

RISKSPAN RE-CAP

RiskSpan Inc. Stamford, CT (203) 355-1510 and Vienna, VA (703) 956-5200; info@riskspan.com; www.RiskSpan.com

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Welcome to the first edition of RiskSpan Re-Cap, a summary of recent news, data and trends in the mortgage and fixed income marketplace. In this issue:

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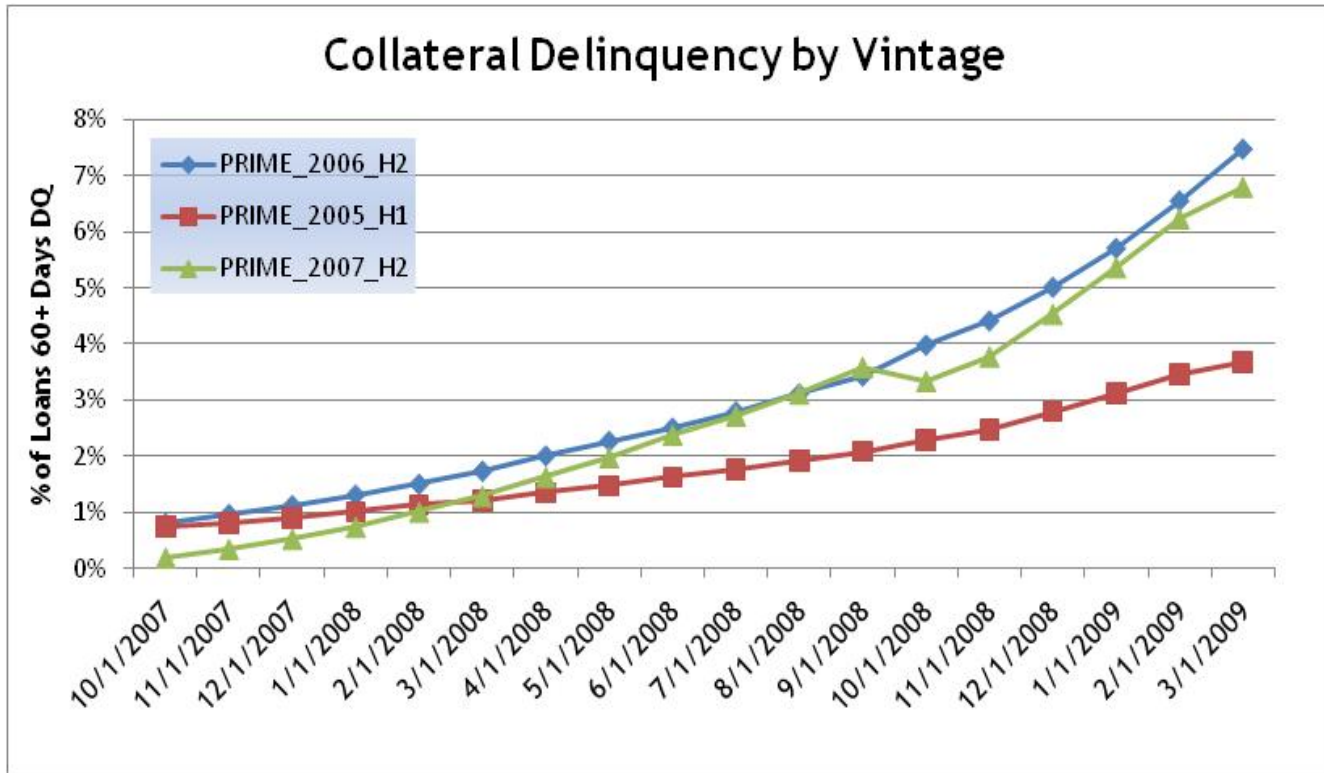
Valuation Trends Jumbo Credit Worsening

One of the most noteworthy trends in March remittance data was the deteriorating credit performance of Jumbo loans - the most pristine of the non-agency market. Even though Alt-A performance has been worsening, Jumbo has been doing so at a faster rate. Weaker performance of the most creditworthy borrowers is worrisome for the health of the housing market as well as the overall economy.

While voluntary prepay rates are also faster than before, the remaining pool generally reflects the riskier loans left behind, escalating the percent of delinquencies. Jumbo fixed voluntary prepays are now close to 20 CRR for most vintages. Markets with the most rapid deterioration (Florida, California and Arizona) seem to be prepaying more quickly than those with less deterioration. The bulk of prepayment volume is in the > 60 percent LTV range, but prepayments appear to be coupon driven more than anything else.

Voluntary prepay rates for jumbos continue to increase, as they do for Alt-A fixed deals, but to a smaller extent. As for the subprime sector, severities continue to increase with subprime touching mid-70s and Jumbo ARM in the 40s. Home price declines continue to accelerate as per the Case Schiller index with Nevada/Arizona down 34% over the past year and New York falling 10 percent.

For more information on RiskSpan's data analysis and valuation services, please contact Joe Sturtevant at (203) 550-5562.



