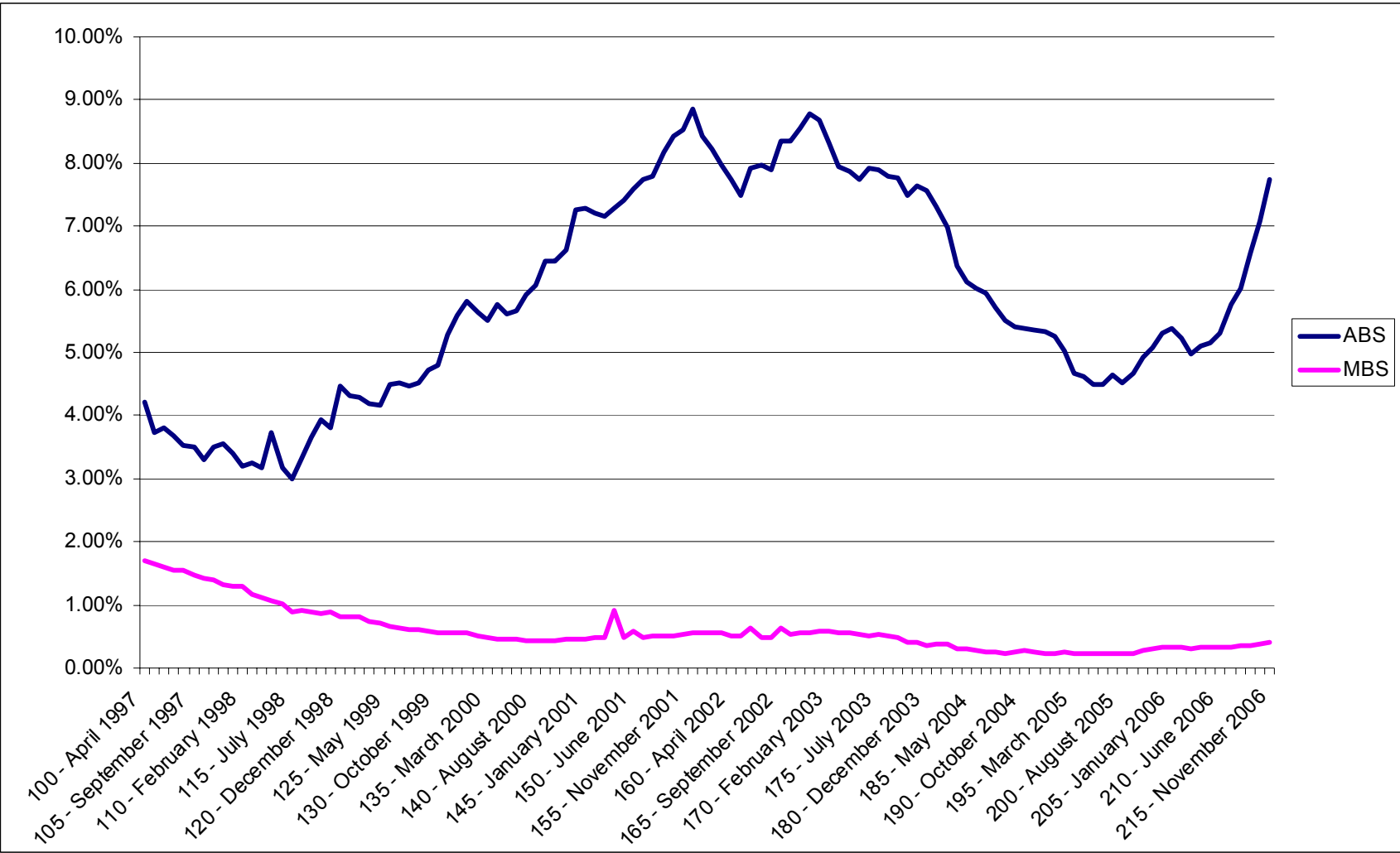


Top NegAm MSA's similar to Top I/O MSA's. NegAm is the preferred refinance product.

Top MSA's for NegAm Mortgages in 2006. % Refi's > 30% of Originations	Orig Year	Purchase, Orig Cnt	Refinance, Orig Cnt	Total Orig, Orig Cnt
Salinas, CA	2006	23.5%	48.2%	40.0%
San Jose, CA	2006	24.3%	45.8%	36.3%
Vallejo-Fairfield-Napa, CA	2006	18.8%	44.1%	34.6%
Oakland, CA	2006	18.6%	44.0%	33.1%
Santa Rosa, CA	2006	22.6%	43.4%	35.5%
San Diego, CA	2006	20.9%	42.8%	34.1%
Stockton-Lodi, CA	2006	17.6%	42.7%	32.6%
Santa Cruz-Watsonville, CA	2006	20.2%	41.1%	33.3%
Modesto, CA	2006	17.0%	40.7%	30.4%
Merced, CA	2006	19.1%	40.6%	31.2%
San Francisco, CA	2006	20.4%	39.8%	31.4%
Orange County, CA	2006	22.6%	39.3%	32.5%
Ventura, CA	2006	20.4%	39.1%	31.9%
Naples, FL	2006	23.4%	37.1%	30.4%
Santa Barbara-Santa Maria-Lompoc, CA	2006	23.3%	36.7%	32.0%
Los Angeles-Long Beach, CA	2006	16.7%	35.3%	28.1%
Sacramento, CA	2006	14.9%	34.9%	26.7%
Yolo, CA	2006	12.0%	33.3%	24.4%
Riverside-San Bernardino, CA	2006	13.2%	32.7%	23.8%
San Luis Obispo-Atascadero-Paso Robles, CA	2006	21.1%	32.3%	27.8%
Redding, CA	2006	21.2%	30.6%	27.9%
Las Vegas, NV-AZ	2006	14.6%	30.6%	21.6%

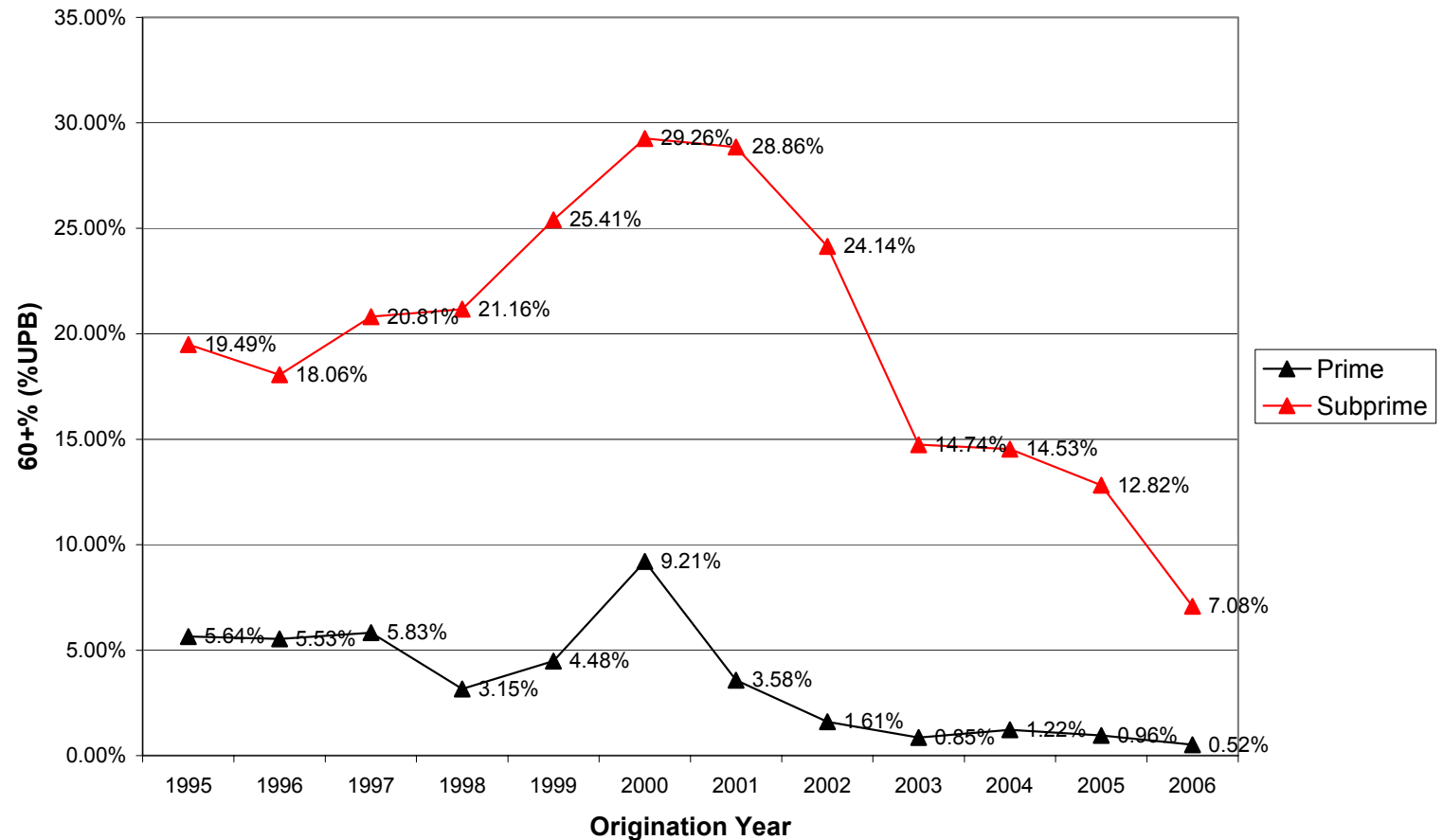
Mortgage Performance Trends & Findings

Dramatic differences in 60+ DQ performance: Subprime (ABS) v. Prime (MBS) Securities



