

Confidential Presentation to:

Office of Thrift Supervision

Safety and Soundness / Compliance Examination 2007

August 14, 2007

LEHMAN BROTHERS

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LEHMAN BROTHERS

Overview of Activity: June 2006 – June 2007

Business Review (June 2006 – June 2007)

- ◆ During the scope period of 30 June 2006 through 30 June 2007, BNC has operated as a stand alone company.
- ◆ On 13 June 2007, BNC and Aurora Loan Services announced that they will be consolidating operations.
- ◆ BNC has begun implementing a regional operating model, closing branch offices and consolidating production into select sites to enhance policy and procedure controls across the company.
- ◆ This regional operating model will be integrated with Aurora Loan Services model incorporating centralized administrative functions.
- ◆ There have been significant senior management changes:
 - CEO: Steve Skolnik (First Franklin, Indy Mac, Countrywide)
 - COO: Scott Anderson (Accredited, Washington Mutual, Countrywide)
 - CSO: Tim Owens (Option One, ITT)

Organizational Model

Business Review (June 2006 – June 2007)

Local Branch Operating Model

- ◆ Corporate Headquarters and 4 branches in Irvine, CA
- ◆ Centralized functions at Corporate Office in Irvine, CA
 - Loan documents
 - Funding
 - Secondary Marketing, Quality Control, Compliance / Legal, Accounting / Finance, IT
- ◆ Processing Centers in Irvine, CA, Riverside, CA, Melville, NY and Chicago, IL
- ◆ 36 Full service branch locations using Empower LOS system connected to Empower / Citrix

Regional Operating Center Model

- ◆ Corporate Headquarters in Irvine, CA
- ◆ Five regional operating centers:
 - Irvine, CA
 - Northern California (Concord)
 - Philadelphia, PA
 - Atlanta, GA
 - Chicago, IL

Subprime Regional Operating Centers

Business Review (June 2006 – June 2007)

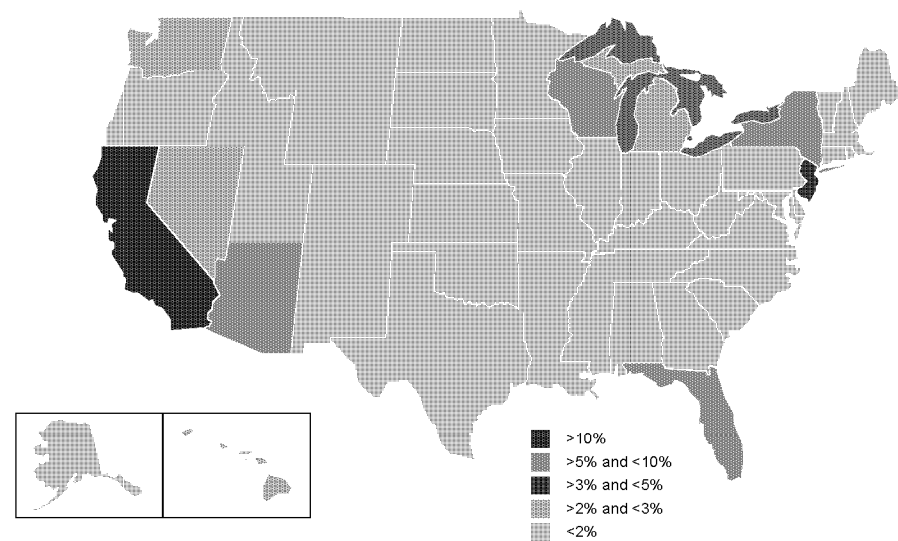


Operating Metrics – Origination Volume by State

Business Review (June 2006 – June 2007)

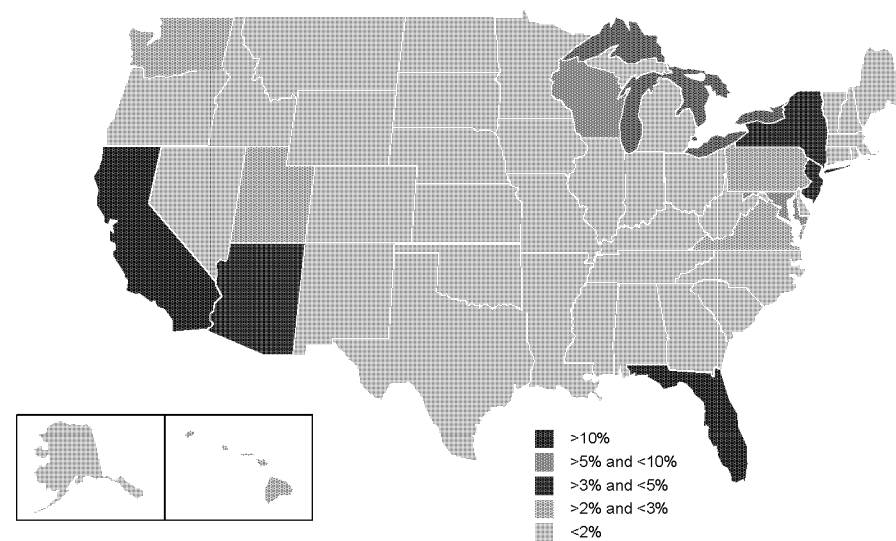
FY'06 Volume by State

(% of Unpaid Principal Balance)



FY'07 YTD⁽¹⁾ Volume by State

(% of Unpaid Principal Balance)



1. California	40.92%	6. Maryland	3.73%
2. Florida	7.24%	7. New Jersey	3.66%
3. Illinois	6.99%	8. Washington	2.17%
4. Arizona	5.32%	9. Michigan	2.17%
5. New York	5.28%	10. Nevada	2.06%
		All Other	20.46%

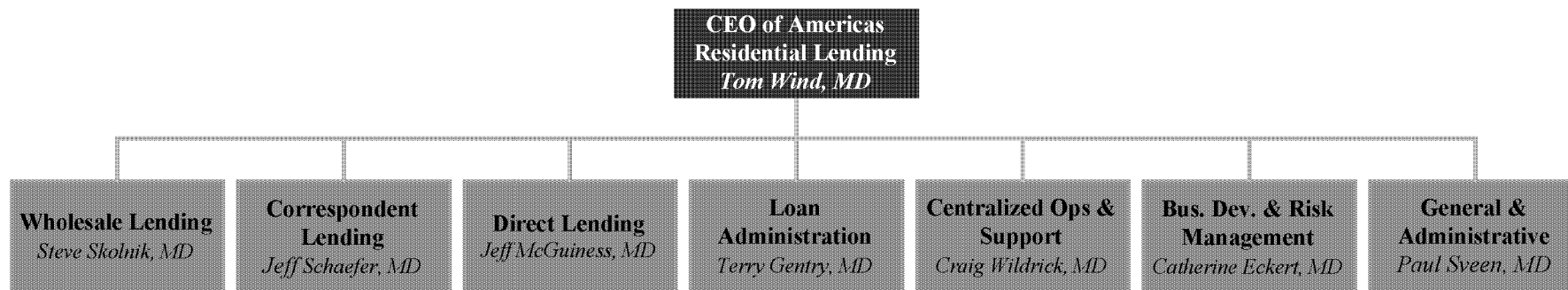
1. California	32.41%	6. New York	4.66%
2. Florida	10.68%	7. New Jersey	4.15%
3. Illinois	7.31%	8. Washington	2.81%
4. Maryland	5.60%	9. Utah	2.54%
5. Arizona	4.88%	10. Pennsylvania	2.45%
		All Other	22.52%

1. YTD figures as of June 30, 2007.

Integration of BNC and Aurora Loan Services.

