

Subprime Paradigm:
Lessons on Maximizing Value
from the Subprime, 1031 and Servicer Cases

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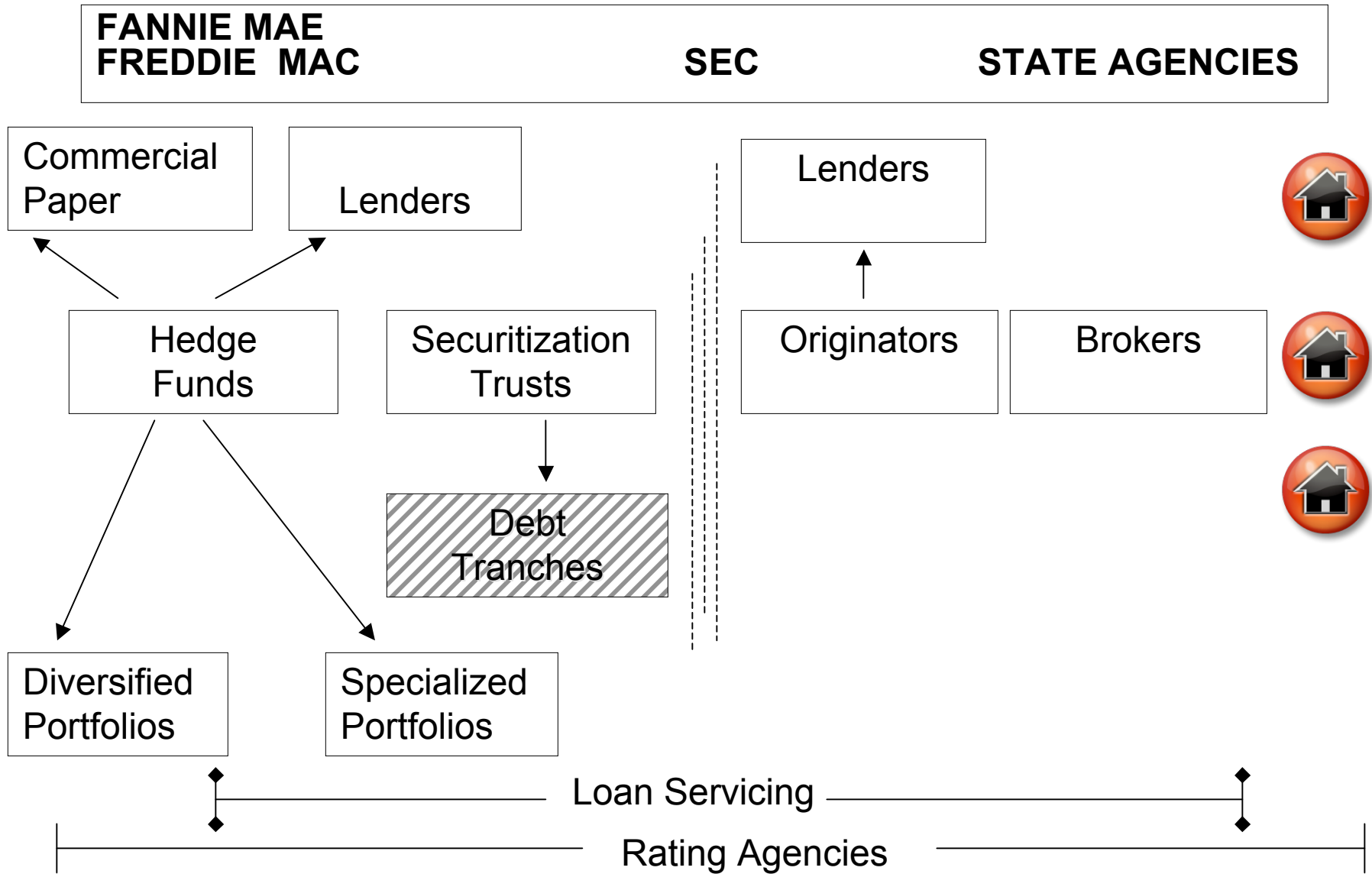


What Happened to My Money? Restructuring of Lenders and Loan Servicers September 6-8, 2007

