

RISKSPAN RE-CAP

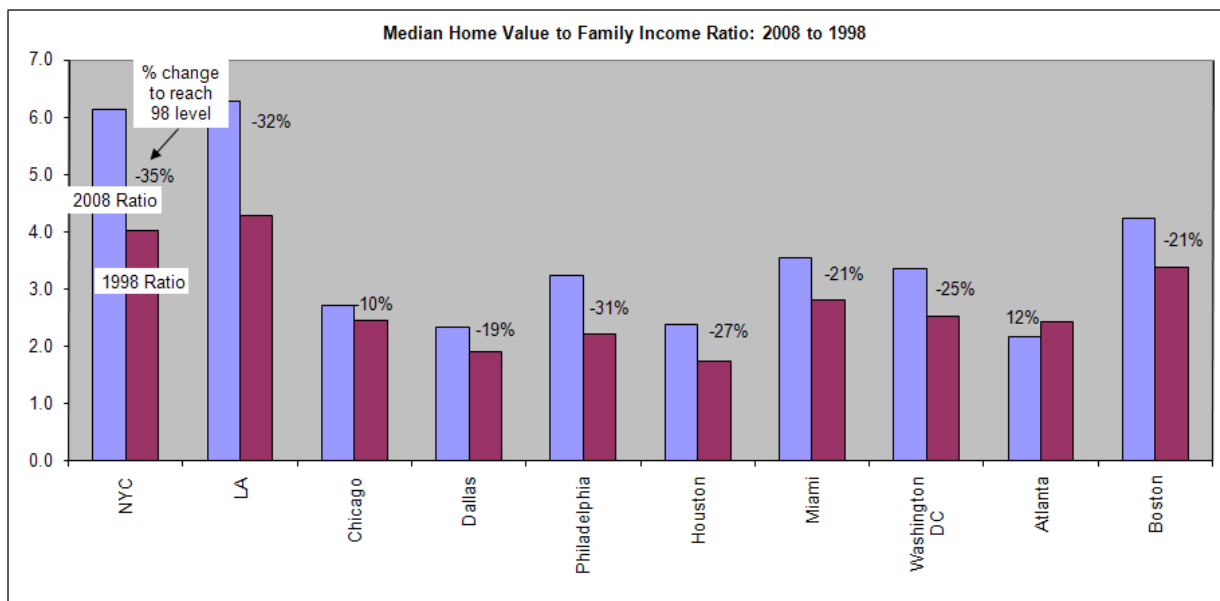
May 2009; Volume 1, Issue 2
www.riskspan.com

In this issue:

- *Valuation Trends: Home Prices Have a Way to Go (Down)*
- *Product Corner: RS Velocity Trade Capture*
- *IndustryTrends: A Return to Self-Imposed Market Regulation?*

Valuation Trends Home Prices Have a Way to Go (Down)

Although home prices have already plunged in many areas across the country, a recent analysis conducted by RiskSpan concluded that the typical large metropolitan statistical area (MSA) could be facing an additional 25% decline. RiskSpan compared 2008 median home prices (based on the Case-Shiller data as of Q1 09) against median 2008 family income for the same MSAs to determine the ratio of home prices to median family income. The comparison showed that in some of the most populated MSAs further dramatic shifts downward would need to occur to reach the levels in 1998. For example, home prices in the NYC and LA MSAs would need to decline by more than 30% from end of 2008 levels to reach the ratios of 1998.



Continued on next page

Even after the declines from the mid-2006 peak, the ratio of home price to income in NYC was 6.2x in 2008 compared to 4.0x in 1998. In LA, the ratio was 6.3x in 2008 compared to 4.3x in 1998. Indeed, six of the 10 MSAs with the highest ratios are in California. For the 289 metropolitan areas covered in the analysis, 263 currently have higher price/income ratios when compared to 1998. For more information of RiskSpan Valuation services, please contact Joe Sturtevant at (203) 550-5562 or Bernadette Kogler at (703)-282-3182