Strategic Direction

Americas Residential Lending Business

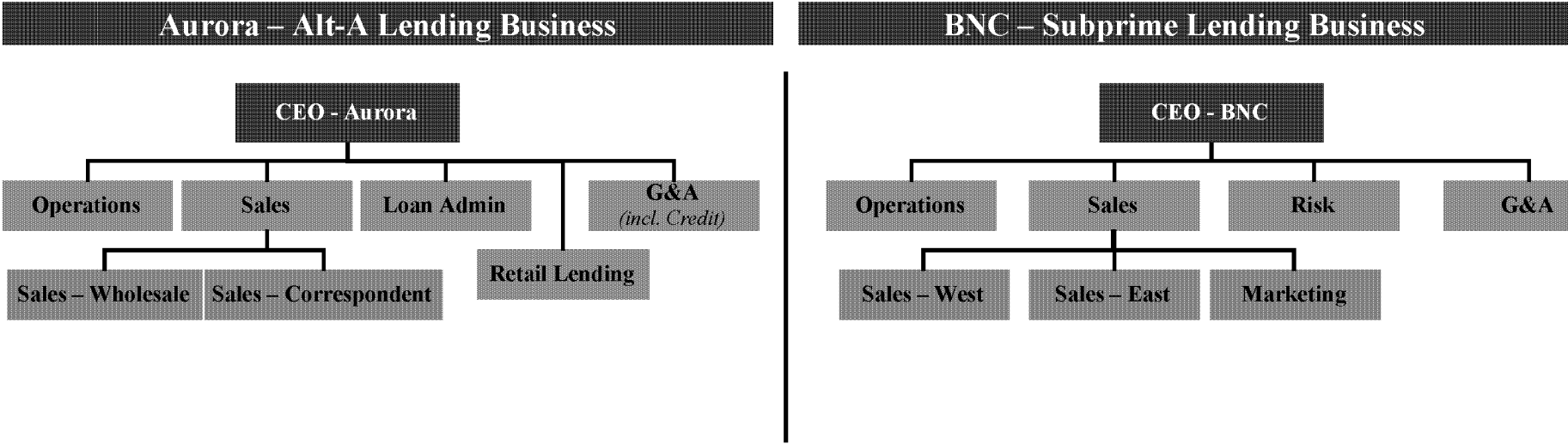


- ◆ Announced integration of Aurora and BNC as Americas Residential Lending on June 13, 2007.
- ◆ Convergence of residential mortgage markets has narrowed the differences in sales, operations and controls required.
- ◆ Improved and consistent control environment across businesses.
- ◆ The integration of the two companies will offer a broad spectrum of products deepening customer relations.
- ◆ This has created a unique opportunity to reduce the costs of overlapping functions between the two businesses.
- ◆ Sales and operations functions consolidated in Wholesale, Correspondent and Direct Lending business channels.
- ◆ Change Management, Service Excellence, Centralized Production Support and Project Management are being built under Centralized Operations & Support.
- ◆ Integration plan will be implemented over 12-18 months

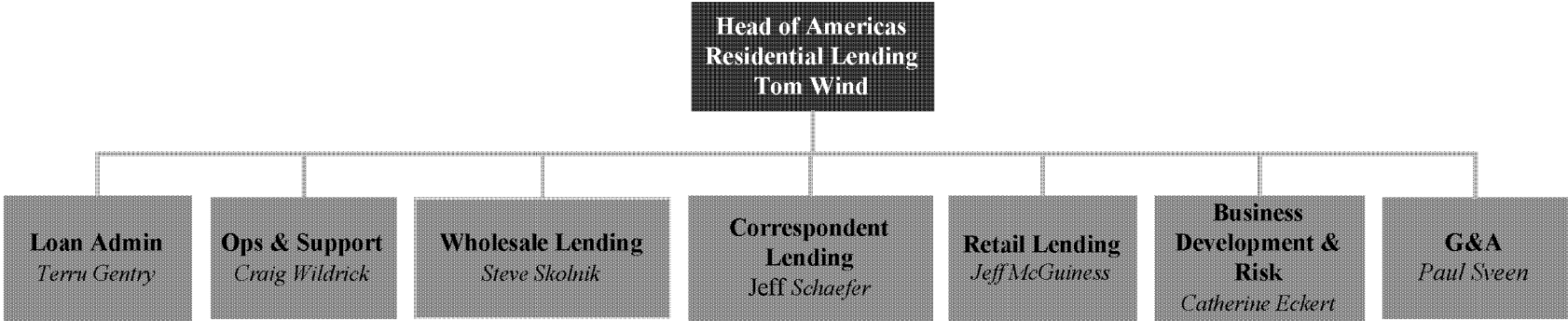
Americas Residential Lending

Strategic Direction

Organizational Structure

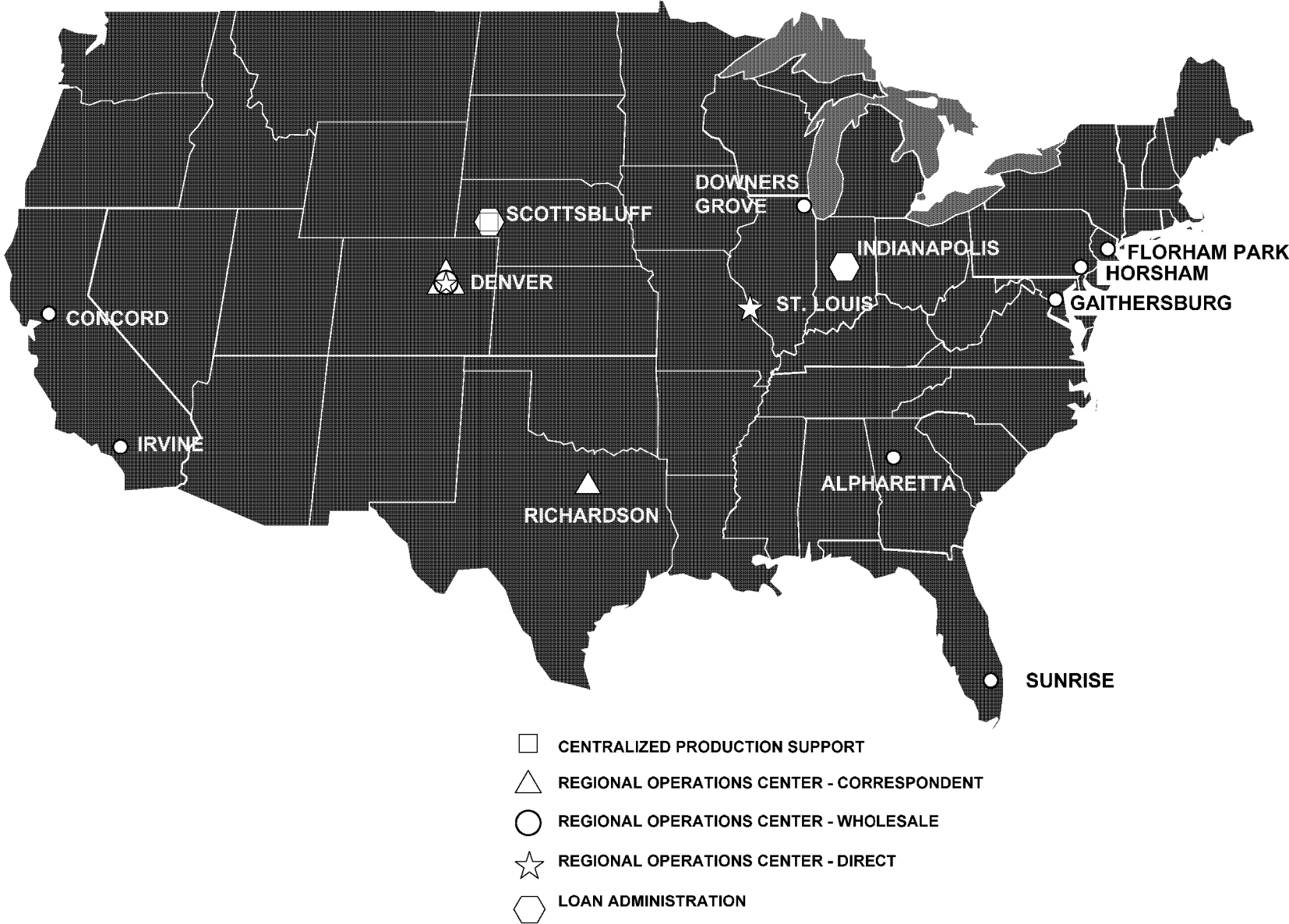


Integrated Americas Residential Lending Business



Americas Residential Lending Footprint

Strategic Direction



Product Changes from June 2006 through June 2007

- ◆ August 1, 2006: Added 50/30 Product

- ◆ September 18, 2006: Added 10-year Interest Only period option to 5-year Fixed Product

- ◆ March 26, 2007: Eliminated the 80/20 Combo Product

Loan Performance

Loan Performance

BNC underperformance can be largely explained by a larger share of High CLTV loans that have underperformed

2005 Vintage 60+ Delinquencies, Industry versus BNC

CLTV Bucket	% Balance		60+ Dq (%Orig)		Multiple (BNC/Industry)
	2005 Industry	2005 BNC	2005 Industry	2005 BNC	
<70	11.4	9.5	2.2	2.4	110%
70-80	13.4	10.3	3.2	3.4	104%
80-90	28.0	21.8	4.1	4.5	110%
>90	47.2	58.5	5.3	6.5	122%
Total	100.0	100.0	4.3	5.3	