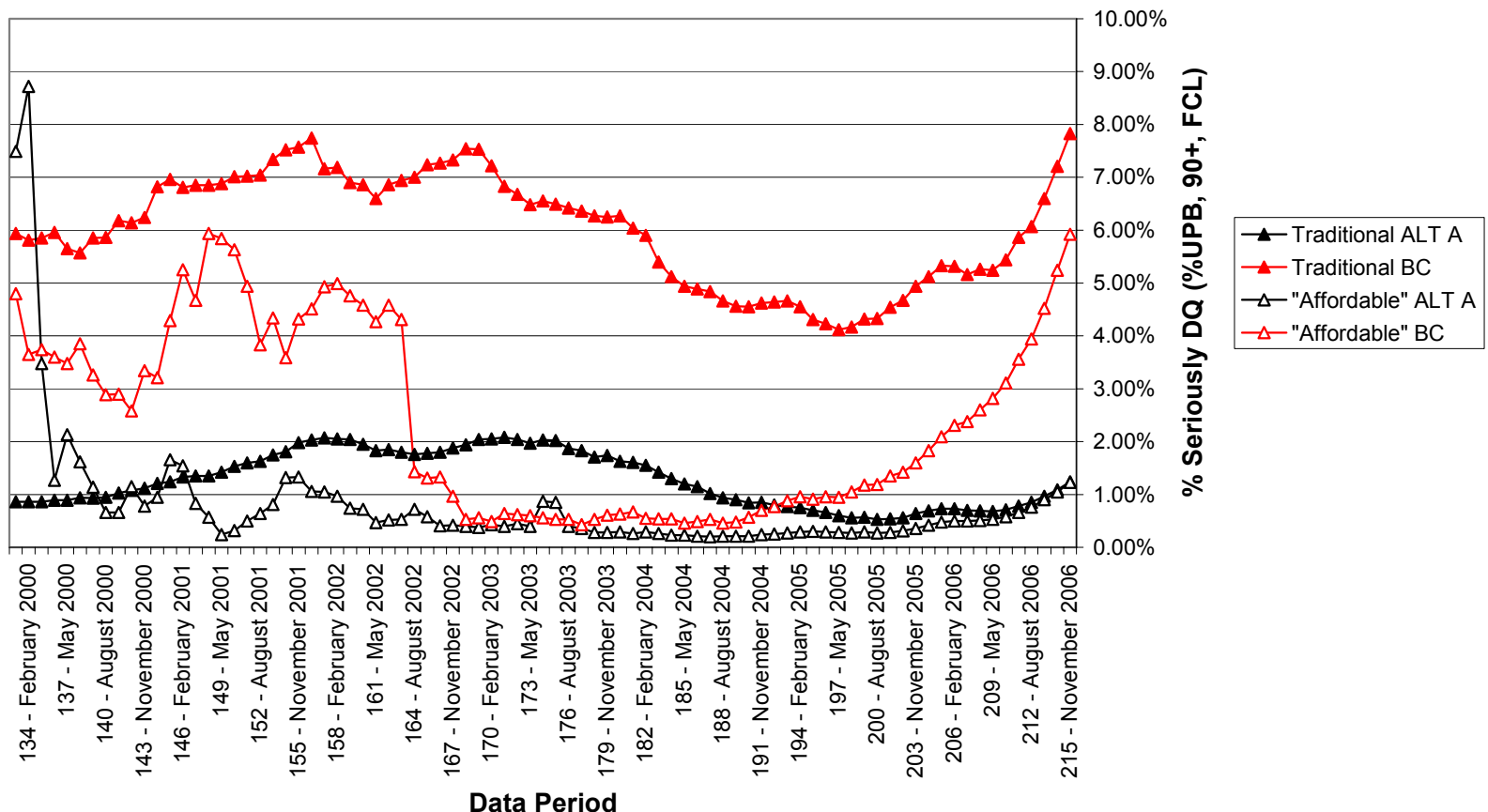
Analysis by vintage reveals variance in 60+ % by year as well as by Subprime v. Prime

Analysis of 60+ Prime and Subprime Trends by Vintage

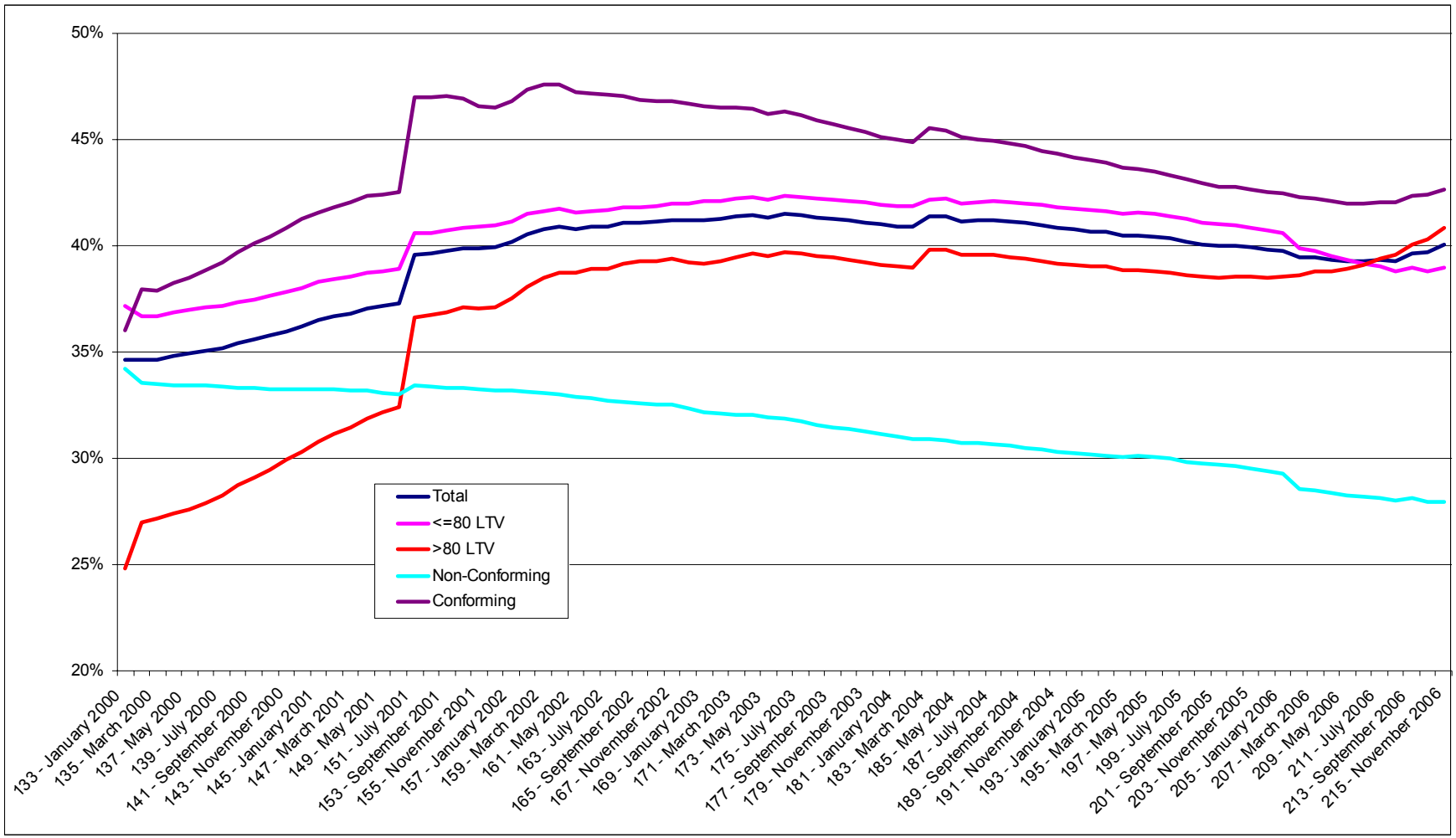


Subprime "affordable" (I/O, NegAm) products degrading relative to "Traditional" products

Comparison of Traditional v. Affordable Products Seriously Delinquent (90+, FCL)

