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Lehman to Close BNC Mortgage

By ALISTAIR BARR

August 22, 2007 3:57 p.m.

Lehman Brothers Holdings Inc. said Wednesday it is shutting its subprime-mortgage unit BNC Mortgage LLC, becoming the latest company to stop offering home loans to less-creditworthy borrowers.

BNC was a top-20 subprime mortgage lender in 2006, originating more than \$14 billion worth of home loans, according to industry publication Inside B&C Lending.

Lehman said it will keep offering mortgages through Aurora Loan Services LLC, another unit that focuses on so-called Alt-A home loans. Alt-A mortgages are offered to more-creditworthy borrowers, but they often

require less documentation.

The closure of BNC will affect roughly 1,200 employees in 23 locations in the U.S., Lehman said, about 4.2% of the firm's work force.

The move will cost the bank more than \$50 million, it said. Charges, including severance, real estate and technology costs, will total roughly \$25 million after taxes, Lehman said. Another \$27 million in costs would stem from the after-tax write-off of goodwill, the company added.

"Market conditions have necessitated a substantial reduction in...resources and capacity in the subprime space," Lehman said in a statement.

Lehman shares rose \$1.03 to \$58.57 during afternoon trading Wednesday. The stock is down roughly 24% so far this year.

After mortgage lenders originate loans, they often package them up as mortgage-backed securities and sell them to institutional investors such as hedge funds, insurers, banks and pension funds.

During the recent housing boom, the securitization of subprime mortgages and other home loans was a lucrative business for investment banks. It became so attractive that some firms acquired subprime mortgage lenders so they could originate loans in-house to package up and sell.

Lehman acquired BNC in 2004. Merrill Lynch bought First Franklin, another subprime mortgage lender in late 2006. Bear Stearns agreed to purchase the subprime unit of ECC Capital last year and closed that deal in February. Morgan Stanley bought Saxon Capital for more than \$700 million in December.

However, rising delinquencies on subprime mortgages have triggered a credit crunch in the mortgage business. More than 50 lenders have already gone bankrupt and investors in the secondary mortgage market have stopped buying securities backed by subprime loans. That has undermined one of the main reasons why these investment banks acquired subprime mortgage originators.

Soaring late payments on subprime mortgages have forced some 100 lenders to shutter since late last year.

Elsewhere on the mortgage front, Delta Financial Corp. said Wednesday it has reduced its work force by 20%, or 300 jobs, to align its operations with the current market conditions.

"The rapid deterioration of the credit markets has caused issues in our sector that are beyond our control," said Delta Financial Chief Executive Hugh Miller in a statement. "As we continue to make the necessary rate increases and program cuts in order to address the changing business environment, the result in the near term is a likely reduction in loan production."

The majority of the reductions result from the closing of the organization's satellite wholesale offices in Florida, Texas, and California, and the elimination of certain positions involved in the originations process.

The Woodbury, N.Y.-based consumer finance company said it expects to take a pretax charge of about \$2 million to \$2.5 million in the third quarter as a result of the job cuts.

Also today, wholesale mortgage lender Quality Home Loans filed for Chapter 11 protection Tuesday. The company's bankruptcy petition lists assets in the range of \$1 million to \$100 million, and liabilities of more than \$100 million.

Three of the company's affiliates -- QHL Holdings Fund Ten LLC, California TD Investments LLC and Golden State TD Investments LLC -- also sought Chapter 11 protection Tuesday. Quality Home Loans said it

has between 1,000 and 5,000 creditors, and expects that funds will be available to pay unsecured creditors.