*Shows performance aggregated for hybrids, fixed-rate and second lien loans.
Source: Loan Performance, Lehman Brothers.*

LEHMAN BROTHERS

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BNC Layered Risk Reduction

Loan Performance

- ◆ 56% of loans originated in Q1 2006 do not fit in current underwriting guidelines
- ◆ Full Doc % for overall production increased from 53% to 66%
- ◆ Product mix is significantly better

		Full Documentation							
		LTV							
		65	70	75	80	85	90	95	100
FICO	680	122.4%	193.8%	276.0%	276.5%	214.8%	182.2%	92.9%	46.2%
	660	241.9%	766.7%	272.1%	344.8%	207.9%	267.2%	169.5%	89.6%
	640	179.3%	449.7%	171.0%	430.1%	243.0%	227.8%	147.4%	20.1%
	620	239.7%	305.0%	340.5%	311.5%	225.5%	158.1%	141.1%	0.0%
	600	213.8%	472.7%	396.8%	288.1%	100.3%	107.2%	75.9%	0.2%
	580	197.8%	282.8%	278.2%	211.7%	94.1%	108.7%	51.2%	0.0%
	550	229.6%	293.7%	211.9%	136.7%	60.2%	35.4%	11.2%	0.0%
	525	200.3%	295.9%	142.8%	157.0%	13.3%	4.0%	0.0%	0.0%
	500	162.8%	182.5%	213.9%	204.8%	7.3%	0.0%	0.0%	0.0%

		Stated Documentation							
		LTV							
		65	70	75	80	85	90	95	100
FICO	680	197.1%	497.2%	197.5%	277.8%	147.5%	38.8%	169.3%	0.0%
	660	177.8%	217.2%	173.5%	280.8%	183.3%	58.1%	229.2%	0.0%
	640	252.1%	237.1%	492.9%	386.0%	108.4%	74.1%	157.4%	0.0%
	620	262.2%	351.1%	281.7%	297.8%	78.9%	63.4%	3.2%	0.0%
	600	288.1%	329.7%	271.8%	281.8%	95.4%	3.4%	0.0%	0.0%
	580	269.0%	229.4%	227.5%	85.2%	28.3%	2.3%	0.0%	0.0%
	550	163.5%	279.1%	208.0%	87.4%	1.6%	0.0%	0.0%	0.0%
	525	51.0%	59.2%	101.1%	4.1%	0.0%	0.0%	0.0%	0.0%
	500	85.2%	64.5%	91.9%	0.0%	0.0%	0.0%	0.0%	0.0%

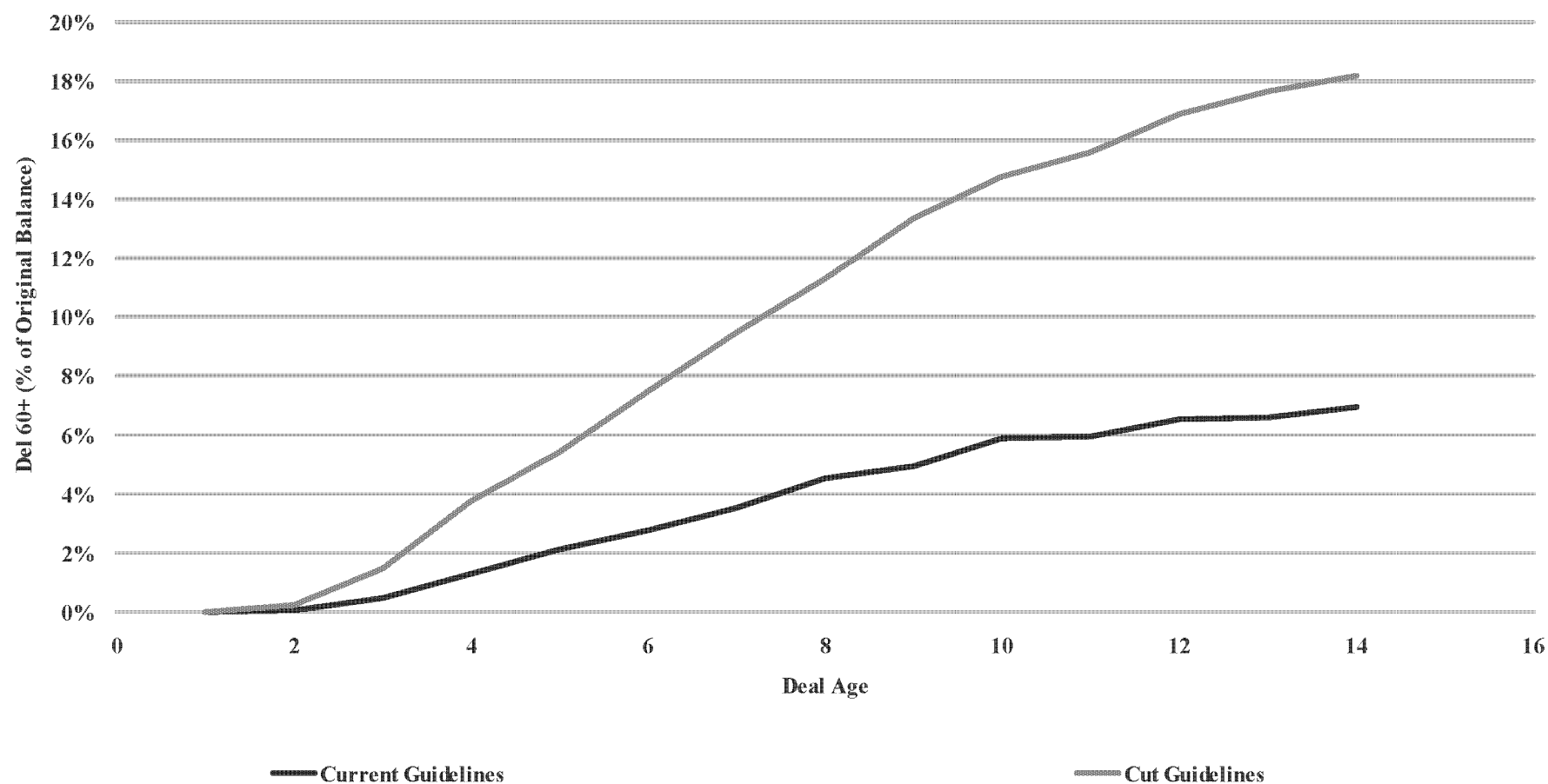
Note: Percentages are ratios of (% May/June 2007 production) / (% Q1 2006 production) for respective buckets

BNC Performance Improvement

Loan Performance

60+ Delinquencies of Q1 2006 Collateral (% of Original Balance) partitioned by current underwriting guidelines