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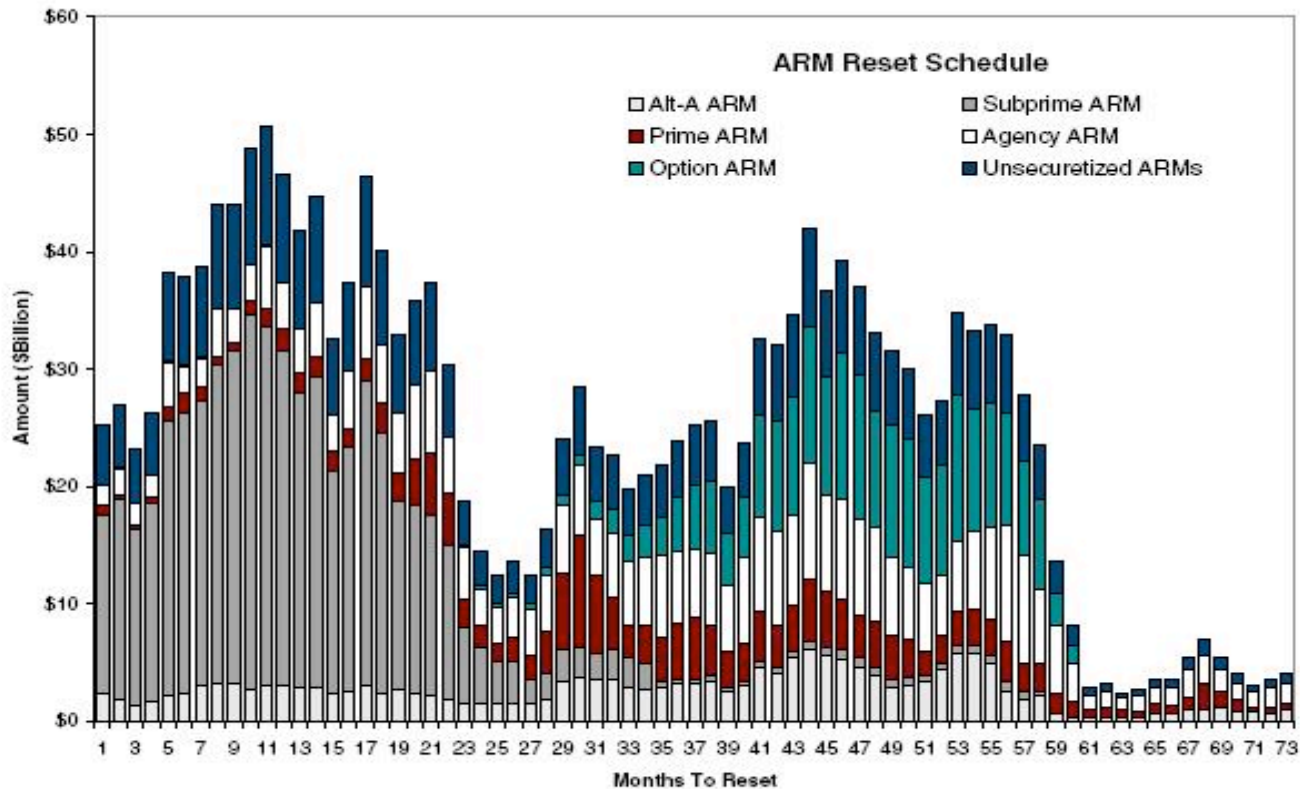
CAPITAL MARKETS AT WORK



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The left axis starts at January 2007:

Exhibit 42: Adjustable Rate Mortgage Reset Schedule



Note: Data as of January 2007.

Source: Credit Suisse Fixed Income U.S. Mortgage Strategy



First Wave

Lenders



Originators

Brokers



- Market Factors
- Chapter 11 Filings
- Other Casualties

First Wave

- Market Factors
 - Increasing Borrower Defaults
 - ARM Reset; Refinancing Risks; Housing Pricing Decline
 - Mark To Market Funding
 - Warehouse margin calls
 - Repurchase requests
 - Decline in secondary market
 - Repurchase and EPD Claims

First Wave

- Chapter 11 Filings --
Examples

- USA Commercial Mortgage Co. (4/13/06)
- Ownit Mortgage (12/28/06)
- Mortgage Lenders Network (2/5/07)
- ResMAE (2/12/07)
- People's Choice (3/20/07)
- New Century (4/2/07)
- Quality Home Loans (8/21/07)
- First Magnus Financial Corp. (8/21/07)
- Spectrum Financial Group (8/28/07)

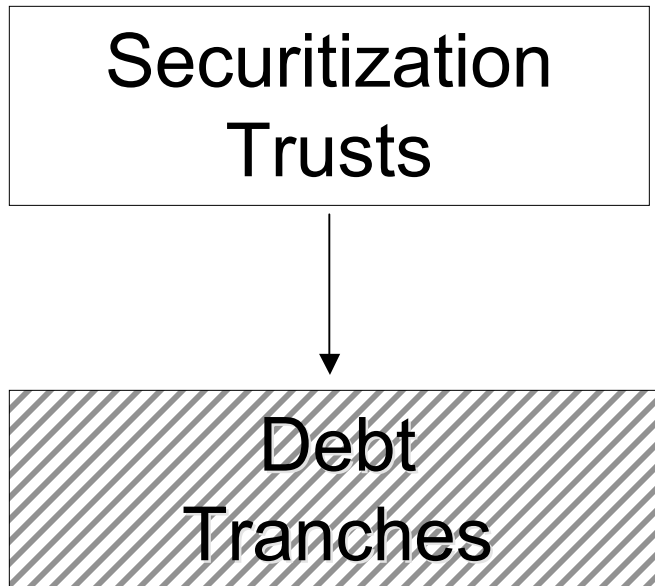
* 145 Mortgage Lenders reported to have “imploded” – [www.http://ml-implode.com](http://ml-implode.com) (last visited September 5, 2007).