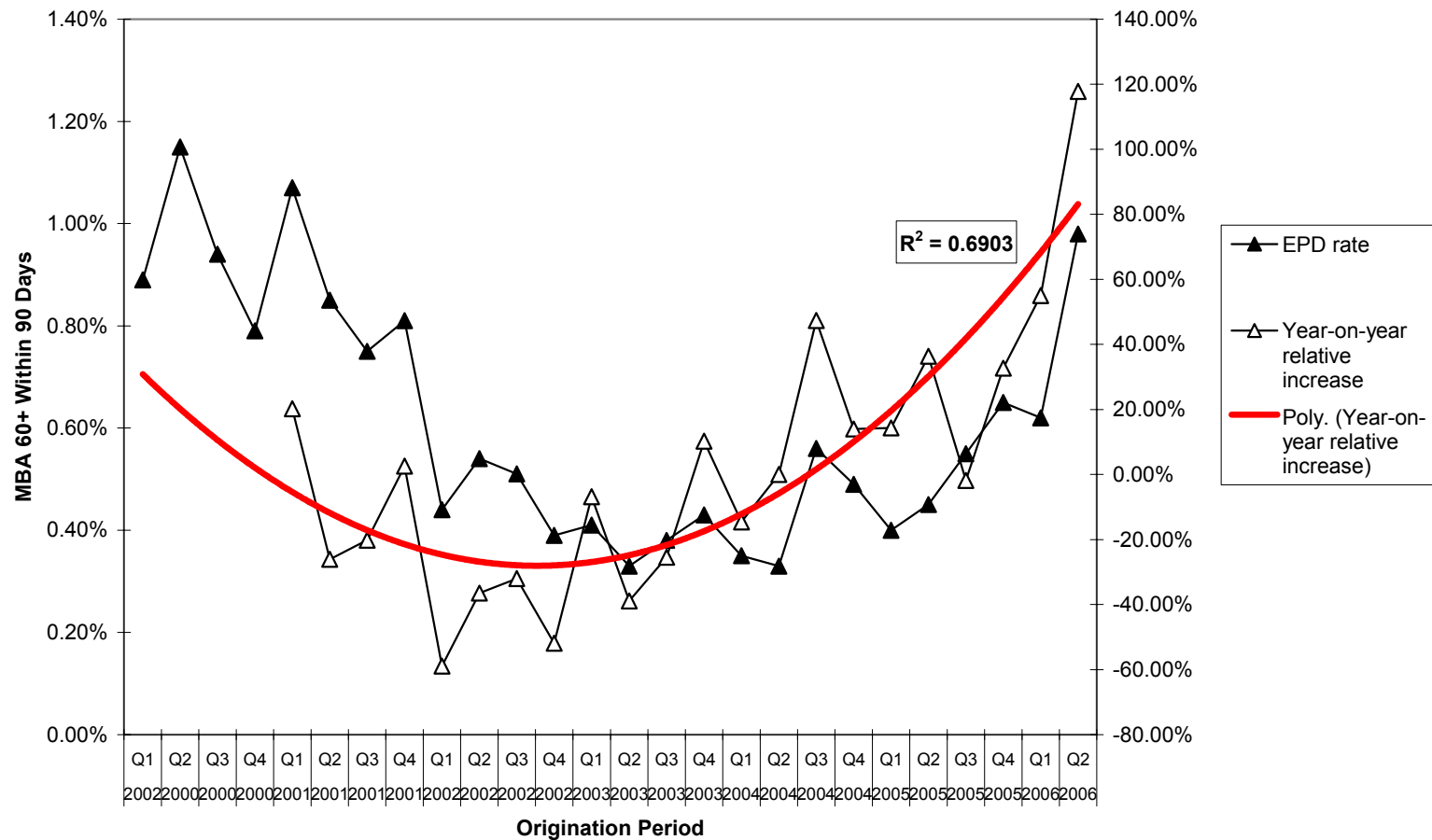


Loss severity trends peaked in 2001; flat to declining since that time

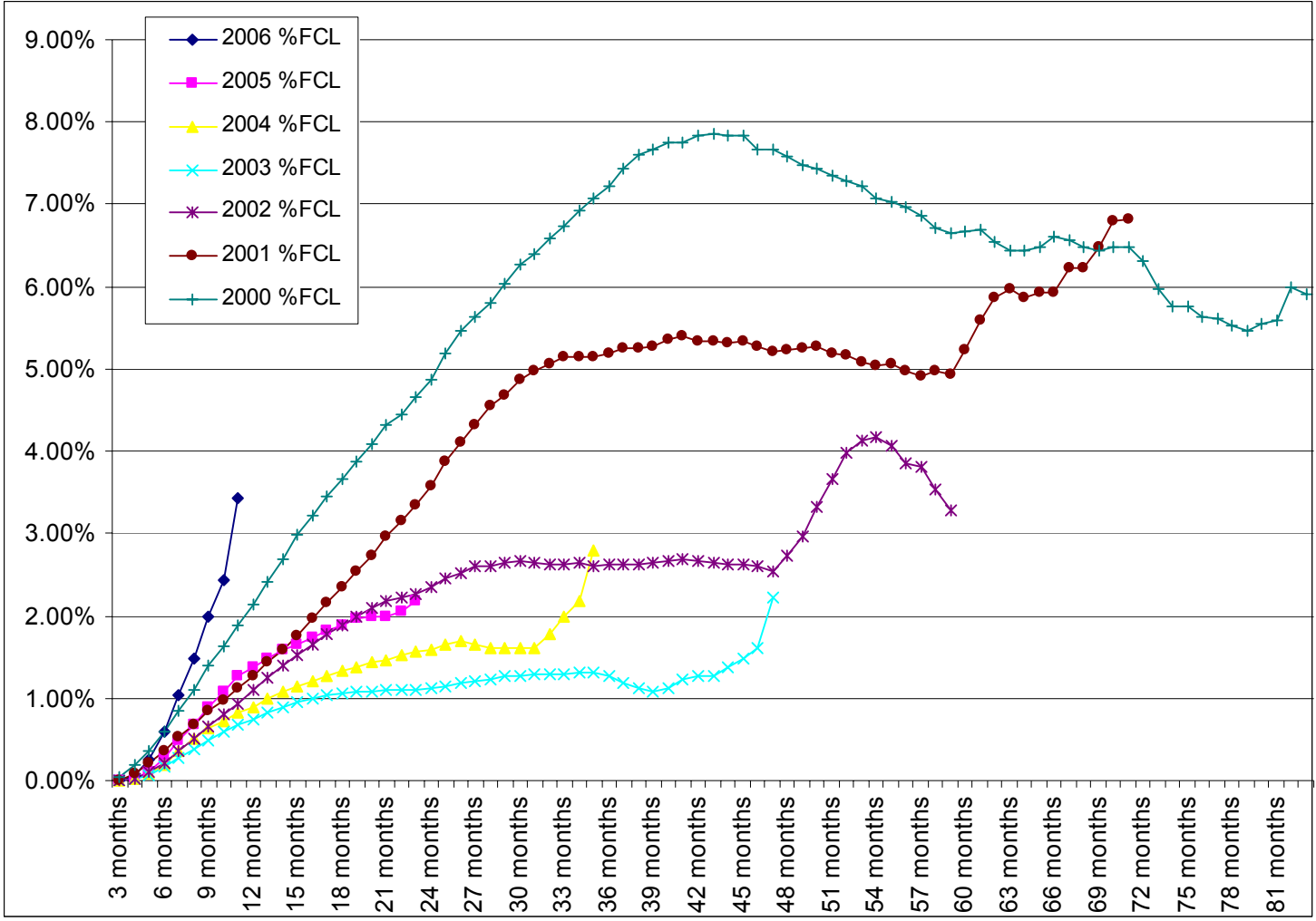


EPD's increasing rapidly, reaching previous highs.

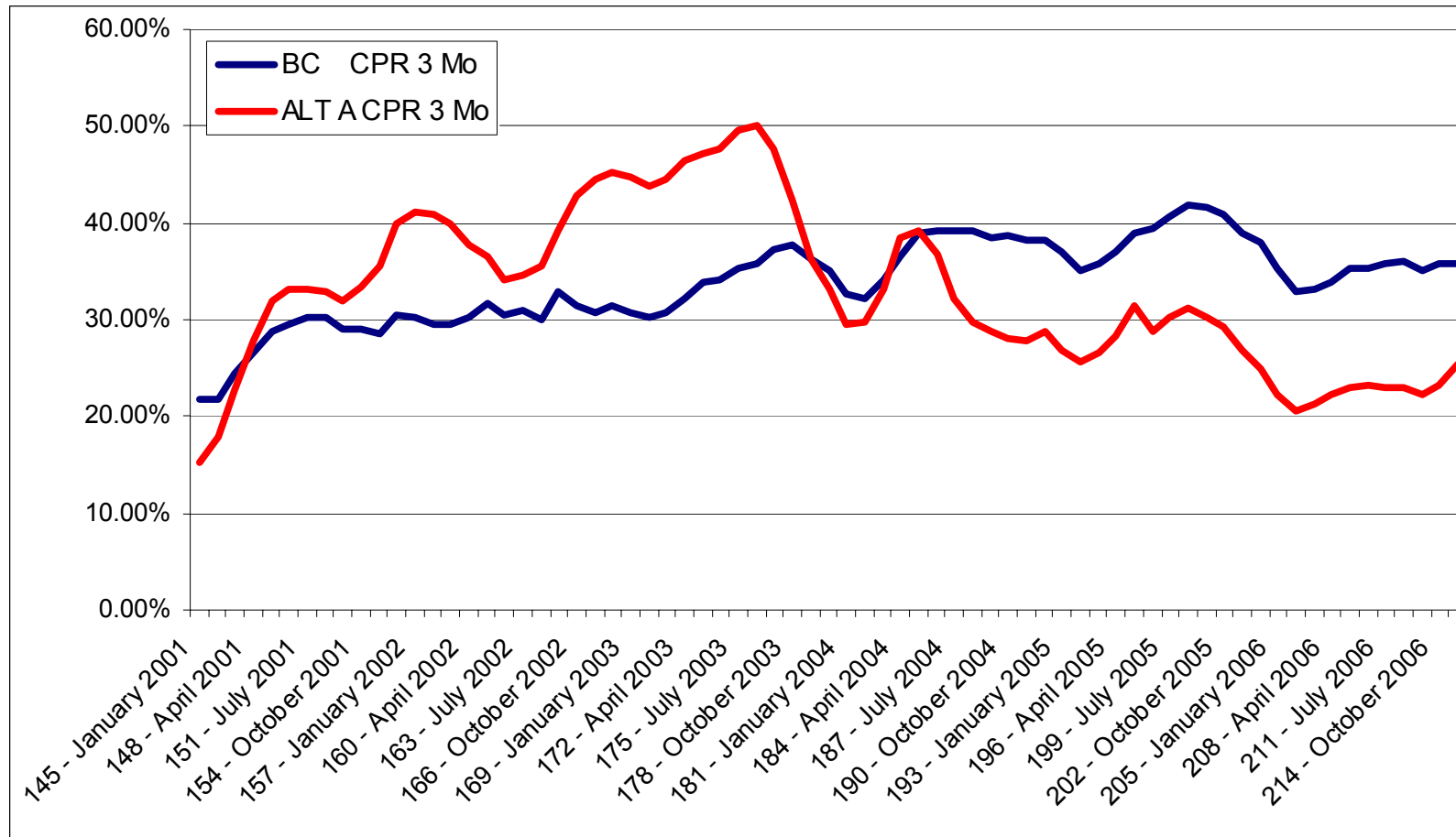
Analysis of Early Payment Default Rates (EPD's)



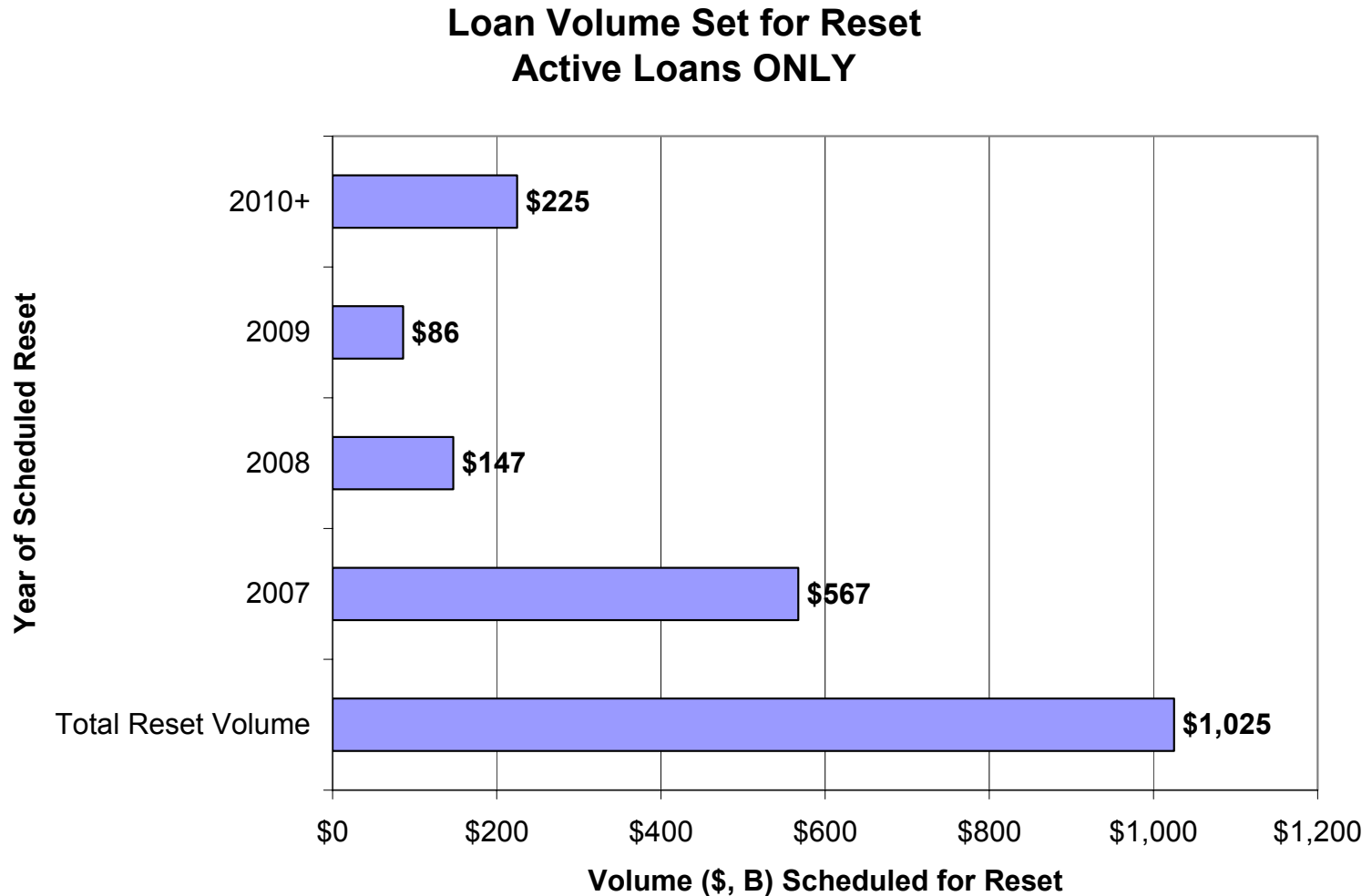
Most recent vintage (2006) showing very poor performance. Next worst year is 2000.