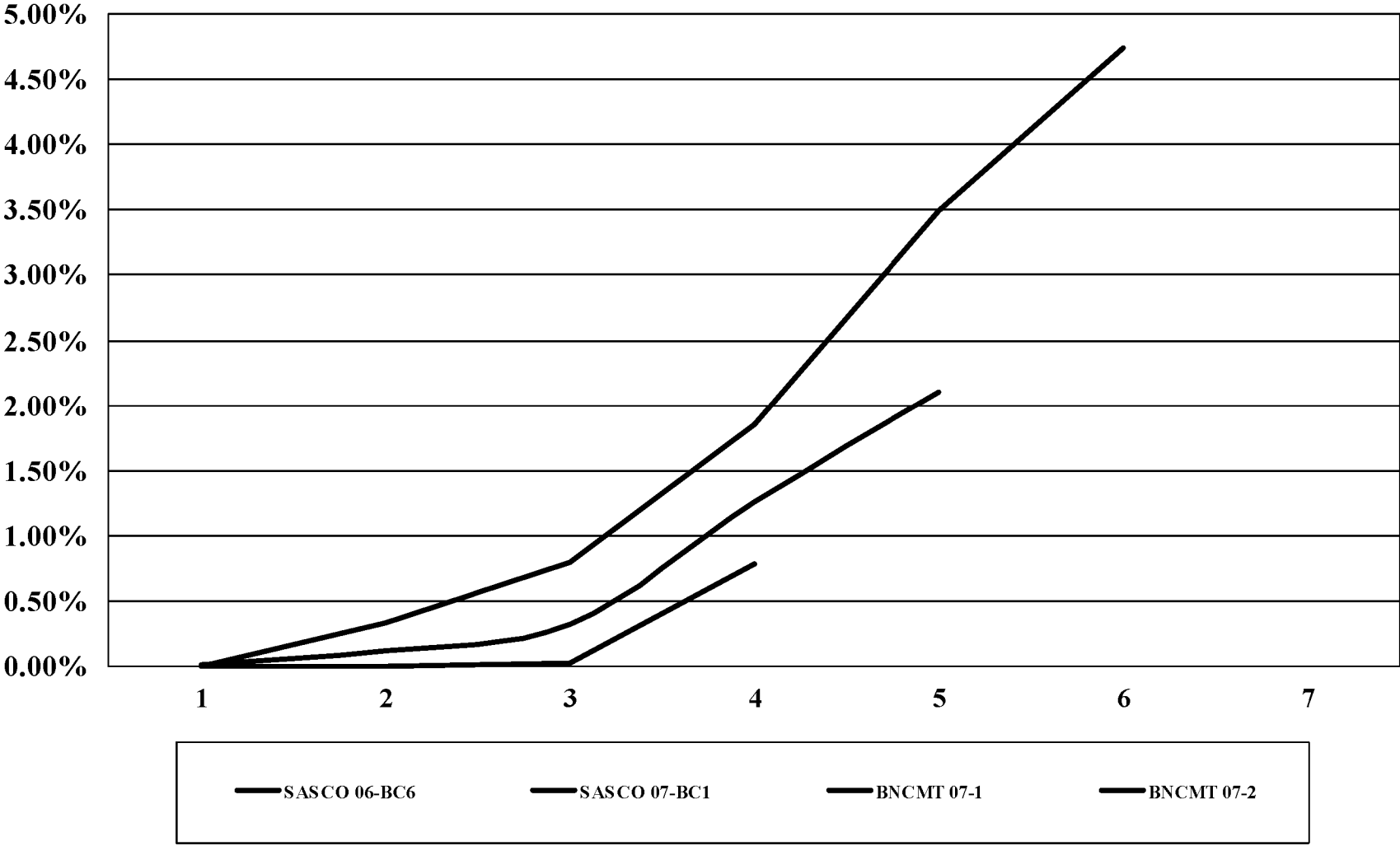
- ◆ 56% of loans originated in Q1 2006 do not fit in current underwriting guidelines
- ◆ Guideline cuts have significantly improved delinquency performance of collateral



Lehman Brothers Carved Deals

Loan Performance

Comparison of 60+/FC/REO Delinquent Loans



**Straight average of all deals displayed in this chart
Source: Bloomberg deal performance & remittance reports*

Subprime Guideline Changes - Highlights

Loan Performance

February 12, 2007	<ul style="list-style-type: none"> ◆ FTHB Stated Doc: maximum 90% CLTV and 1 unit only ◆ Maximum 50% DTI on Stated Doc ◆ Maximum 90% CLTV on 2-4 units ◆ NY – maximum 80% CLTV on 3-4 units ◆ 2 months PITI reserves required for 100% CLTV (80/20 & Select Program) ◆ Minimum FICO for 100% CLTV Stated Doc 660 for purchase, 640 for refi (80/20 & Select Programs) ◆ Minimum FICO for 100% CLTV Full Doc 620 for purchase, 600 for refi (80/20 & Select Programs) ◆ No secondary financing (Select & Score Advantage Programs) ◆ No exceptions allowed for these guideline changes
March 1, 2007	<ul style="list-style-type: none"> ◆ Additional disclosure provided to borrower for IO loans to better educate them on the product
March 9, 2007	<ul style="list-style-type: none"> ◆ Stated Doc eliminated (80/20 Program) ◆ minimum FICO raised to 660 for Full and Lite Doc (80/20 Program) ◆ 1 unit, owner occupied only (no second homes allowed) (80/20 Program)
March 13, 2007	<ul style="list-style-type: none"> ◆ 100% Full Doc and Lite Doc – minimum FICO increased to 660 (Select Program) ◆ 100% Stated Doc eliminated (Select Program) ◆ Borrowers with no mortgage / rental history – minimum FICO 680 (80/20 Program)
March 26, 2007	<ul style="list-style-type: none"> ◆ 80/20 – program eliminated ◆ minimum FICO increased to 640 for 95% Stated Doc
March 30, 2007	<ul style="list-style-type: none"> ◆ Select Program – 90% LTV Stated Doc – minimum 620 FICO ◆ Score Advantage Program <ul style="list-style-type: none"> • minimum 525 FICO for 85% LTV Full Doc • minimum 620 FICO for 90% LTV Stated Doc • minimum 580 FICO for 85% LTV Stated Doc • minimum 550 FICO for 80% LTV Stated Doc

Subprime Guideline Changes - Highlights

Loan Performance

April 24, 2007	<ul style="list-style-type: none"> ◆ Select Program – 2 Units – Full and Lite Doc minimum FICO 600, Stated Doc minimum FICO 640 ◆ Score Advantage Program – 85% LTV Full Doc Minimum FICO increased to 550 ◆ Score Advantage Program – 2-4 Units – Full and Lite Doc: minimum FICO 600, Stated Doc: minimum FICO 640 ◆ Score Advantage Program– non owner occupied: minimum FICO 600 ◆ >\$500k loans minimum FICO: 550 for Full Doc, 580 for Stated Doc ◆ <= \$75k loans minimum FICO 620
May 10, 2007	<ul style="list-style-type: none"> ◆ Standard approval period extended from 21 to 30 days
May 11, 2007	<ul style="list-style-type: none"> ◆ BNC will not accept new applications to become approved correspondent lender ◆ Currently approved correspondent lenders required to recertify
May 31, 2007	<ul style="list-style-type: none"> ◆ No FICO and LTV exceptions allowed on the Select Program ◆ Eliminated higher LTV and lower FICO cells for the Score Advantage Program ◆ FTHB – minimum 580 FICO for Score Advantage Program
June 1, 2007	<ul style="list-style-type: none"> ◆ Enhancements made to National Net Tangible Benefit Test
June 7, 2007	<ul style="list-style-type: none"> ◆ All IO loans and 3 year ARMs under the Alt-A program must qualify at fully indexed, fully amortizing payment
June 11, 2007	<ul style="list-style-type: none"> ◆ Select Lending Full Doc AAA program – 100% LTV with 640 FICO allowed on purchases with the following restrictions: no FTHB, no BK, 2 months seasoned reserves
June 12, 2007	<ul style="list-style-type: none"> ◆ Stricter credit check guidelines for underwriters, including techniques for checking borrower’s stated income for reasonability and verifying other provided information
June 18, 2007	<ul style="list-style-type: none"> ◆ New appraisal “checklist” implemented for underwriters to identify key areas in which appraisals do not meet BNC standards – if any of the checklist items is answered “yes,” the appraisal will automatically be directed to the Appraisal Department for a full review

Subprime Guideline Changes - Highlights

Loan Performance

-
- June 26, 2007
- ◆ “Best Score Program” created for Score Advantage & Select Lending with B grade or higher; certain restrictions, such as Full Doc, owner occupied, minimum FICO of 550 for all borrowers, max 95% LTV
 - highest middle score of either borrower who occupies the property may determine max LTV, rate and loan amount; max allowable difference between lowest and highest middle scores is 100 points
 - ◆ “High Score Advantage Program” – high score of primary borrower may determine maximum LTV, rate, and loan amount
-
- July 1, 2007
- ◆ BNC will only accept Full Package submissions
-
- July 18, 2007
- ◆ Raised minimum FICO requirements for 2/28 and 3/27 adjustable rate loans:
 - Full Doc:
 - minimum FICO of 600 for 65% - 70% LTV
 - minimum FICO of 620 for 75% - 80% LTV
 - minimum FICO of 660 for 85% LTV
 - minimum FICO of 680 for 90% - 100% LTV
 - Stated Doc:
 - minimum FICO of 600 for 65% - 70% LTV
 - minimum FICO of 620 for 75% LTV
 - minimum FICO of 640 for 80% LTV
 - minimum FICO of 660 for 85% LTV
 - minimum FICO of 680 for 90% LTV
 - minimum FICO of 720 for 95% LTV
-
- August 1, 2007
- ◆ Minnesota House Bill 1004 will be effective: prohibits predatory lending practices such as relying on borrower’s statement of income
 - ARM loan applicants must be qualified using the fully indexed, fully amortizing interest rate
 - BNC will no longer make or purchase stated income loans
-