First Wave

- Other Casualties

- Capital One – shuts down mortgage business
- Countrywide – \$11.5B unsecured line, BofA buys \$2.0B of preferred stock
- Accredited Home – suspension of retail lending
- Lehman – closes sub prime unit
- Thornburg Mortgage – \$20B of mortgages sold - \$930M loss; sells \$500M of convertible preferred stock
- Option One – stops lending, possible sale of servicing
- Ameriquest Mortgage – completes sale to Citigroup

Second Wave



- Market Factors
- Examples

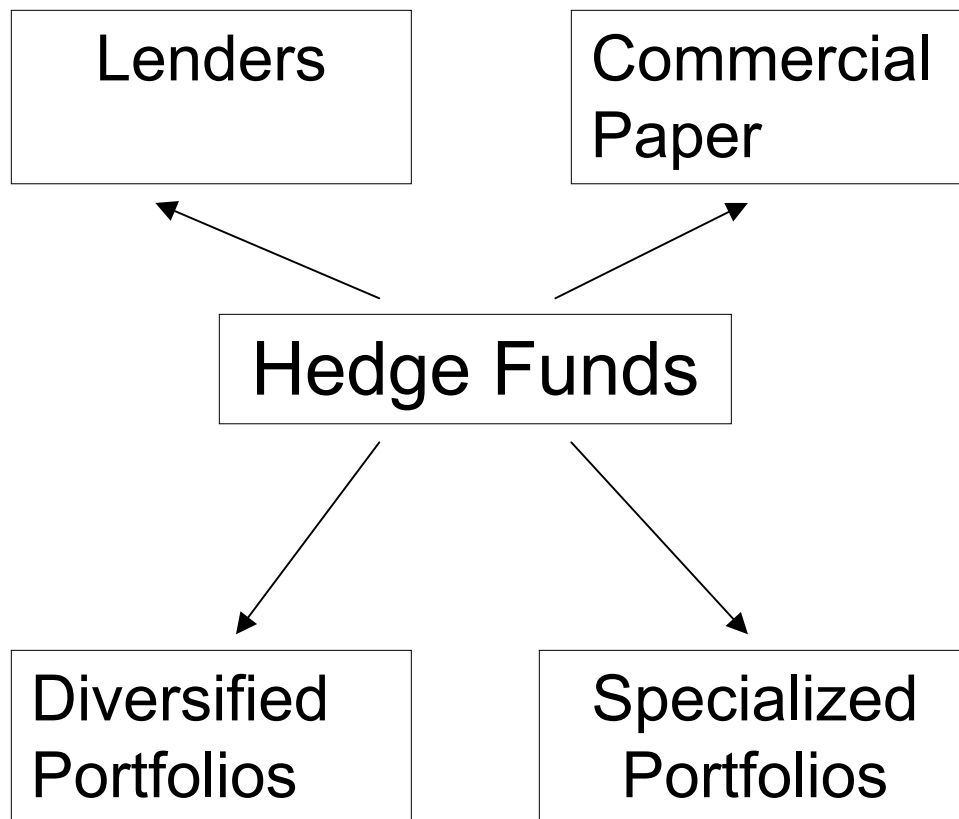
Second Wave

- Market Factors
 - Rating Agencies
 - Underwriting Pressures
 - Decreasing Demand for CLO and CDO Paper
 - WSJ Headline – 8/7/07 “How Wall Street Rode The Risk Ledge And Fell Over”

Second Wave

- Examples
 - HSBC - writes down mortgage portfolio (3/07)
 - Congressional Hearings; Federal Initiatives; State Initiatives
 - Rating Agencies Scrutinized
 - WSJ Headline – 8/15/07 “How Rating Firms’ Calls Fueled Subprime Mess”

Third Wave



- Market Factors
- Examples

Third Wave

- Market Factors
 - Increase in redemption
 - Inability to value mortgage backed securities
 - Liquidity Crisis
 - WSJ Headline - 8/29/07 “Why Is Countrywide Sliding?”

Third Wave

- Examples
 - Hedge Fund Bankruptcies
 - WSJ Headline - 7/18/07 “Subprime Uncertainty Fans Out; Bear’s Funds Are Basically Worthless”
 - International Liquidity Crisis
 - Reduction In Fed Discount Rate

Through The Looking Glass



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- Financial Netting Improvements Act
- Last Person Standing and Litigation (see next slide)
- Expansion to Wider Mortgage Market
- Impact on Creditworthy Home Buyers
 - WSJ Headline – 8/14/07
“How the Mortgage Bar Keeps Moving Higher”
- Investor “Walk Aways”

Litigation

- Potential Litigation Abounds
 - Subprime Lender vs. Warehouse/Repo Lenders
 - Homeowners/Agencies vs. Subprimes
 - Homeowners/Agencies vs. Warehouse/Repo
 - Gov't Regulators vs. Subprimes & Warehouse/Repo
 - Funds/Investors vs. Advisors/CDO & Bond Issuers