Prepayment speeds (CPR 3 mo) constant to increasing for Subprime, decreasing for Alt-A

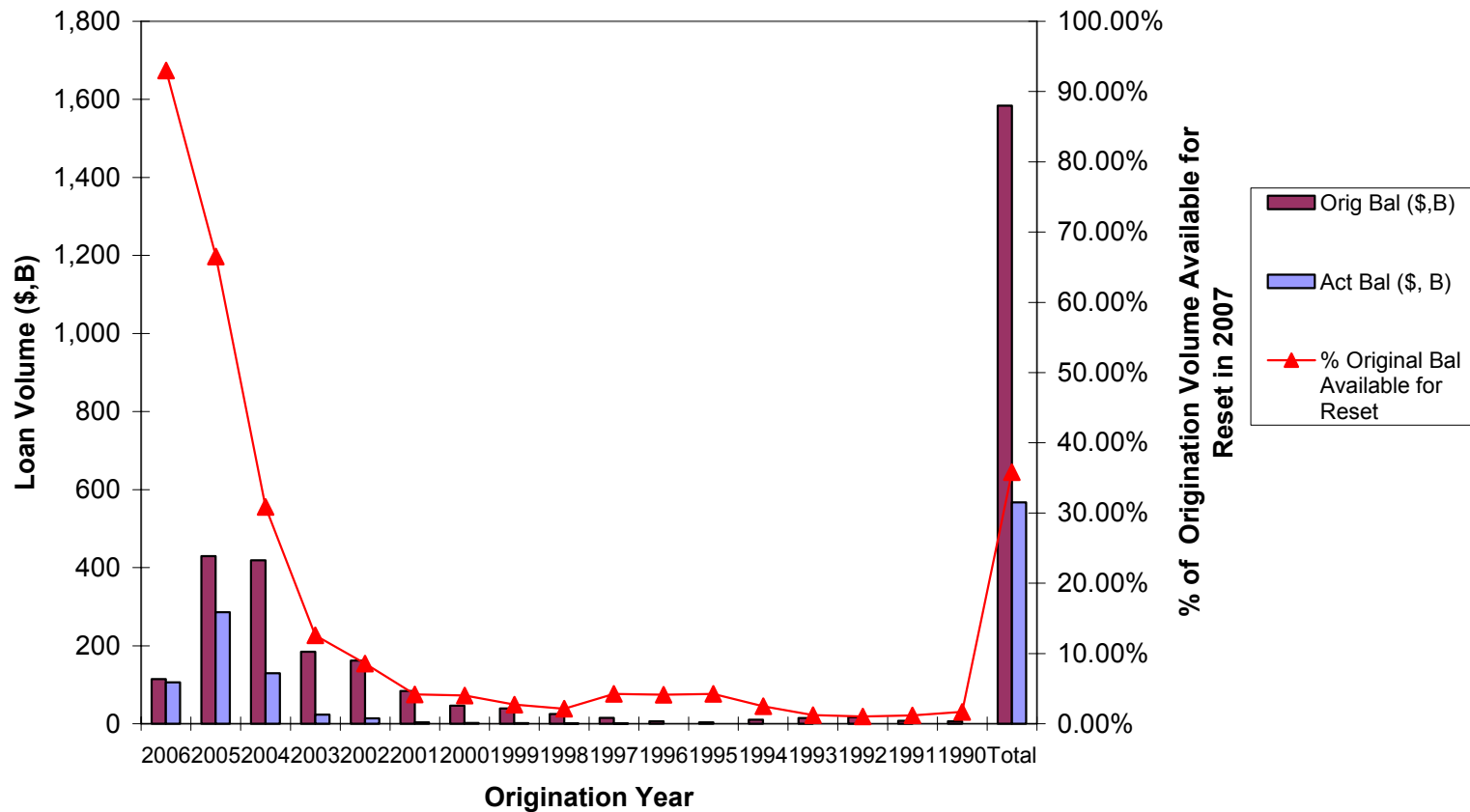


Upcoming reset volumes are (misleadingly?) large – “high” Subprime CPR levels give insight



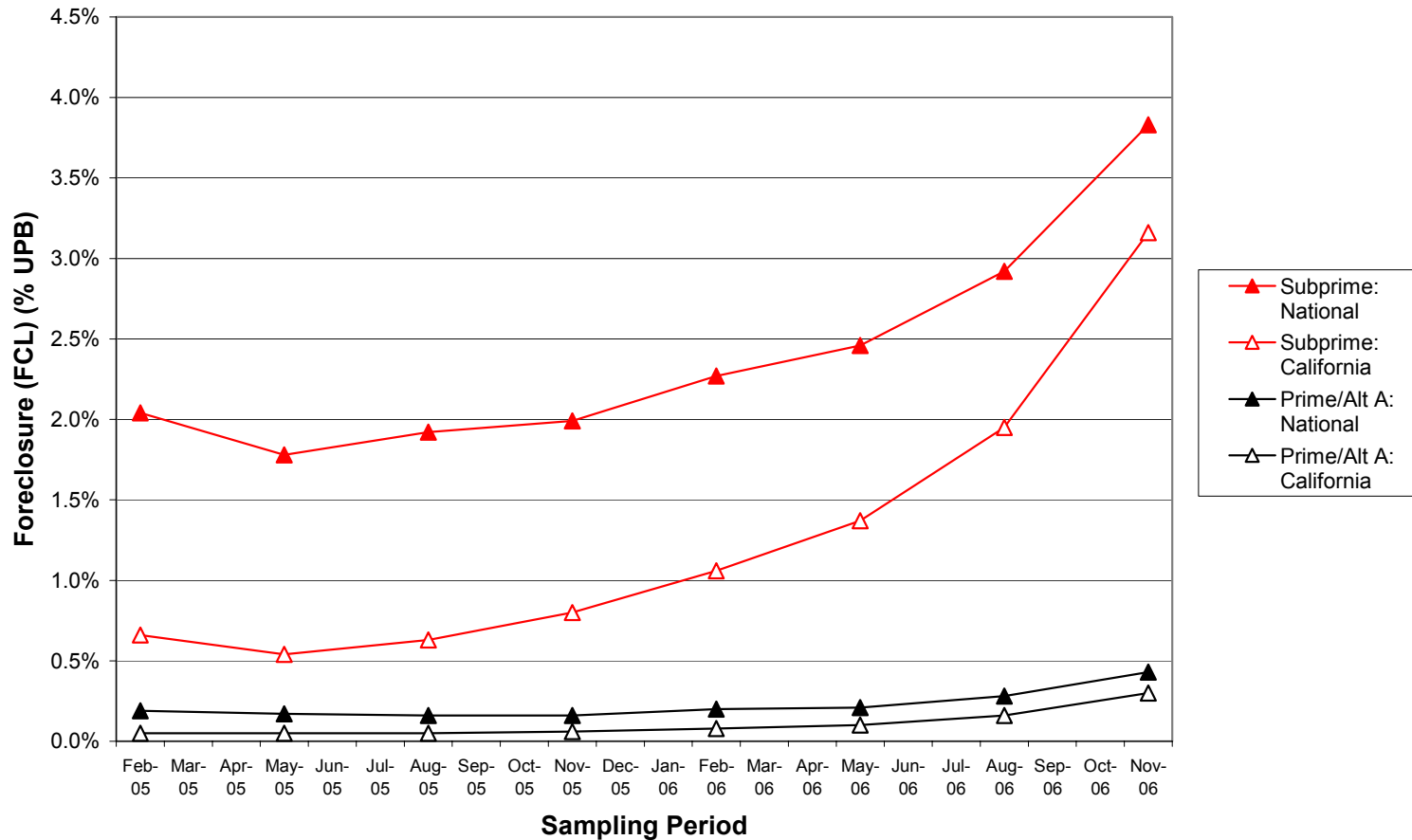
Over 65% of 2007 reset volume prepaid in advance of reset. A harbinger of future trends?

Analysis of Prepay and Reset Volume Trends Loans Resetting in 2007, Originating from 1990 - 2006



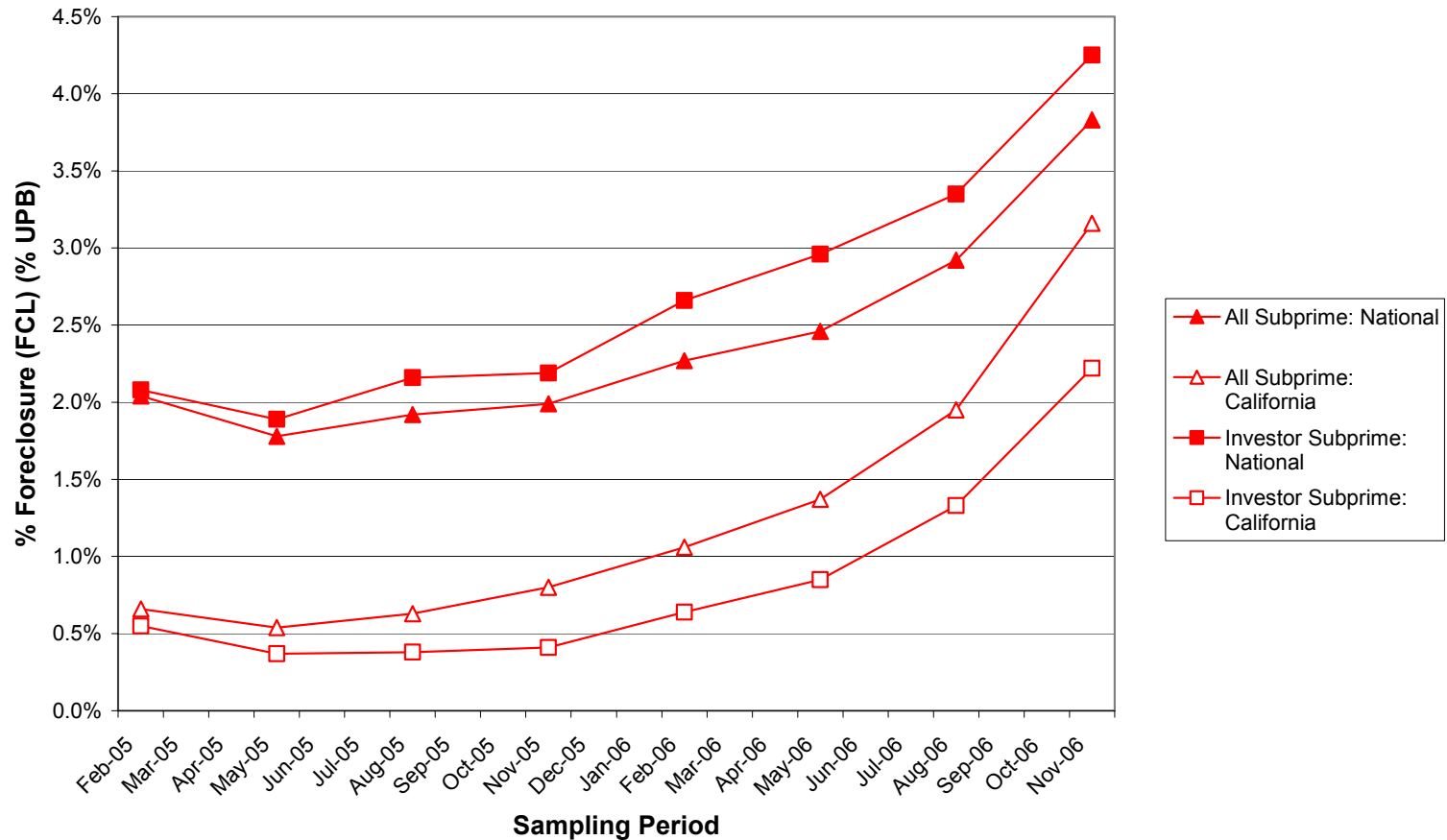
Subprime borrowers drive foreclosure trends. High appreciation states mitigate trend in CA