Improvements at BNC

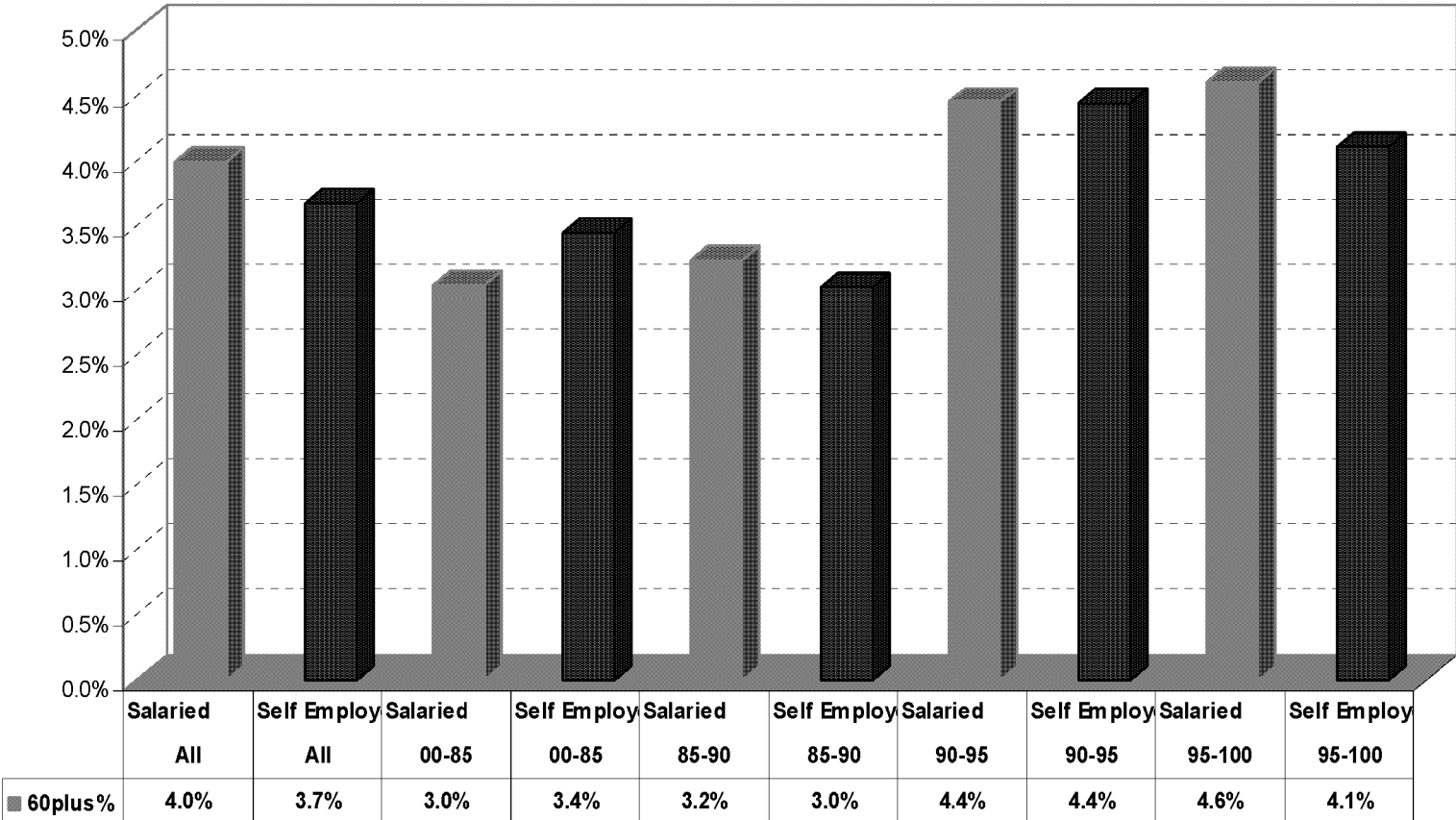
Where we stand today

- ◆ Improvement measures at BNC:
 - Score Cards
 - Performance-based scorecard on transaction parties has been implemented
 - Brokers, AEs, underwriters, branches and appraisers are placed under review for potential termination or watch list qualification.
 - Enhancement of scorecards underway to include additional metrics such as long term delinquency performance, QC results, due diligence kick outs, prepayments, etc.
 - Fraud Tools
 - A series of borrower and collateral fraud tools testing are in progress including vendors such as CoreLogic, BasePoint, Veros, Interthinx, TransUnion and ChoicePoint.
 - These tools will streamline the appraisal and operational process
 - First Payment Default Model
 - Proprietary model developed by Lehman Research
 - Regression Model is embedded in BNC's Loan Origination System
 - Metrics used by underwriter to identify layers of risk
 - Used to decrease FPD's and minimize future delinquency
 - Servicer Oversight
 - Responsibilities will include the development of metrics, analytics, monitoring and reporting for a number of servicers
 - Each servicer's performance will be reviewed on a monthly basis
-

BNC Stated Loans

While stated wage-earner is an additional risk particularly in high CLTV purchases, we have these parameters in our FPD model that protects us from making these types of loans without mitigating factors.

60+ after 6 months by CLTV

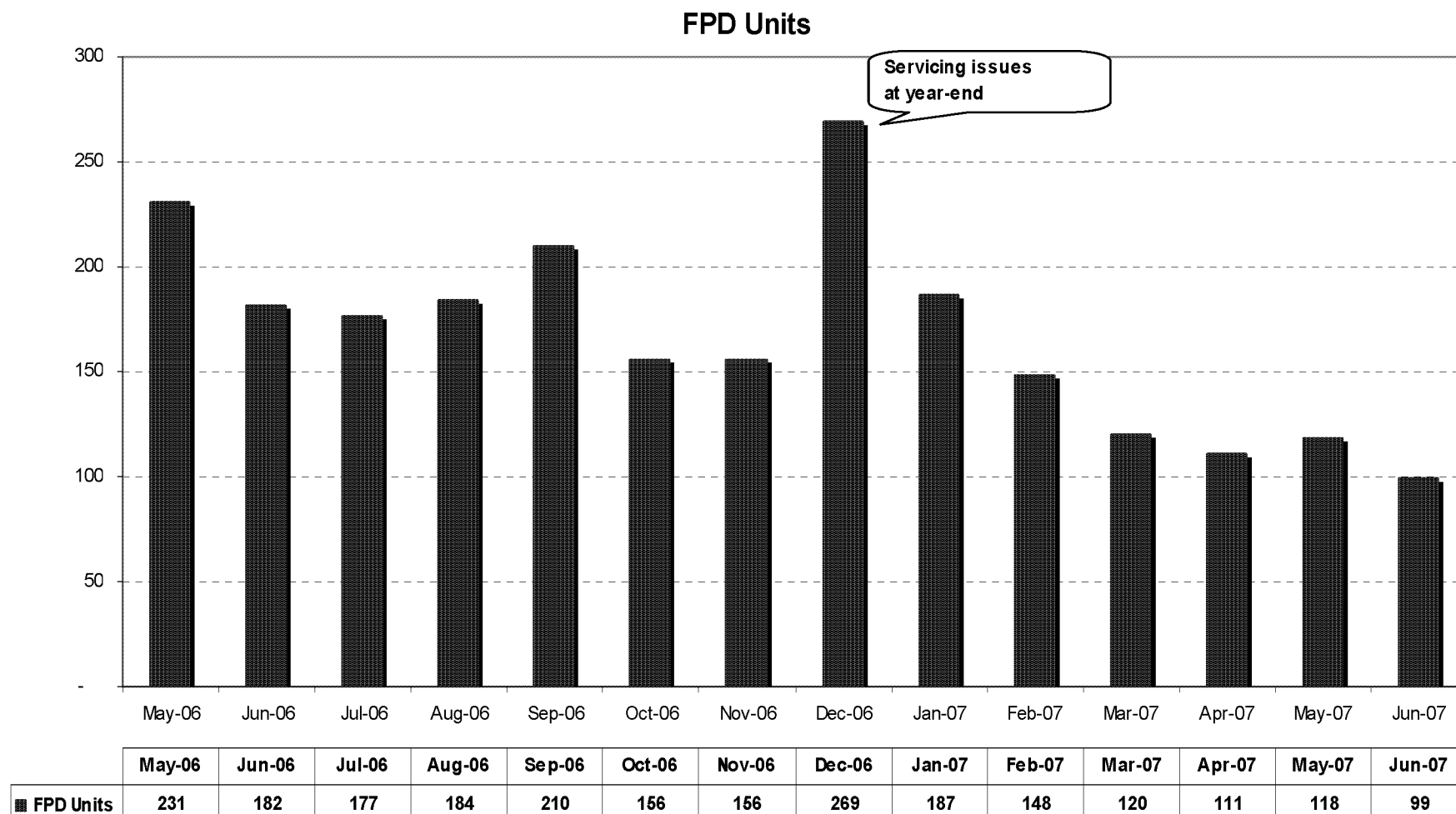


*2005 BNC originations. 60+ unit at month 6.