Top 10 MSAs (by Median Price: Family Income Ratio) (2008)	
Metro Area	Ratio
Santa Barbara-Santa Maria-Goleta, CA	7.7
San Luis Obispo-Paso Robles, CA	7.3
Honolulu, HI	7.1
San Jose-Sunnyvale-Santa Clara, CA	6.4
Salinas, CA	6.4
Los Angeles-Long Beach-Santa Ana, CA	6.3
New York-Northern New Jersey-Long Island, NY-NJ-PA	6.2
Medford, OR	5.1
Madera, CA	5.0
Bellingham, WA	4.8

Based on House Prices from 2007 ACS scaled to Q1 09 with FHFA HPI Index data and where available, Case Shiller Index Data

Product Corner

RS Velocity Trade Capture Helps Control Operational Risk

RiskSpan has introduced a new stand-alone Trade Capture module to further enhance our flagship risk management and analytics platform *RS Velocity*®. The Trade Capture module is a superb tool for portfolio managers, asset managers, traders, and hedge fund managers. The RiskSpan Trade Capture capabilities enable clients to leverage RS Velocity's data and analytics components to control trade entry, monitor trading positions, track profit and loss, and automate factored security processing. This "Out-of-the Box" tool allows users with a focus on mortgages and structured products the unique ability to combine historical trading records with proprietary analytics to generate auditable reports and custom memos for demanding investors.

A major international bank recently implemented the RS Velocity system and the Trade Capture module. Of the new Trade Capture module, the Vice President of Operations commented, "We were looking for a system with multiple levels of operational controls that allowed us to manage the trade flow process from the front to the mid office. We had very specific requirements and RiskSpan gave us the flexibility to tailor a solution to fit our needs."

RiskSpan continues to develop solutions to keep up with today's rapidly changing market and regulatory environment. The Trade Capture addition is another example of our commitment to our customers. Whether it's building new links to Fund Administrators and Prime Brokers or developing a monitoring tool for TALF investors, RiskSpan is prepared to meet the challenges of today's investors. For more information on RiskSpan's Trade Capture product, contact Patrick Stanley at (203) 517-4067.

Industry Trends

A Return to Self-Imposed Market Regulation?

In today's political climate, it has become fashionable to blame the capital markets' ills on a lack of regulation, and to conclude that "top-down" Government-imposed rulemaking is the only path back to functional markets. While some degree of Government regulation is necessary and unavoidable, such rulemaking often proceeds without sufficient cost-benefit analysis. While the goals of Government regulation are laudable, a lack of comprehensive cost-benefit analysis is a natural consequence of market regulation imposed by any entity other than the market itself.

The American Securitization Forum (ASF) is proactively addressing the need for industry changes (and cost benefit analysis) through its Project on Residential Securitization Transparency and Reporting (better known as "ASF Project RESTART"). For the past 13 months, RiskSpan has had the privilege of serving in an advisory capacity to this project. Our role has included helping to identify an appropriate universe of data fields to be disclosed at deal issuance and for monthly reporting. We have assisted the ASF in facilitating dozens of hours of discussions among issuers and investors of RMBS, as well as the nation's largest rating agencies. These discussions have proven to be extraordinarily illuminating, functioning essentially as an ongoing cost-benefit debate—the benefit to investors and rating agencies of each proposed data field continually weighed against the cost to issuers and servicers (and their systems) of reporting it.

According to the ASF, "The Project has been recognized by senior policymakers and market participants as a necessary industry initiative to improve the securitization process by developing commonly accepted and detailed standards for transparency, disclosure and diligence. By increasing data and standardizing available information, institutional investors will be able to better distinguish pools of high quality loans from lesser quality pools. The resulting differentiation will produce greater market discipline, as market forces will serve to reward originators who deliver higher quality packages of mortgage and consumer loans, while penalizing those who do not."

Because the ASF is a professional forum without any force of law, compliance is voluntary. However, the market will ultimately mandate the standards that it judges to be most critical. Data fields that RMBS issuers currently find too onerous or expensive to provide may very well become a *de facto* regulatory requirement or issuers may decide to stick with private deals. Competition, with or without Government intervention, can ultimately compel more comprehensive data sets and transparency if mortgage originators wish to profitably participate in securitization.

RiskSpan is uniquely positioned to support RMBS issuers and investors in understanding the likely standards that will be adopted and how to analyze the cost/benefit of implementing these standards. Please contact Tim Willis at (301) 613-6886 for more information.