Analysis of Foreclosure Trends

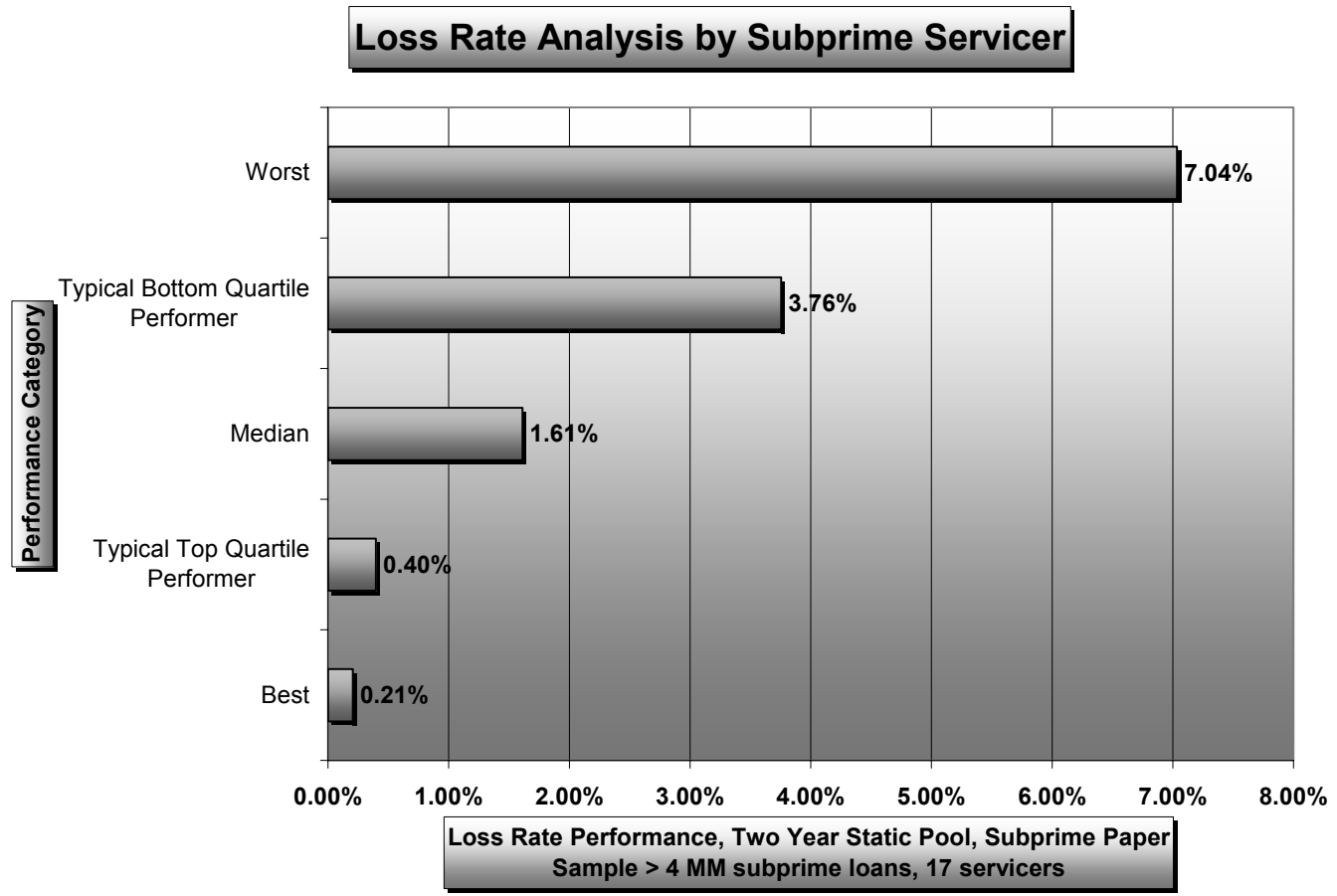


FCL rates for investor owned properties lead FCL trends in Subprime. Opposite effect in CA

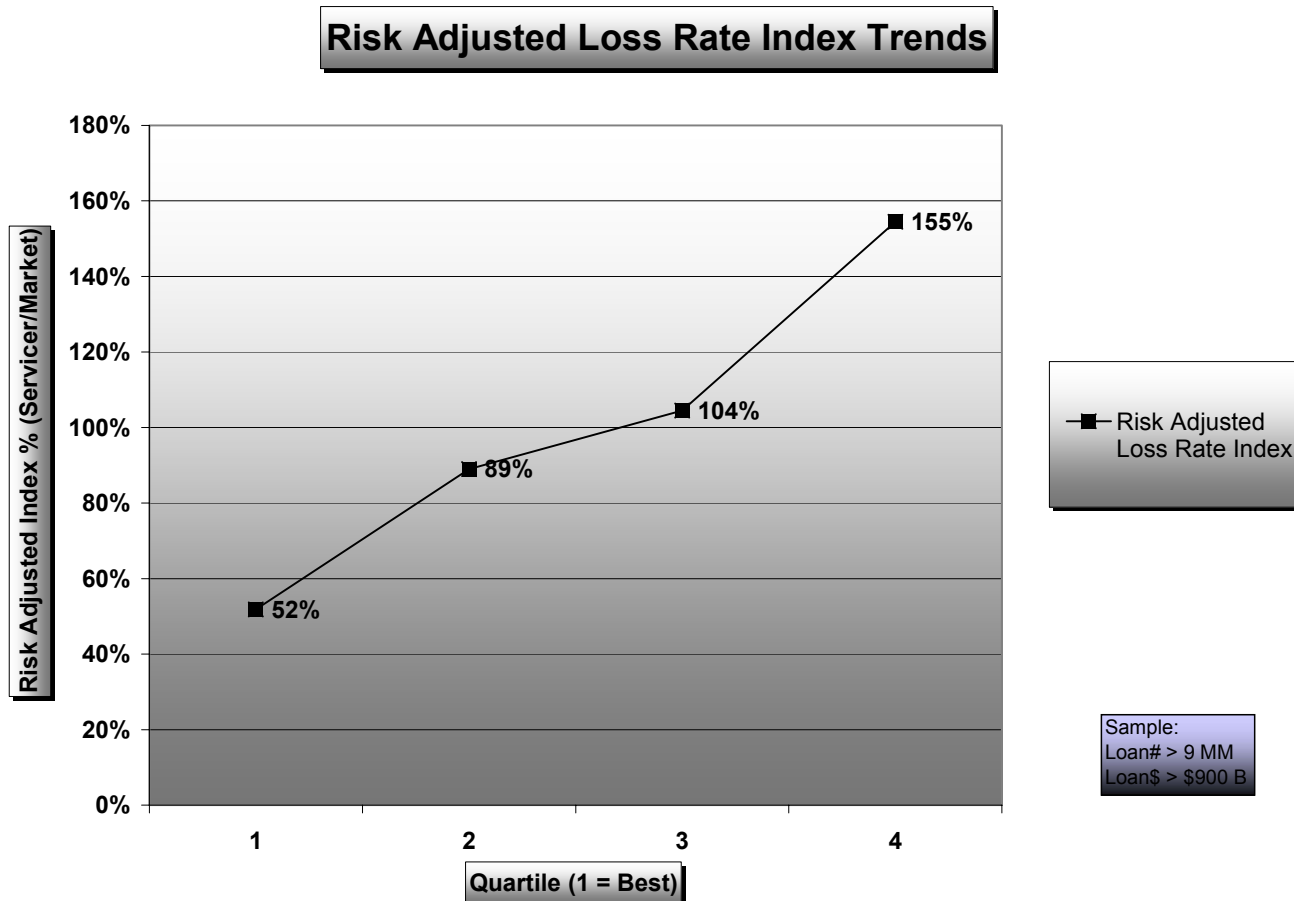
Analysis of Foreclosure Trends: All v. Investor



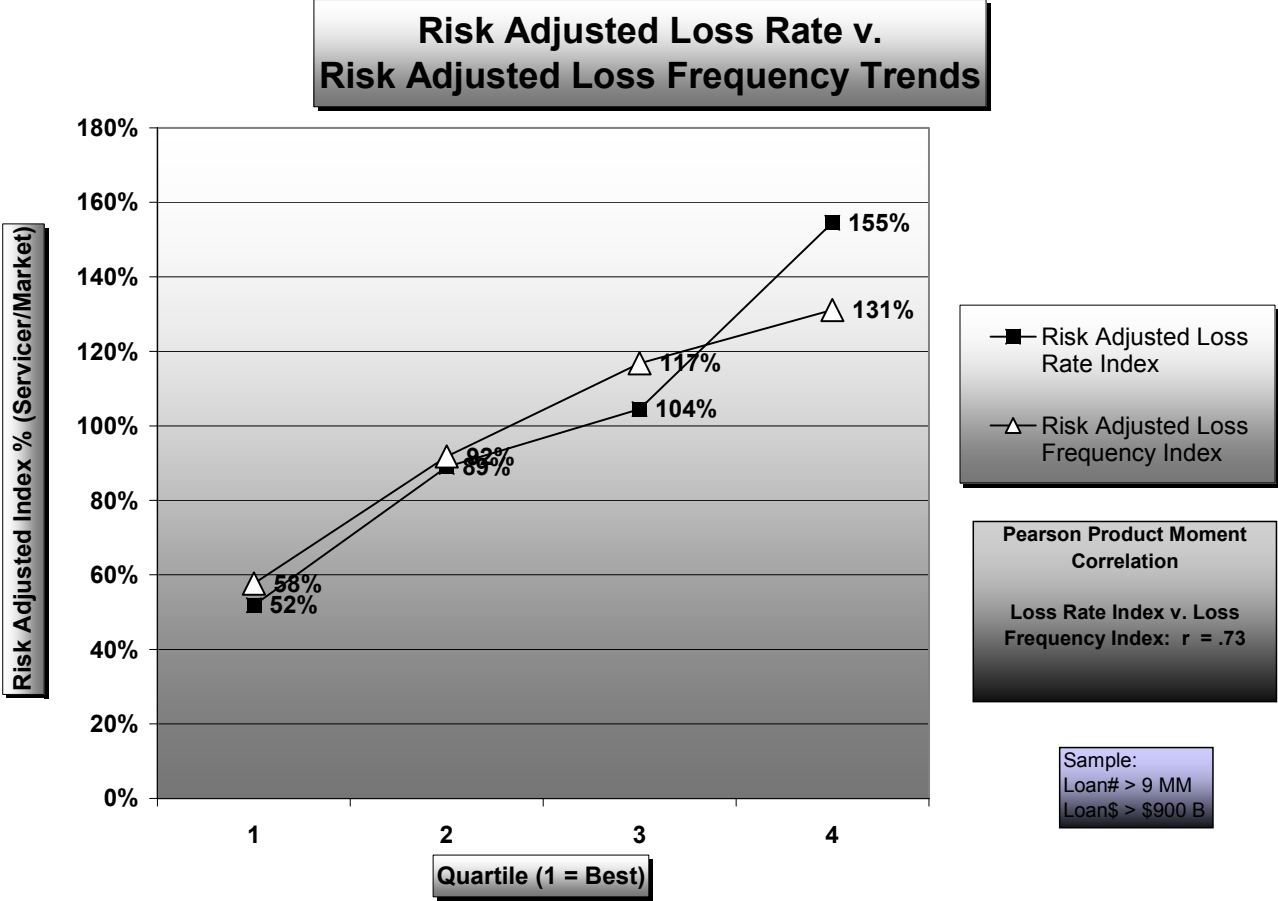
Servicer selection can mitigate losses substantially