BNC First Payment Defaults

Loan Performance

FPDs have been declined constantly. June 2007 was the first month in the last two years that the number dropped below 100 units.



*2005 BNC originations. 60+ unit at month 6.

Underwriting Changes Overview

Highlighted Changes to Underwriting Guidelines

- ◆ 2/28 and 3/27 mortgage loans are now underwritten to qualify borrowers at the fully indexed rate and at a fully amortizing schedule
- ◆ Select AAA
 - 100% LTV full doc minimum credit score was 600, now 640
 - 100% LTV lite doc minimum credit score was 600, now 660
 - 100% LTV stated doc minimum credit score was 620, now 640 at 95%
- ◆ Score Advantage A+
 - 95% LTV full doc minimum credit score was 580, now 600
 - 90% LTV lite doc minimum credit score was 550, now 580
 - 90% LTV stated doc minimum credit score was 580, now 620
- ◆ 2/12/2007 – FTHB stated, max 90% LTV, single family only
- ◆ 2/12/2007 – Max 90% CLTV on 2-4 until properties
- ◆ 3/26/2007 – Eliminated 80/20 program
- ◆ 5/1/2007 – Net Benefit Test implemented on all refinance transactions nationwide
- ◆ 6/7/2007 – All interest only loans qualified at the fully indexed fully amortizing payment
- ◆ 6/12/2007 – Payment shock guidelines implemented for all borrowers, had previously been for first time homebuyers only.

Underwriting Changes Overview

Highlighted Changes to Underwriting Guidelines – Stated Income

- ◆ Stated Income is no longer available for qualifying borrowers with FICO scores less than or equal to 620.

- ◆ Changes were made to the stated income guidelines in order to clarify the existing guidelines and processes, offer consistency when underwriting these loans, and improve loan performance. Following are changes that were implemented:
 - 10/4/2006 – Certification of Stated Income Form was added to the document package, which discloses the amount of stated income used to qualify, and is signed by the borrower
 - 2/12/2007 – Max DTI on Stated Income loans was reduced to 50%
 - 3/13/2007 – Select product LTV was reduced on Stated Income loans from 100% to 95%
 - 4/24/2007 – Minimum credit score on Stated income loans was increased to 640 on 2-4 unit properties, previously it had been 600 in the Select Program and 500 in the Score Advantage Program
 - 6/12/2007 – Stated income reasonability determination added to guidelines; requirements included:
 - Utilizing Salary.com as a tool in gauging income for certain occupations
 - Reviewing credit reports for high balances, payment history, and number of consumer accounts
 - Reviewing payment shock by looking at previous rental or mortgage history.

Quality Control Overview

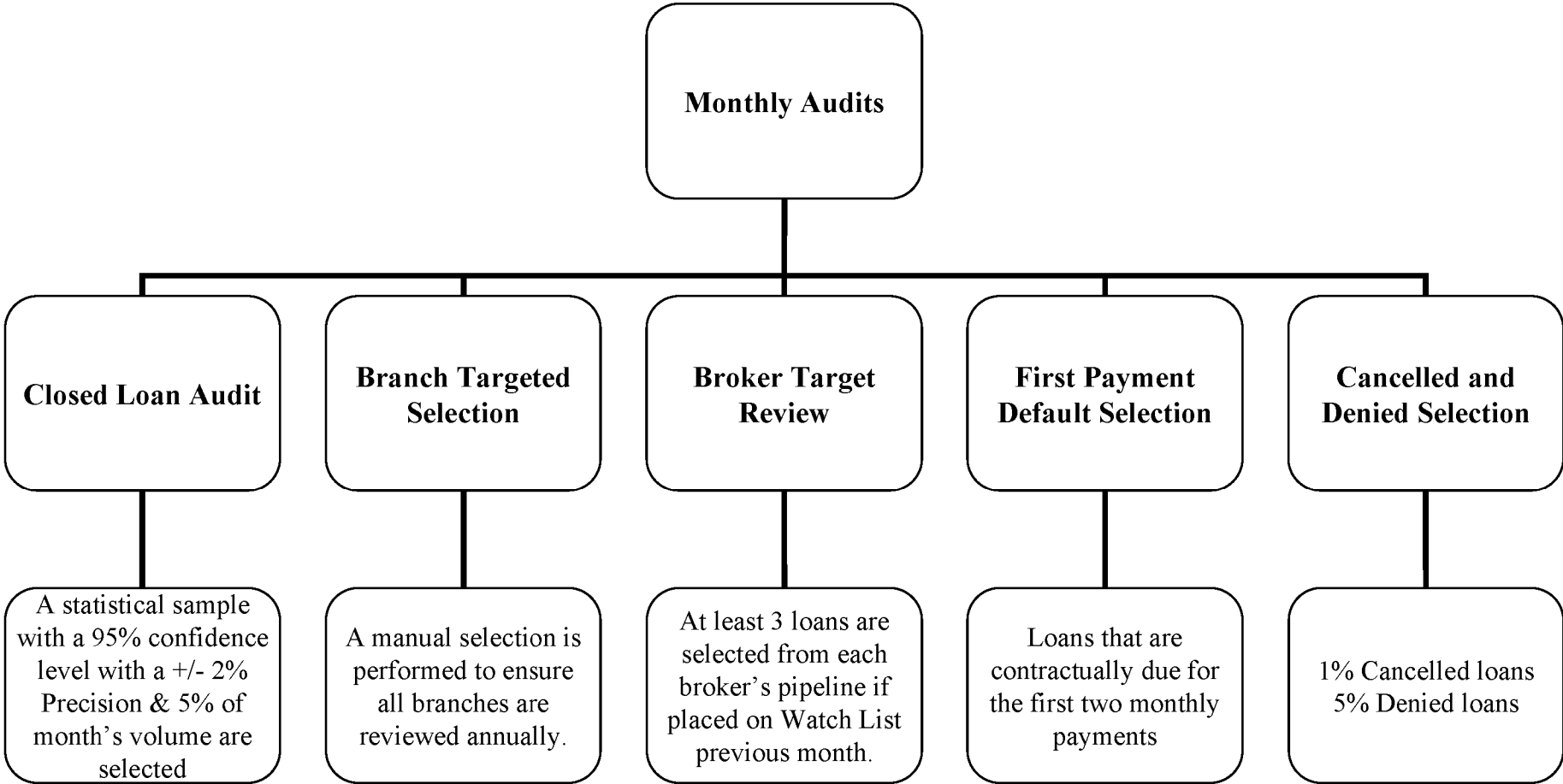
- ◆ BNC has enhanced its quality control system, which evaluates internal controls and provides management with an opportunity to examine and, if necessary, adjust its policies and procedures. This system of internal controls validates standards, measures performance and determines compliance with applicable federal, state and firm requirements. BNC's Quality Control System is also a vehicle to correct identified deficiencies in a timely manner.

- ◆ Monthly evaluations are conducted to identify inadequacies, errors, or abuses relating to particular originating officers, processors, underwriters, appraisers, or other persons involved in the lending process so that prompt corrective action can be taken by LBB or its subsidiaries.

- ◆ The Quality Control system in place evaluates, documents and monitors the general quality of all loans funded and or purchased and expands the scope of review when necessary when fraudulent activity or patterns of deficiencies are identified.

- ◆ Patterns and deficiencies noted are reviewed with management on a monthly basis and corrective action is taken and tracked to ensure compliance.

Monthly QC Audits and Selection Criteria



Quality Control Rating System

Loan Ratings

- ◆ Each loan reviewed is assigned a rating based on significance of the finding noted. Each question in ACES (QC Software) has a corresponding exception that is assigned a significance which drives the loan rating. In the Closed loan Audit and the Target reviews the significance of the exception automatically drives the overall loan rating instead of the Quality Control Underwriter objectively rating the loan. The significances and ratings are as follows:

Significance	Rating	Description
Low	R1	Quality – infraction of policy/procedure, no impact and no repairs
Medium	R2	Repairable – infraction of policy/procedure possible repairs
High	R3	Serious – infraction of guideline, policy/procedure could impact salability
Fraud	R4	Critical – loan contains fraud not controllable at origination
Fraud controllable	R4R	Critical – loan contains fraud that was controllable at origination

- ◆ A Suspicious Activity Report (SAR) is completed on each loan with identified fraud which is forwarded to the Legal Department for filing

Monthly Reviews

- ◆ Closed Loan Audit, Target Reviews & First Payment Default Audit
 - Documentation contained in the loan package is reviewed for accuracy with respect to credit and collateral guidelines, program parameters, policies and procedures established by the company, and state and federal regulatory requirements. The following areas of the loan file are reviewed and documented by questionnaires in the ACES.
 - Initial Application
 - Final Application
 - Credit/Credit Report
 - Income/Verification of Employment/Tax Returns/Alternative Documentation
 - Assets/Bank Statements/Alternative Documentation
 - Validation of the Credit Decision and closing conditions
 - Federal Disclosures/Truth in Lending/RESPA/Right of Rescission/Patriot Act/HMDA
 - Closing Documents/hazard and Flood coverage
 - Best Practices
 - Data Integrity
- ◆ Cancelled and Denied Review
 - Each loan file is reviewed to ensure compliance with the Equal Credit Opportunity Act and the Home Opportunity Act.