This graphic represents several vintages of seriously delinquent (60+ day) loans. This chart does not account for seasoning factors.

Product Corner

Whole Loan Model

According to a recent report by the Office of the Controller of the Currency (OCC)/Office of Thrift Supervision (OTS), 41 percent of loans modified in the second quarter of 2008 had fallen at least 60 days behind (constituting serious delinquency), and 46 percent of loans modified in the third quarter are now considered seriously delinquent. The OCC/OTS report also found that *only about 42 percent of loans modified in 2008 resulted in reduced payments* while 27 percent resulted in no change to payment and 32 percent actually increased the borrower's monthly payment. While the reasons for the re-defaults may be indicative of current economic conditions, part of the problem is clearly the nature of loan modifications being offered.

Loan modifications that reduced monthly payments by more than 10 percent had the lowest re-default rate whereas, loan modifications that maintained the same monthly payment had a much higher recidivism rate.

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In order to support asset owners mitigate re-delinquencies, RiskSpan has introduced a new Whole Loan model that will provide servicers and whole loan investors with a powerful tool that values whole loans and provides execution options for seriously delinquent loans (defined as 60+ days delinquent). The model will provide liquidation, short sale, deed-in-lieu (floor) and modification (principal forgiveness, rate and/or term) values.

The RiskSpan tool will help servicers determine best execution options by also providing a probability of re-default based on the type of modification offered. The model utilizes loan-level data provided by the end user and allows the user to define specific modification targets such as debt-to-income (DTI) ratio. For more information on our Whole Loan model, please contact Derek Ross at (843) 478-9218.

Industry Trends

FASB Relaxes Fair Value and OTTI

Amid growing pressure from the SEC and large financial institutions, the FASB issued three staff positions that relax guidelines on fair value (mark to market) measurements, fair value reporting and recognition of Other Than Temporary Impairment (OTTI). The intent of the valuation process is to provide investors with a clear and transparent view of asset prices, however prior to the April 9 FASB announcement, companies were required to write down the value of assets to distressed prices even if they were performing reasonably and regardless of whether they intended to sell the asset. In addition, the frequency and content of disclosures was inconsistently applied.

FASB Staff Position, (FSP) FAS 157-4, offers a framework for analyzing and determining when volume and level of activity for the asset or liability have significantly decreased. The Staff Position states that fair value is the price that would be received in an orderly transaction (not a forced liquidation or distressed sale) even if the market is inactive. FSP FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, requires OTTI assessments be much more credit loss focused, which is more consistent with **International Financial Reporting Standards (IFRS)** than previously. RiskSpan can support the new Staff Positions by providing the following services: conduct additional analysis to separate changes in fair value between credit and other changes, determine whether best estimates of credit losses may need to be considered as permanently (OTTI) impaired, and determine 'best' credit estimates processes that need to be created and document the results. For additional information, please contact Bernadette Kogler at 703 282-3183.

Industry Trends

RiskSpan Reverse Mortgage Market Opportunity Analysis

HUD recently reported that Home Equity Conversion Mortgages (HECM) closings in 2008 grew by 6.4 percent when compared to the prior year. Although this may have come as a surprise to some, given the current economic environment, it clearly demonstrates the power of the huge “Baby Boomer” demographic shift currently underway and the large amount of home equity available to this cohort. In recognition of this phenomenon RiskSpan joined with the National Reverse Mortgage Lenders Association (NRMLA)(<http://www.nrmla.org/>) in 2007 to produce the first Reverse Mortgage Market Index (RMMI). The quarterly index summarizes the impact of critical market, housing, and population data to track and forecast reverse mortgage market trends. Even with the substantial reduction in home equity values, the aggregate RMMI still projects \$4.7 trillion in current home equity held by Americans age 62 and older. As is the case with real estate where the three most important factors are “location, location, and location,” mortgage market assessments are highly regionalized. RiskSpan can help you gain a more nuanced perspective of Reverse Mortgage drivers (e.g., home values and senior population by MSA, home price appreciation/ decline, net worth for seniors) in your region.

RiskSpan has also expanded its tool box with the introduction of a reverse mortgage model that incorporates the unique features of this loan type to project cash flows and losses for HECM and proprietary reverse mortgage products. The model allows the user to reference HUD’s factor table or provide their own assumptions to calculate the principal limit factor (the maximum amount available to the borrower at time of origination). Loan-level and pool-level cash flows are then generated based on borrower characteristics and user-defined assumptions about draw rates, mortality, mobility, prepayment speeds, home price appreciation, forward interest rates, and tax and insurance liabilities. RiskSpan also advises clients in the development of assumptions for these key drivers of reverse mortgage cash flows. Contact Richard Freeman at (703) 593-3099 for additional information.

¹ Details provided from FASB.ORG, “FASB Issues Final Staff Positions to Improve Guidance and Disclosures on Fair Value Measurements and Impairments,” April 9, 2009.

² See #1 above.