A risk adjusted index portrays the variance across servicer performance

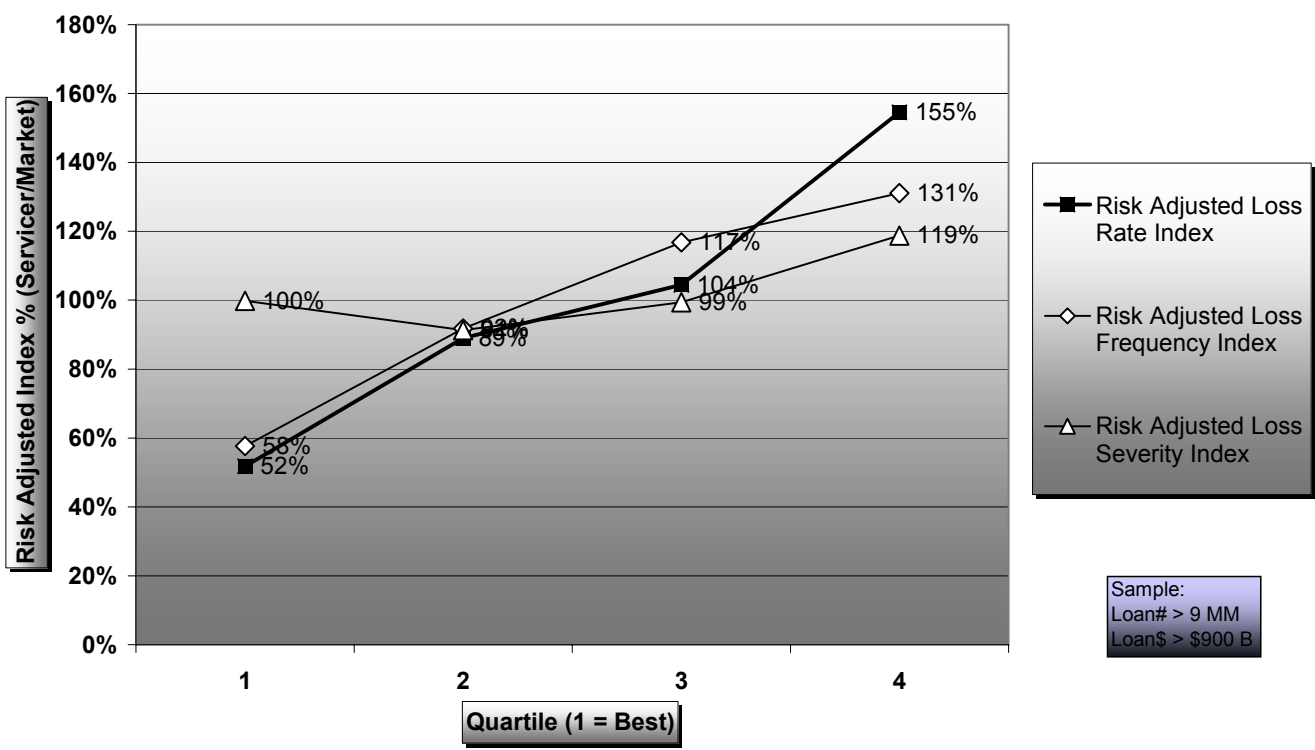


Risk adjusted loss frequency trends closely parallel risk adjusted loss performance trends

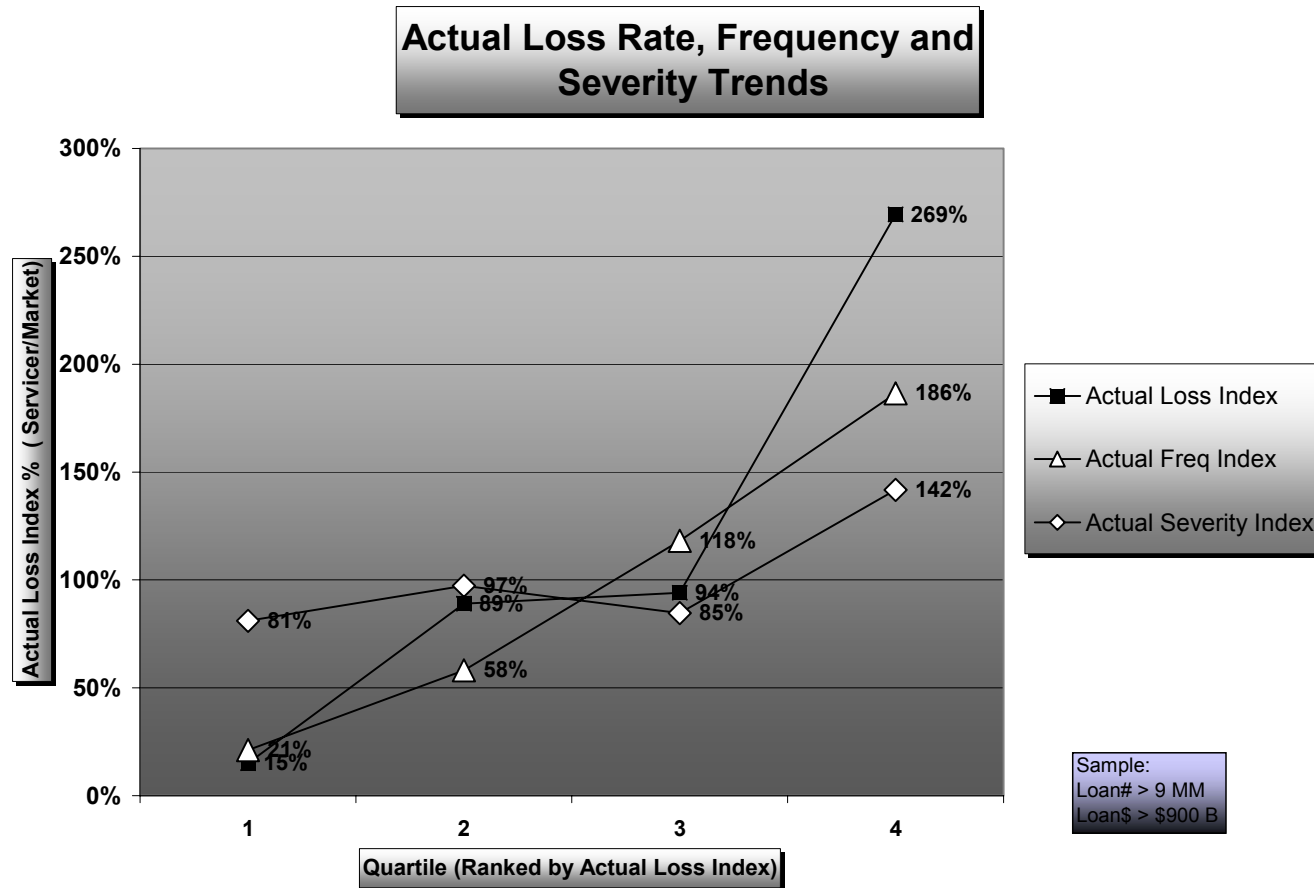


However, risk adjusted severity trends only impact 4th quartile (worst) performers

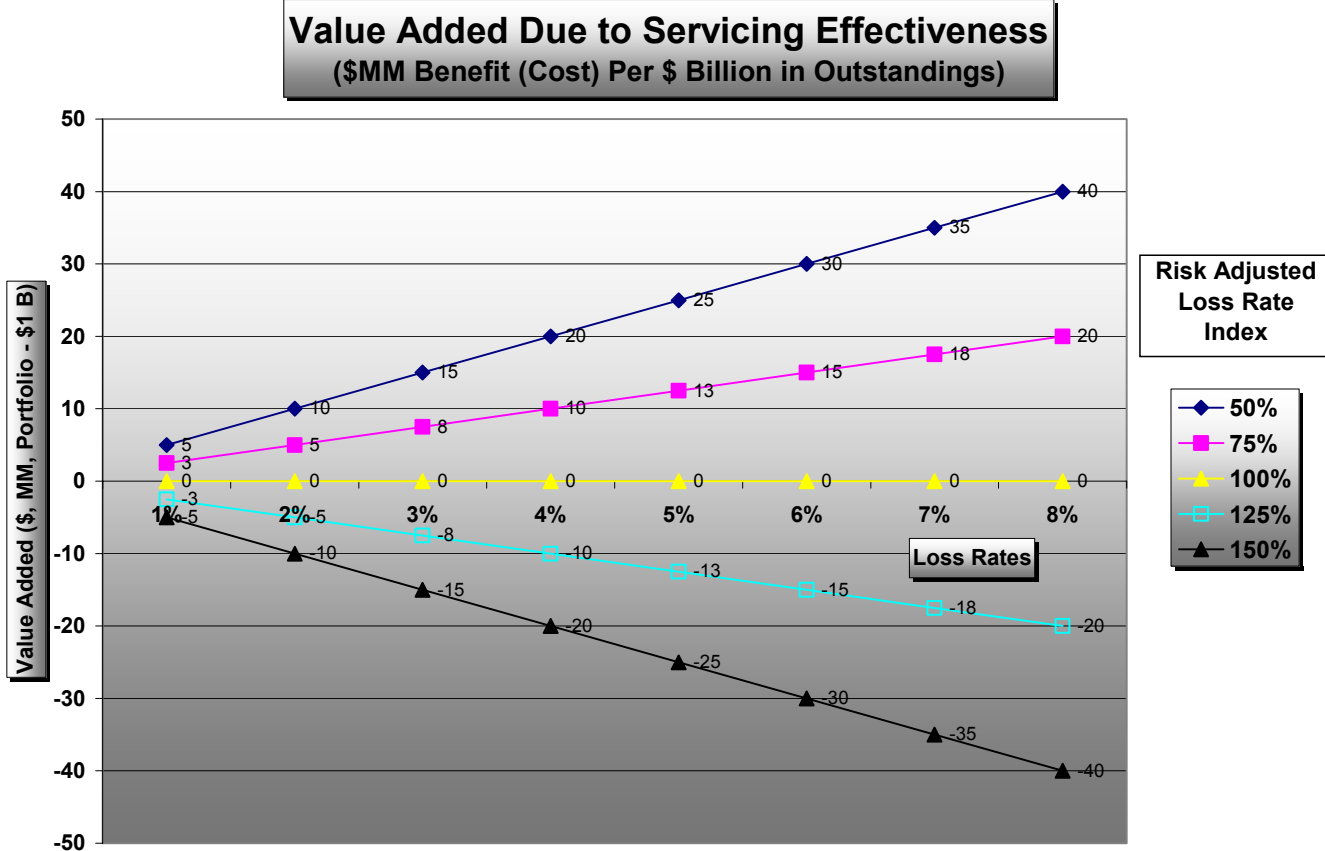
**Risk Adjusted Trends
Loss Rate, Frequency and Severity**



Absence of risk adjustment creates more confused (misinformed?) performance picture



Relative improvement in servicer performance has multi-million \$ payoff per billion \$ UPB



Selection of Front-end Business Intelligence Provider

Many Loan Attributes Drive Complex Queries

- A residential mortgage loan may include over 100 attributes.
- Loan performance may include over 100 metrics.
- Users want to view loan performance by many attributes.
- Sample:
 - Time series analysis of prepayment speeds or delinquency trends by geography by LTV by FICO by 1/8 coupon by product type by issuer by owner vs non-owner occupied.....