Re-Verification Process

- ◆ Appraisal Reviews:
 - Closed Loan Audit and Targeted Loan File Reviews
 - AVMs are ordered on 33% of the loans selected.
 - First Payment Default Loan File Reviews
 - AVMs are ordered on 100% of the loans selected.
 - Variances or issue noted are provided to the BNC's Chief Appraiser for a response.
 - Any violation of company policy may result in suspension of future activity with the responsible appraiser. Any serious violation of company policy or law will result in immediate termination of use of the appraiser.

- ◆ Credit Reports:
 - The loan decision is based on the credit report obtained by BNC at time of submission.

- ◆ Income/Employment:
 - The income/employment is re-verified on each loan selected through a non-interested resource by the Quality Control Underwriter. The borrowers' dates of employment, title or position and income for full or reduced documentation loans
 - Other documentation in the file is also re-verified as necessary to determine the validity of the loan transaction.

Pre Funding Fraud Detection and Review

◆ Fraud Checklist

- Each underwriter is required to complete a red flag fraud check list on each loan prior to funding.
- The completed check list is retained in the loan file.

◆ QC Fraud Referrals

- Loans with suspected or identified fraud discovered prior to funding are referred to the Quality Control Department for review and tracking purposes.
- Findings are trended and monitored, which may result in placing the broker on watch or terminating the third party relationship.
- Suspicious Activity Reports are prepared and forwarded to the legal department for filing with the OTS.

2006 QC Fraud Referrals									
Branch	Jan 06	May 06	Jun 06	Jul 06	Aug 06	Oct 06	Nov 06	Dec 06	2006 Total
Total	1	2	45	12	1	31	45	43	180

2007 QC Fraud Referrals						
Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	2007 Total
58	36	106	138	156	105	599

Monthly Reporting

- ◆ Reports are distributed to management each month showing the results of the loan reviews. The reports include the following:
 - Summary pages
 - Loan Ratings by Underwriter, Account Executive, Broker or Correspondent
 - Exceptions (Errors)
 - Area of responsibility of the exceptions
 - Loan details for all significant and fraud exceptions
 - Trends
- ◆ The selection, loan review and reporting of detailed findings and errors is accomplished within 60 days from the funding month of the loans.

Funded Month	QC Selected and Reviewed	Report Due
January	February	April 1
February	March	May 1
March	April	June 1
April	May	July 1
May	June	August 1
June	July	September 1
July	August	October 1
August	September	November 1
September	October	December 1
October	November	January 1
November	December	February 1
December	January	March 1

Sample Reports

Loan Performance Tracking

broker	score	approved	ld	count	actual	predicted	residual	t_ratio	upb	res*bal	t-score	cut	fpd*bal	CUT	watch	WATCH	WATCH	CUT_or_	premium
AMERICAN FINANCIAL GROUP	0.40	Y	100004221	2	0.00	0.20	-0.20	-0.25	\$1.22	(\$0.00)	3.08	0.00	N	1.00	N	N	N	N	N
JOSEPH PANZARELLA	-0.75	Y	103740666	2	0.00	7.10	-7.10	0.48	\$0.89	(\$0.06)	3.08	0.00	N	1.00	N	N	N	N	N
ROBERT B HERMAN	-0.39	Y	104345909	1	0.00	20.80	-20.80	-0.11	\$0.37	(\$0.08)	100.00	0.00	N	2.00	N	N	N	N	N
POMECS FINANCIAL SERVICES	-4.72	Y	104445012	134	3.50	1.80	1.80	0.54	\$42.05	\$0.76	1.29	147.17	N	0.68	N	N	N	N	N
NEW ENGLAND FUNDING CORP	-0.86	Y	10539452	2	0.00	4.10	-4.10	2.56	\$0.29	(\$0.01)	3.08	0.00	N	1.00	Y	Y	Y	N	N
F & G MORTGAGES	-2.36	Y	10545879	1	0.00	6.00	-6.00	-0.25	\$0.23	(\$0.01)	100.00	0.00	N	2.00	N	N	N	N	N
AMERICAN PREMIER MORTGAGE	-0.79	Y	10549835	1	0.00	0.40	-0.40	-0.05	\$0.43	(\$0.00)	100.00	0.00	N	2.00	N	N	N	N	N
FIRST STEP FUNDING INC	-1.72	Y	10550560	1	0.00	0.50	-0.50	-0.23	\$0.32	(\$0.00)	100.00	0.00	N	2.00	N	N	N	N	N
OLIVER MORTGAGE	-13.18	Y	105545413	1	0.00	3.80	-3.80	-0.10	\$0.05	(\$0.00)	100.00	0.00	N	2.00	N	N	N	N	N
NEW HOPE FINANCIAL GROUP LLC	-5.24	Y	10557654	1	100.00	1.00	99.00	10.04	\$0.09	\$0.09	100.00	8.80	N	2.00	Y	Y	Y	N	N
PEGASUS INSURANCE SERVICES INC	0.40	Y	10558341	1	0.00	1.90	-1.90	3.55	\$0.31	(\$0.01)	100.00	0.00	N	2.00	Y	Y	Y	N	N
HOME LOAN CONSULTANTS	-0.99	Y	10560191	25	0.00	0.80	-0.80	1.12	\$6.39	(\$0.05)	1.32	0.00	N	0.69	Y	Y	Y	N	N
STREAMLINE HOME MORTGAGE INC	-3.27	Y	10565007	1	0.00	0.30	-0.30	-0.04	\$0.04	(\$0.00)	100.00	0.00	N	2.00	N	N	N	N	N

broker	k_score12m	ctfpd	fpd_act	fpd_pr	fpd_r	fpd_st	fpd_t	fpd_bal	ct6m	cnp6_m_act	cnp6_m_pr	cnp6_m_re	cnp6_stderr	cnp6_t_rati	cnp6_bal	ct12m	cnp12m_act	cnp12m_pred	cnp12m_res	cnp12m_t derr	cnp12_t_ratio
AMERICAN FINANCIAL GROUP	0.40	2	0	0.2	-0.2	2.60	-0.03	1,221,500.00	2.00	0.00	1.90	-1.90	3.88	-0.47	1,221,500.00	3.00	0.00	2.30	-2.30	8.48	-0.26
JOSEPH PANZARELLA	-3.52	2	0	7.1	-7.1	19.92	-0.35	885,000.00	3.00	0.00	13.80	-13.80	21.11	-0.65	1,305,000.00	4.00	34.90	8.00	27.00	14.13	1.90
ROBERT B HERMAN	1.21	1	0	20.8	-20.8	40.56	-0.51	374,000.00	7.00	0.00	14.30	-14.30	14.79	-0.96	2,217,650.00	9.00	18.60	11.80	6.80	11.94	0.56
POMECS FINANCIAL SERVICES	-0.16	134	3.5	1.8	1.8	1.23	1.35	42,049,440.00	99.00	3.60	3.70	-0.10	2.12	0.00	28,103,800.00	111.00	4.60	4.70	-0.10	2.21	-0.02
NEW ENGLAND FUNDING CORP	-14.77	2	0	4.1	-4.1	16.26	-0.24	290,000.00	2.00	100.00	4.90	95.10	17.73	5.36	290,000.00	0.00	0.00	0.00	0.00	0.00	0.00
F & G MORTGAGES	1.57	1	0	6	-6	23.78	-0.25	230,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AMERICAN PREMIER MORTGAGE	0.12	1	0	0.4	-0.4	6.34	-0.05	427,500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FIRST STEP FUNDING INC	0.15	1	0	0.5	-0.5	7.20	-0.06	322,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00	0.00	9.30	-9.30	24.49	-0.38
OLIVER MORTGAGE	0.99	1	0	3.8	-3.8	19.04	-0.19	47,250.00	1.00	0.00	0.00	0.00	0.00	0.00	47,250.00	0.00	0.00	0.00	0.00	0.00	0.00
NEW HOPE FINANCIAL GROUP LLC	-25.74	1	100	1	99	9.85	10.04	88,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PEGASUS INSURANCE SERVICES INC	0.38	1	0	1.9	-1.9	13.54	-0.13	312,000.00	4.00	51.70	2.70	48.90	7.94	6.15	1,387,500.00	2.00	0.00	1.00	-1.00	7.15	-0.13
HOME LOAN CONSULTANTS	-1.84	25	0	0.8	-0.8	2.10	-0.36	6,392,715.00	17.00	14.10	2.90	11.10	4.65	2.38	4,054,310.00	25.00	18.60	6.40	12.20	6.08	1.98
STREAMLINE HOME MORTGAGE INC	0.09	1	0	0.3	-0.3	5.55	-0.04	40,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Feed Back & Corrective Action

Monthly Conference Calls

- ◆ The monthly report outlining the findings noted is provided to senior management and line management.
- ◆ The results of BNC's Quality Control monthly loan reviews are discussed with production and operational employees on monthly regional conference calls.
- ◆ The purpose of the regional conference call is to provide a forum for employees to gain direct feedback on performance, including errors and fraud identified in monthly Quality Control loan reviews. Employees have an opportunity to:
 - Ask a question and receive immediate clarification;
 - Learn uses and approaches from peers and managers;
 - Increase knowledge and skills;
 - Build underwriting consistency throughout the company;
 - Improve the quality of mortgage loans funded by BNC Mortgage.

Action Taken

Changes Resulting from Quality Control Reviews

- ◆ Enhanced policy and procedures for verbal verification
- ◆ Verbal verification training was conducted
- ◆ A “Red Fraud Checklist” was created and implemented.
- ◆ A “Bank Statement Checklist” was created and implemented. This tool assists the underwriter in identifying red flags and essential data.
- ◆ Fraud training was conducted
- ◆ Policy/Guideline Changes
 - Broker credit report supplements
 - Multiple loan applications on stated income loans
- ◆ HMDA training
- ◆ 300 + brokers have been revoked for loan performance or fraud

First/Early Pay Default Reduction Campaign

First/Early Pay Default Reduction Campaign

First/Early Pay Default Model

- ◆ Lehman proprietary analysis
- ◆ Focuses on layered risk
- ◆ Based on historical data of both BNC and subprime industry
- ◆ Used at point-of-sale with account executives and brokers
 - Categories

Low
Medium
High
Very High

- ◆ Specific procedures that supersede all product guidelines
 - **High** Additional underwriting signing authority
 - **Very High** Additional product eligibility restrictions

First/Early Pay Default Reduction Campaign

First/Early Pay Default Reduction Campaign

- ◆ Fraud Detection Program



- ◆ Broker Scorecard

- Resulted in over 500 terminations and ongoing monthly review

- ◆ Borrower Contact Form

- Servicer contact form to include cell phone and email

- ◆ Product Changes

- Risk based product and underwriting changes

- ◆ Underwriting Training

Underwriting Training

Course Detail

First/Early Pay Default Reduction Campaign

New Underwriter Program	Loan Quality Education	Communicating w/ Brokers
<ul style="list-style-type: none"> •New Hire Orientation (HR) •BNC Use of Technology •Underwriter Role & ROC Process Flow •Mortgage Fraud •Underwriting Guidelines •Underwriting on Empower •Hazard Insurance •Appraisal •Broker Approval Process •Job Shadowing 	<ul style="list-style-type: none"> •Exception Approval Form •Fraud/Red Flag Checklist •Net Tangible Benefit •First Payment Default Model •Appraisal Review Checklist 	<ul style="list-style-type: none"> •Outgoing Messages to Brokers •Communicating Declines or Counteroffers •Handling Difficult Conversations with Brokers

Strategy for New Hires

1. Learning & Development works with Regional Operations Managers (and/or Chuck Hutt) to identify new Underwriters already hired or about to be hired in next 30 days
2. Based on concentration of new Underwriters, set a location for the training
3. Coordinate with Subject Matter Experts (SME's) to assist L&D with facilitation of courses
4. Schedule new Underwriters within first 30 days of hire and track their completion of the program

Additional Underwriting Training

- **Underwriter conference slated for mid-September (details TBD). Training to include:**
 - Net Tangible Benefit Review
 - Stated Income, Determining Reasonability
 - Exceptions, Layering Risk, and Compensating Factors
 - Fraud & Red Flag Review
 - Adverse Action Procedures
 - Appraisal Review
- **Computer-Based Training (CBT) on LehmanLive (soon to be on Aurora's tracking system)**
 - Analyzing Appraisals
 - Dwelling & Flood Insurance
 - Navigating Programs & Rate Sheets
 - Navigating the Guidelines
- **Underwriter Mentoring Program**
 - 5-week program for new Underwriters
 - Includes tools to review files and provide structured feedback
 - Recently shared with Stephanie Camara to implement across ARL

Executive Officers

Steven Skolnik

Managing Director, Chief Executive Officer

Mr. Skolnik serves as the Chief Executive Officer of BNC Mortgage and as Managing Director of Lehman Brothers, Inc. Steven joined BNC and Lehman in late 2006. He previously served as Executive Vice President in charge of Wholesale, Correspondent and Portfolio Retention Operations and Sales for First Franklin Financial. He joined the company in 1995 and was one of the key developers of First Franklin's non-prime division and its signature product, Direct Access, which contributed to the company's transformation into a top nationwide lender. In 1993, Mr. Skolnik was one of the first employees hired to start up Indy Mac (originally known as Countrywide Mortgage Inc.), serving as Executive Vice President of Production and Operations. He has 19 years of mortgage banking experience.

Scott Anderson

Executive Vice President, Chief Operations Officer

Mr. Anderson is the Chief Operating Officer and Executive Vice President of BNC Mortgage. Mr. Anderson joined BNC in 2007. He previously served with Accredited Home Lenders as a Director, and with Washington Mutual as the Senior Vice President in charge of Operations. In his position with Countrywide Home Loans, he worked with a number of divisions covering many facets of both Sales and Operations. He has 15 years of mortgage banking experience.

Executive Officers

Timothy Owens

Executive Vice President, Chief Sales Officer

Mr. Owens is the Chief Sales Officer and Executive Vice President of BNC Mortgage. Mr. Owens joined BNC in 2007. He previously served with Option One Mortgage Corporation as Managing Director and Chief Production Officer. As Managing Director at Option One, he developed and implemented a sales strategy consisting of account executive recruitment and development, territory management, national account penetration and sales support. He has 22 years of mortgage banking experience.

Gail Schlentz

Senior Vice President, Chief Credit Officer

Ms. Schlentz has been with Lehman Brothers since 1996 in the Risk Management Group. She managed Lehman's team of due diligence, overseeing the whole loan purchases and securitizations. Ms. Schlentz was also involved in credit policy for Lehman's affiliate origination platforms. She has over 16 years experience in the mortgage banking industry.

Donald D'Ambrosio

Senior Vice President, Chief Financial Officer

Mr. D'Ambrosio is the Chief Financial Officer of BNC Mortgage. He has been with BNC Mortgage since 1996. Mr. D'Ambrosio holds a Bachelor of Business degree from Temple University and has worked in several executive positions within the mortgage industry. He has over 10 years of mortgage banking experience.

Executive Officers

Ken DeFeo

Senior Vice President, Chief Appraiser

Mr. DeFeo is the Chief Appraisal Officer for BNC Mortgage. He has been with BNC Mortgage since November of 1995. Mr DeFeo has over 15 years of appraisal experience, and is a licensed appraiser in the State of California.

Mary Santandrea

Senior Vice President, Legal Counsel and Compliance

Ms. Santandrea is the Senior Vice President of the Legal and Compliance Department at BNC Mortgage. Ms. Santandrea joined BNC in January 2004. She has represented financial institutions for over 22 years, including 9 years with the FDIC. She is authorized to practice law before all courts in the State of California, state and federal.

Karen Whitney

Senior Vice President, Director of Human Resources

Ms. Whitney is the Senior Vice President of Human Resources for BNC Mortgage. She has 12 years of human resources experience.

Beth Frenzel

Vice President, Secondary Marketing

Ms. Frenzel is the Vice President of Secondary Marketing. She manages the loan sale, pricing and due diligence activities of BNC Mortgage. Ms. Frenzel has over 20 years of experience in the “prime” and “subprime” residential lending arenas.

BNC Key Contacts

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- ◆ Alyce Sumita (949) 475-5075