TrueStandings BI Requirements

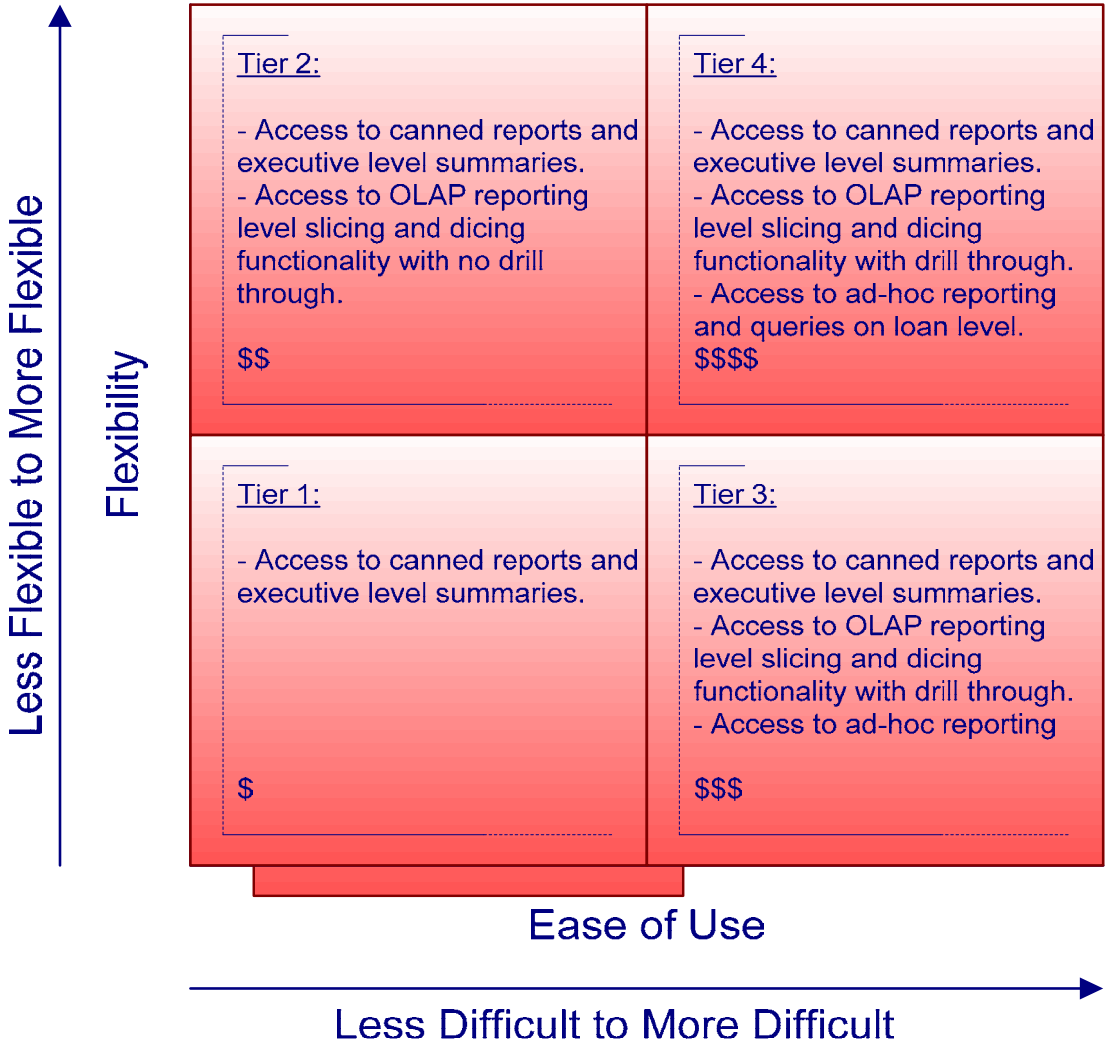
- Needed to move all data products to pure web-based environment.
- Needed to analyze 1+TB of data “on the fly” , growing exponentially
- Over 70 customers had purchased flat text files, but only 15 purchased the previous delivery tool.
- Third party vendors hosted our data and charged more than our data fees.

LoanPerformance BI Proof of Concept (POC)

- Vision of the Solution
 - Real time Anywhere Access
 - Utilization of 3rd Party Application
 - Multi-Tiered Product Offering
- Risks Factors
 - Users must have access to the Internet
 - BI provider must continue to offer a reliable product.
 - Clients must be willing to choose a user licensing product rather than a client licensing product.

POC: Multi-Tiered Product Offering

- A specified tier for a specified client:
 - Report Users
 - Pivot Table Users
 - Power Pivot Table Users
 - Data Users



POC: Utilization of 3rd Party Application

- No more home-grown software
- Considered 3rd party software tools
 - Cognos
 - Hyperion
 - Business Objects
 - ProClarity
 - **MicroStrategy**

MicroStrategy Selected as BI provider

- Client access is controllable
- Historical performance can be updated
- Data anonymity is ensured
- An on-line training solution can be provided
- Product usage is efficient and intuitive
- Ability to keep internal logs of customer access times, key processes executed, etc.
- Access to loan level data

MicroStrategy 8.1: Desktop Publishing Quality

Year to Date Sales Summary

YEAR TO DATE SALES SUMMARY 2006

Month	Revenue
JAN	\$149,500
FEB	\$137,200
MAR	\$210,400
APR	\$244,800
MAY	\$353,500
JUN	\$397,500
JUL	\$125,800
AUG	\$218,700
SEP	\$225,600
OCT	\$256,000
NOV	\$309,100
DEC	\$490,100
TOTAL	\$3,099,200

McGraw Hill

Month	Revenue
Mid-Atlantic	\$680,700
Southwest	\$545,600
Northeast	\$407,800
Southeast	\$381,200
Central	\$301,600
West	\$291,300
Northwest	\$247,100
South	\$243,900
TOTAL	\$3,099,200

TOP SELLING PRODUCTS (ITEM)

- 100 Places to Go While Still Young at Heart
- Foundation Analysis and Design
- Working with Emotional Intelligence

TOTAL

Customer Analysis | Customer Segmentation and Profitability | Cross-sell Analysis

Quarterly Customer Analysis for Q4 2006

Acquisition, Attrition, and Retention

Performance Summary: 3.01% Acquisition Rate, 0.62% Attrition Rate, and 96.99% Retention Rate

Acquisition			
New Customers	Active Customers	Acquisition Rate	% New to All New
39	1,299	3.00%	32.23%

Attrition			
Lost Customers	Active Customers	Attrition Rate	% Lost to All Lost
7	1,299	0.64%	28.00%
		0.80%	32.00%
		0.73%	40.00%

Retention		
Retained Customers	Active Customers	Retention Rate
1,280	1,299	97.00%
1,291	1,333	96.85%
1,323	1,363	97.07%

Human Resources Dashboard - Benefits

Last Updated on 12/31/06

Powered by **MicroStrategy**

EMPLOYEE CLAIMS

Benefit Costs

1/1/2006	\$1,600	Vision
1/7/2006	\$3,450	401k
1/20/2006	\$18,250	Medical
1/31/2006	\$7,875	Dental
1/31/2006	\$3,000	Dental
2/5/2006	\$15,625	Medical
2/1/2006	\$1,315	Vision
2/12/2006	\$6,010	401k
2/15/2006	\$3,550	401k
2/27/2006	\$2,370	Vision
2/28/2006	\$12,568	Medical
3/1/2006	\$5,800	Vision
3/15/2006	\$23,000	Medical
3/31/2006	\$4,800	401k
3/31/2006	\$2,750	Vision
4/5/2006	\$1,100	Vision
4/15/2006	\$800	Vision
4/19/2006	\$6,000	Dental
4/28/2006	\$15,230	Medical
4/28/2006	\$6,550	Dental
5/1/2006	\$3,850	Dental
5/1/2006	\$17,275	Medical
5/10/2006	\$6,400	401k
5/15/2006	\$3,515	401k
5/15/2006	\$11,235	Medical
5/15/2006	\$2,200	Dental
5/20/2006	\$6,500	401k
5/31/2006	\$5,300	Medical
6/5/2006	\$560	Dental
6/5/2006	\$1,420	Vision
6/10/2006	\$2,500	Vision

EMPLOYEE COMPENSATION CLAIMS

LEAVE OF ABSENCE

Thomas Jones	Field Sales	Central Region	10/6/2006	10/23/2006	Personal - Vacation
Dave Moran	Development	Central Region	7/14/2006	7/16/2006	Personal - Vacation
Hugo Martinez	IT	Central Region	5/12/2006	5/19/2006	Personal - Vacation
Gordan Leigh	Field Sales	Central Region	7/5/2006	7/14/2006	Personal - Vacation
Shannon Bryant	Field Sales	Central Region	8/24/2006	8/31/2006	Personal - Vacation
Carrie Porter	Human Resources	Central Region	5/28/2006	6/5/2006	Personal - Vacation
Mike Douglas	IT	Central Region	6/22/2006	6/28/2006	Personal - Vacation

Profit: \$

- \$2,428.18
- \$3,538.64
- \$1,406.37
- \$3,091.98
- \$1,479.12
- \$2,960.92
- \$1,717.86
- \$2,762.07
- \$2,324.83
- \$1,375.57
- \$3,210.34
- \$3,345.29
- \$2,455.90
- \$2,736.80
- \$2,136.33

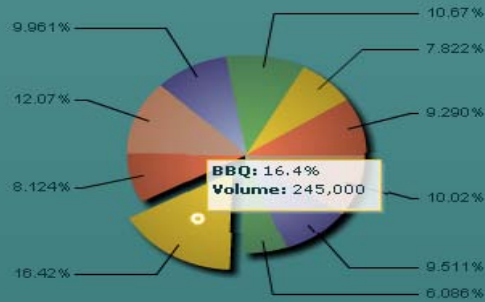
Customer Distribution by Income Range

Document Author: John Smith

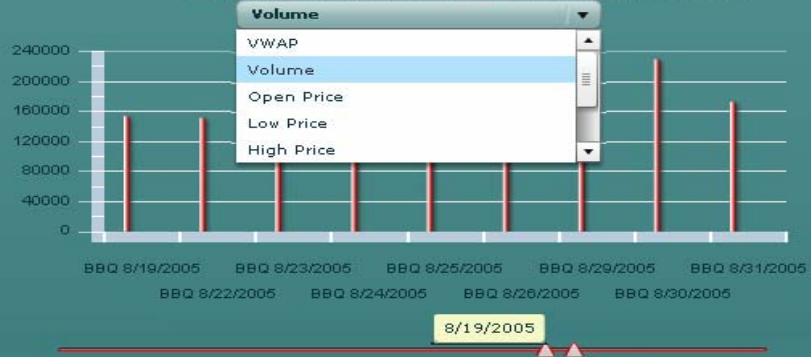


MicroStrategy 8.1: Portfolio Analysis

Portfolio Trading Volumes



Historic Trendlines for Selected Instrument



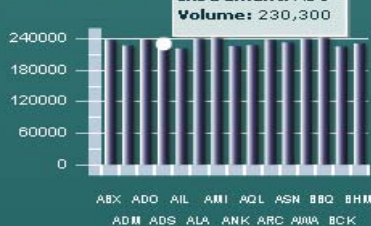
Portfolio Details for the Analysis Day

Instrument	VWAP	Volume	Open Price	Low Price	High Price	Close Price
BHT	\$71.2393	141,900	\$71.21	\$71.15	\$71.43	\$71.43
AQJ	\$55.4222	148,600	\$55.46	\$55.31	\$55.53	\$55.53
AGA	\$54.4056	159,300	\$54.40	\$54.34	\$54.46	\$54.34
BAX	\$48.9574	121,200	\$48.90	\$48.90	\$49.18	\$49.18
AQM	\$47.4945	180,100	\$47.40	\$47.31	\$47.59	\$47.56
AAA	\$43.4286	138,600	\$43.25	\$43.21	\$43.71	\$43.71
BBQ	\$29.6346	245,000	\$29.46	\$29.43	\$29.84	\$29.84



General Market Indicators for Analysis Day

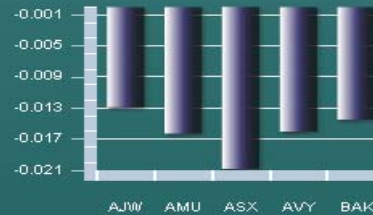
Heaviest Traders



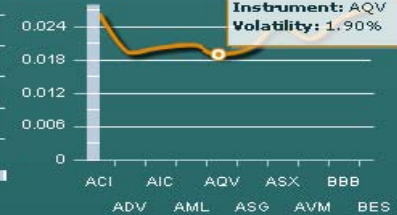
Top Gainers

Instrument	Close % Change
BES	2.83%
BBB	2.78%
ACI	2.53%
AML	1.96%
ADV	1.96%
ARB	1.90%

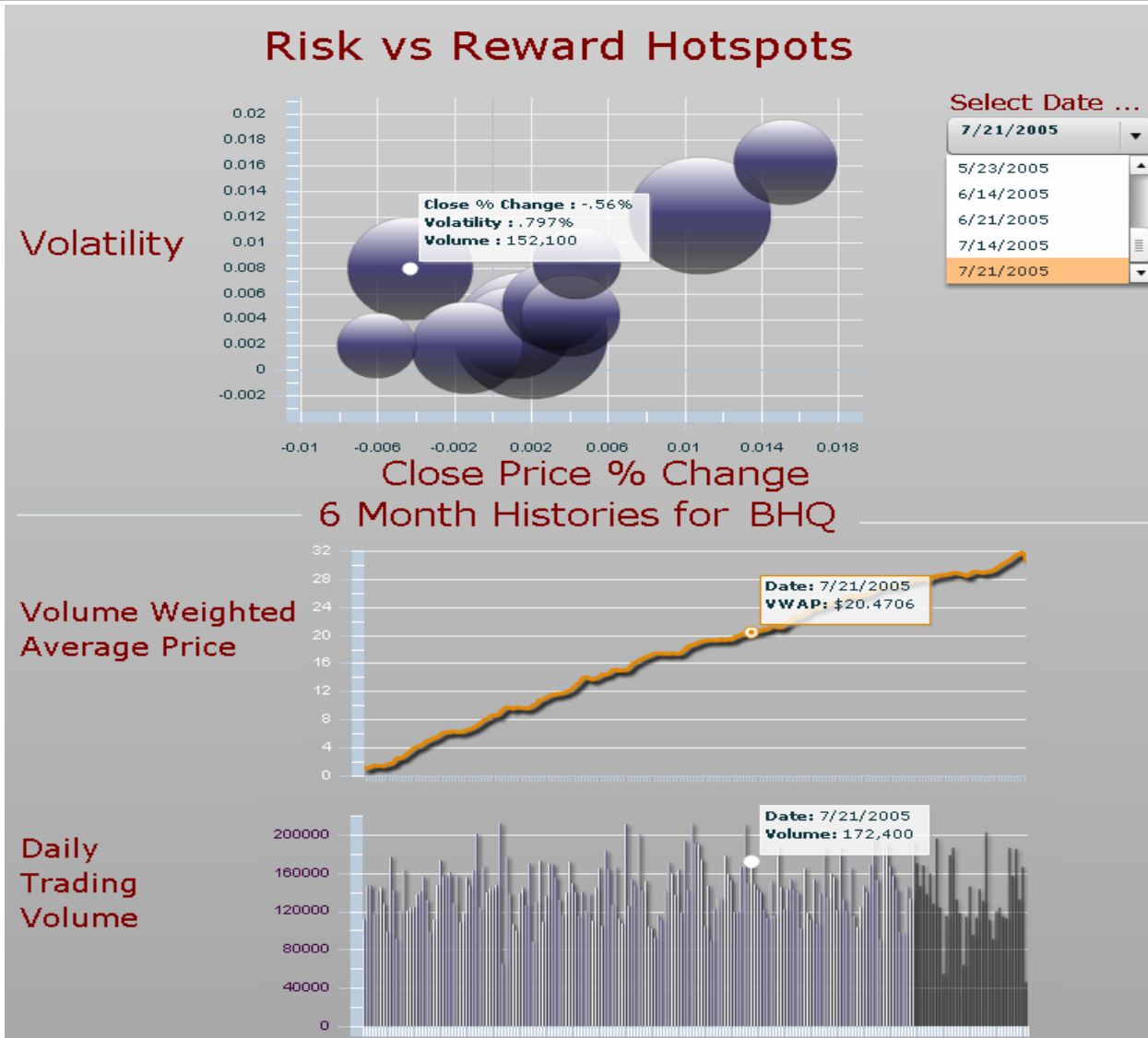
Top Losers



Most Volatile



MicroStrategy 8.1: Risk, Reward, Exposure & History



However, First Web Attempt Not Satisfactory

- Initially developed using existing SQL Server Database with new MicroStrategy
- Upon launch, customers complained about long query times and time-outs
 - 1 in 5 queries take over 5 minutes to return
 - 1 in 20 queries time-out (i.e. over 60 minutes to return)

Conclusion: Needed a new database that could increase reporting and analysis performance

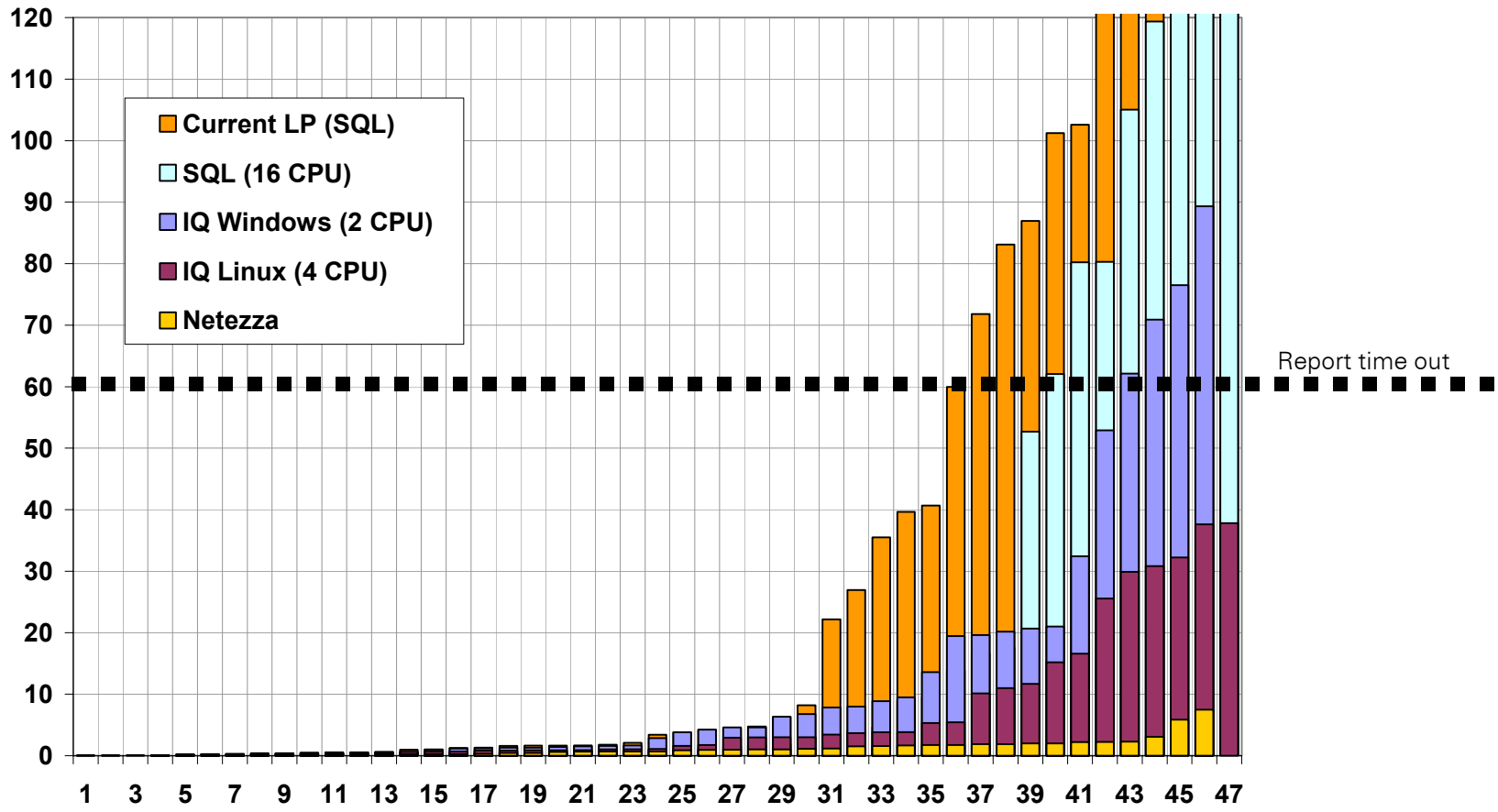
TrueStandings Platform

Selection of Back-End Database Provider

POC Business Criteria for Database Selection

Simple queries under 1 minute
Complex queries in 20 minutes
Greatly expanded attributes
Fast data loading
MicroStrategy-certified
Concurrency: Ability to simultaneously handle large number of users
Scalability: Ability to handle future data and user growth
Must exceed client expectations

POC: Single Query Test Results



POC: Speed Improvements

Selected User Reports	Current (SQL with ATs)	SybaseIQ W/O ATs	SybaseIQ With ATs	# Cells
100CLTV	1,822	608	111	61,422
CPR_NEW	13,544	910	192	65,664
CURRENT COUPON BUCKETS 1990	4,615	325	333	42,617
DEFAULT_SEVERITY_BUCKET_6_NEW	21,329	177	298	141,306
FD_TOT_NEW	15,461	995	250	63,576
GENERAL CHARACTERISTICS	53	60	9	160,448
GENERIC S CURVE TEMPLATE	12,169	1,532	1,532	84,879
LARGELOANAMOUNTS_EDITED BY MC	46,402	49	162	18,540
LD_TOT_NEW	10,017	700	143	223,812
LP_REPORT_JENNFISHER	1,930	318	105	138,021
ORIGINAL GRADE DISTRIBUTION	1,001	14	14	54
OTS DELQ TREND BALANCE BY AGE	420	2,268	88	630,428
OTS DELQ TREND BALANCE BY PERIOD	438	2,257	123	222,649
PERIOD, DOC, FICO	1,036	230	90	86,400
PERIOD, POOL, (CPR, WAC AND WAFICO)	282	227	22	506,240
PERIOD, SECURITIES (STATE IN CA, NV, WA, OR)	395	105	34	281,230
PREPAYMENT TREND ANALYSIS BY AGE	327	1,793	80	556,260
PREPAYMENT TREND ANALYSIS BY PERIOD	729	1,849	111	193,245
Average	7,332	801	205	36x improvement!!
MAX	46,402	2,268	1,532	
StdDev	11,740	794	344	

**36x
improvement!!**

Database Selection Results

- Sybase IQ
 - HP DL585 dual core; 4 CPU server with 2.4Ghz chips and 64 GB RAM
 - able to provide competitive results in a concurrent environment.
 - worked well with our other databases and provides excellent performance for price.
 - incrementally scaleable which drives more business models and economic redundancy.

Summary Takeaways

- Selecting a technology
 - Define your requirements (present and future)
 - Create a POC that replicates your environment
- MicroStrategy
 - Top Tier Web-Enhanced BI platform
 - Turns data into actionable information
 - Scalable for data and user growth
- Sybase IQ
 - Excellent performance for price
 - Easy implementation with readily available resources
 - Great support and service